



## SELECT COMMITTEE ON FINANCIAL EXCLUSION WRITTEN AND ORAL EVIDENCE

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## **2 Shires Credit Union – Written evidence (FEX0016)**

Whilst we welcome the creation of the Select Committee and the Call for Evidence it is extremely disappointing that this has become necessary as there was a perfectly good strategy in place until 2011 when the new Government at the time felt it necessary to destroy most of what was in place and beginning to work to achieve the objectives which are still being desired today but if anything have gone severely backwards in the intervening period.

2 Shires Credit Union was established in the year 2000 and since that time has been working collaboratively to tackle financial exclusion including participation in the DWP Growth Fund and Credit Union Expansion Programme initiatives. Our current Manager was previously the DWP Strategic Financial Inclusion Champion for South Yorkshire and therefore as an organisation we have substantial knowledge and experience in this field.

We would respond to your specific questions as follows:-

1. We believe that in essence financial exclusion is the inverse of financial inclusion. We feel that the Government's Financial Inclusion objectives from 2008 are still valid. These were:-

- To help people manage their money day to day
- To help people to plan for the future and cope with financial pressure
- To help people deal with financial distress

By making sure that everyone had access to:-

- Safe savings
- Bank accounts
- Free debt and money advice
- Responsible and affordable credit
- Financial capability education, training and support

There are many causes of financial exclusion including but not restricted to the following:-

- Unemployment, redundancy, low paid work, zero hours contracts
- Problems with benefits particularly delays and sanctions and welfare reforms
- Lack of financial capability particularly budgeting skills and knowledge of alternatives such as affordable loans
- Ease with which people can get into financial difficulties and relative difficulty in getting out of it
- Ineffectiveness and cost of Debt Management Plans and IVA's

2. Those generally least well off have the greatest chance of being financially excluded but those who are able to access the appropriate products and services early enough are able to avoid being financially excluded.

Equally those who are generally better off can become financially excluded usually due to a change in circumstances such as; redundancy, relationship breakdown, health issues.

People who have not planned for such situations and have no savings can get into financial difficulties very quickly.

Whilst it is possible for those in remote communities to be more affected due to the lack of local services or internet we believe this is less of an issue that it previously was.

3. Quite often people who have other issues such as alcohol or drug dependencies or homelessness have a much greater chance of being financially excluded. In these cases all of the issues need to be address as there is little chance of dealing with the financial exclusion alone.

Debt isn't an issue as long as it is manageable. It is a real problem in terms of financial exclusion when it is unmanageable. Many people with unmanageable debt don't look to tackle it but try to carry on and even look to borrow more money. Despite the availability of free debt advice far too many people resort to expensive paid for services such as Debt Management Plans and IVA's where a large proportion of the funds which the individual can afford to repay is swallowed up in fees to the provider and doesn't go in reduction of the debt. We have come across cases where the provider of an IVA have made 3 attempts to get the creditors to agree to it and another where a well known IVA provider with lots of clients went into administration and there has been no real information provided to creditors many months later. This needs to be dealt with if we are to provide a reasonable chance of people being able to recover from unmanageable debt and ethical lenders like ourselves are to have any faith in the system.

4. People with disabilities or mental health problems are more likely to face financial exclusion because they are less likely to be able to engage with financial inclusion services without the necessary support. In our view the level of support available has reduced over the last 5 years.
5. There is nothing like the level of financial capability that is required in schools or pretty much anywhere else for that matter. Whilst the services provided by the Money Advice Service were not in many ways ideal they did at least provide a central place with up to date information that people could be pointed to. In our opinion the provision in schools if any at all is very limited. We are part of the Archbishop of Canterbury's Taskforce's Lifesavers project which we believe is a good model which couples lesson plans and assembly notes for schools with a savings club but this is still at a very early stage.



6. We believe that it needs to start when they are young, initially in primary school but also developing in complexity in secondary school so that when the young person goes out into the world either to further education or to work and they are looking to set up a home and have a family they have a firm basis on which to build. This also needs to include information on matters of financial inclusion such as affordable credit and managing debt not just mainstream products such as bank accounts, credit cards and mortgages.
7. Whilst in the ideal world everyone should take personal responsibility for their own finances there are too many people who would find this very difficult without some initial support and for others it would be impossible. We believe that everyone can be encouraged to take more personal responsibility given time. We don't believe there is sufficient support at present and that the levels of support that was previously available has diminished. The 3<sup>rd</sup> sector have historically been best placed to deliver this but it would need to be funded by Government and / or business. The less desirable alternative would be for the front line staff of public sector organisations to do much more of this as part of their day to day functions.
8. Yes they are but one of the issues is the promotion of these to those who could benefit from them particularly affordable loans. In our experience the lack of bank accounts is not the issue that it is claimed to be but there are still major practical obstacles that need to be overcome to enable people to open new accounts despite the reassurances given by the banks. The truth of the matter is that the service offered by all of the banks is worsening and it is much more difficult with everyone to do business with them.

Despite what has generally been said and the massive level of Government funding for the Post Office Card Account this lacks any useful functionality and is merely a vehicle to make benefit payments. In our opinion there should be no future funding and those who currently use them should be encouraged and helped to open a normal bank account which would give them much better functionality and enable them to be much more financially included.

9. Whilst they have been capped this has merely brought their rates down from 5689% APR to 1500% APR compared to the CAP on Credit Unions of 42.6% APR. All it has really done is reduce the profits of the providers and probably for the better the number of customers that they have.

As previously mentioned there is still much that everyone who believes in financial inclusion can do to promote the affordable credit provided by credit unions. There is much more capacity in the sector now which would enable more people to be helped if they knew about them and

applied. It is worth noting however that our assessment methods are now much more robust and therefore it is likely that a large proportion of those who applied would be rejected because of existing issues on their credit reports. These would need to be addressed before a loan from that source would be available. As a general rule people go to credit unions when it is too late i.e. their credit reports have issues on them. People need to be encouraged to use us much earlier in their life cycle before they get into the hands of high cost lenders and have issues with repaying that credit.

10. Over the years Government Policy has been fairly effective in tackling financial exclusion in that it has sought as referred to previously in this paper to identify and seek to tackle the issues. Although also as previously referred to in this paper we feel this has reduced considerably since 2011 and indeed more recent Government Policy has in many ways had the opposite effect and caused more people to be financially excluded.

Government continues to have a key role in addressing financial exclusion and needs to re-engage as a matter of urgency with the agenda.

11. Welfare reform has had a massive impact on financial exclusion. Whilst we recognise the need for reform this needs to be done in a way that has the least impact not the most impact on the financially excluded. We feel there has been a great lack of understanding on the issues and the affects that the various welfare reforms would create. We feel there has been a definite shift to put these people at the doors of the 3<sup>rd</sup> sector as successive public sector organisations have sought to withdraw.
12. Despite assurances to the contrary proper co-ordination across central Government has always been doubtful at best. Much more could be done at little or no cost to join things up much better. That is also true of individual Government departments notably DWP.

In our experience it is Local Government that understand the issues best and tried hardest to work with local partners to tackle the issues. Having said that this varies from one local authority to another and the work that was started by the Financial Inclusion Champions has fallen away.

We are aware of the work done by the Welsh and Scottish Governments to tackle the issues and there is probably much that could be learned from them.

13. Whilst the cap on interest rates charged more recently introduced is welcome it still works out at an APR of around 1500%. This is far too high when compared to the cap on rates charged by credit unions of 42.6% APR. We are not suggesting the cap applied to credit unions should be increased but that the overall cap ought to be reduced to a more reasonable level.

We do not see evidence that there is a massive issue of those unable to obtain bank accounts as previously suggested but there is much more that all the banks could do to make these more accessible. We have examples of people having to wait a number of weeks to get an appointment to open one.

We also believe that more could be done to discourage expensive IVA and debt management arrangements where on the face of it the only winners are the companies that provide these.

We don't believe that incentives should be used to tackle these issues it ought to be a matter for the organisations corporate conscience and failing that robust but proportionate regulation.

14. We believe that the market is generally able to deal with this area which has moved on considerably in recent years. Even relatively small credit unions like ourselves are now able to offer online loan applications and online banking. Government has many other roles they can play which are much more important.

If the question extends to data capture by Credit Reference Agencies then there is much more that could be done to encourage social and indeed private landlords to subscribe to data sharing which would enable lenders to make even more robust decisions about who to lend to. Clearly the down side of this is that many people with rent arrears would struggle to borrow money but in fact that would be more likely to ensure that their rent got paid.

As I am sure you can see we feel very strongly about these issues and trust that our contribution is useful.

2 Shires Credit Union – Written evidence (FEX0016)

We look forward to seeing the results of the consultation and the Select Committee's work in due course.

*12 September 2016*

## **The Advice Shop – Written evidence (FEX0039)**

### **Definitions and causes of financial exclusion**

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?

**Probably more a spectrum where you have and inclusion and exclusion at opposite ends.**

**The causes can be many (lack of financial awareness, poor credit history, area culture etc). Common theme though tends to be low income.**

2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?

**It can affect anyone but generally those on low income are mostly affected by financial exclusion. Particular groups can include long-term unemployed, people unable to work due to disability, people with learning difficulties, young people (particularly those with low educational attainment, care leavers)**

3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?

**Problem debt can result in poor credit which can then result in less options for accessing new financial products (bank accounts, loans, mortgages etc) and ultimately a form of financial exclusion.**

4. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion? Financial education and capability

**Depends on disability. Learning disabilities (e.g. difficult to understand consequences of products) and mental health problems (e.g. chaotic lifestyles) can result in particular issues in being able to access financial services.**

5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?

**There are limited education and advisory services to assist people to avoid financial exclusion. These services need to be available to people at the right moment in time rather than be set up for example, with all schools as it can be 20 years later that people get into difficulty by which time the context of money management and personal circumstances will have changed dramatically. Services should be targeted at people going through any transition in life, whether that is**

**leaving home, becoming homeless, starting or changing a job, becoming unwell etc.**

6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?

**Allowing clients access to services which provide support as and when they are needed. If these services existed a referral could then be made by a doctor, social worker, debt adviser etc.**

**Addressing financial exclusion**

7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?

**There are structural problems that prevent everyone from taking 'personal responsibility'. Some people grow up in a culture where using loans to pay off loans is normal behaviour while everyone is subject to the same restrictions on access to credit that impact most acutely on those with the lowest incomes and no history of 'good credit'. People in desperate situations - such as those who have lost jobs or become homeless - will make decisions based on short-term needs rather than long-term plans.**

**There should be far more options for people on the lowest incomes to access low cost credit. Also, better options for people with regard fuel supplies must be addressed so that those on the lowest incomes are not forced to adopt the most expensive fuel tariffs through card meters etc.**

**Interest rates are currently at a record low (0.25%) but yet those on low income feel no benefit - the government could consider initiatives where low cost affordable loans are accessible to those in need. This could also help stimulate economy (like QE but potentially more effective as money will go straight into economy). The government could also promote fact that most individuals should have access to a basic bank account (irrespective of circumstances). Vulnerable clients (e.g. poor credit history) often assume they cannot get a bank account - this is not the case.**

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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?

**Some banks have started to provide better access to bank accounts and affordable credit options but these are still not sufficient to meet the needs that exist in the population. Barclays bank have been one of few companies that have promoted use of basic bank accounts for those with poor credit. This seems like good business as Barclays will have a**

**large customer database (with no default issues as accounts cannot be overdrawn). This would obviously mean they have a constant source of interest free money (client funds). They could also analyse account client data and then look at selling (or upgrading) clients to other products. Other banks may or may not be aware of this potential opportunity.**

**The Post Office have a “basic” account but it can be restrictive (e.g. no wages paid in). The Post Office could therefore look to make their products more flexible.**

### **Accessing affordable credit**

9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services? Government policy and regulation

**As an Advice Service we have seen a welcome drop in the number of people presenting with problematic debt due to payday lending. There remain though – and the numbers are gradually increasing – people who cannot access affordable credit who are entering financial arrangements such as taking out Provident loans and hire purchase agreements, which mean that they are spending a higher proportion of their disposable income on goods and services that others on higher incomes are. This is then preventing them from being able to afford other goods and services. Also, other clients (in absence of payday loan options) have resorted to using local loan sharks with never ending payments.**

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

**Money Advice Service is funded by government and has potential to help. However, most of our clients (from low income deprived areas) are not even aware that MAS exists. This tends to be because Citizens Advice Bureau has MAS workers on site and a large number of financially excluded do not go to CAB for help in first instance (rather they will go to housing officer, local authority debt agency etc). The Government could play a leadership role but it should consider targeting low income areas (which generally tend to be deprived areas).**

11. What has been the impact of recent welfare reforms on financial exclusion?

**Sanctions, time delays, cancelled claims etc result in no income which then result in clients looking at all options to survive e.g. increased food bank uptake, lack of payment towards priority expenditure (rent, council tax, gas, electricity), high rate loans, borrowing from friends and loan sharks etc. Ultimately more clients will have been financially excluded.**

12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?

**Unaware of any coordination across central government. Also, unaware of interaction between Government and local authorities.**

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? What balance should be struck between regulations and incentives for financial institutions? Financial technology (Fintech)

**Most banks seem to have to provide a basic bank account – yet they rarely promote these accounts. Also, you would think capping interest on payday loans would help – however, in some cases it has meant clients can no longer get credit (pay day loan company no longer exists). This can mean client stops paying priority expenditure (e.g. rent, council tax). Ultimately, the problem has not therefore been resolved by capping payday loans but rather shifted to become a different problem.**

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?

**The Government could ensure (where possible) any future financial regulations tries to address financial exclusion. For example, if Government has regulations that insist all banks must have basic bank account and subsequent statistics show certain banks have low uptake then that could be analysed and potentially addressed.**

*14 September 2016*



## **Affinity Sutton Housing Association – Written evidence (FEX0080)**

1. Affinity Sutton Group is one of the largest Housing Associations in England. We work in over 120 local authorities in which we own or manage over 57,000 properties. These include General Needs, Supported Housing, Keyworker, Leasehold and Part Buy/Part Rent homes. As part of our wider Community Investment programme our Financial Inclusion programmes support around 3,000 residents each year with financial guidance, affordable loans and debt advice. An example of this is our partnership with Leeds Credit Union with whom over 1,000 Affinity Sutton residents and staff have access to banking products and affordable loans. As a Housing Association with a long term commitment to Financial Inclusion we welcome the opportunity to submit evidence to the Select committee.
2. **Definitions and causes of financial exclusion**  
**Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?**
  - 2.1. Financial Exclusion (FE) - Those excluded from financial products and services either by the market due to income status or perceived unprofitability fall into a different category from those who may self exclude due to a previous negative experience.
  - 2.2. Financial Inclusion (FI) – Financially Included individuals have greater options, access and knowledge of the market place. Our work focuses on empowering residents in these key areas and giving them the capability to navigate the market with confidence.
  - 2.3. Evidence to the FI Commission <sup>1</sup>emphasised that two main factors that promote Financial Inclusion (FI) are stable income and affordable housing. We agree that both these areas need to be addressed to reduce FE, and that social housing can make a significant contribution to tackling the causes of FE. Affinity Sutton does more than just house people on low incomes; through our Community Investment programme and our Ready2Work team we support residents into employment or upskilling to increase their earnings. We also support our residents to get online as we know that digital exclusion contributes to FE.
  - 2.4. We consider the bar to being financially included is rising: the greater financial management difficulty associated with irregular and unstable income (eg through the growth of zero hours contracts); the impact of benefits that can't be backdated; and the complexity of managing on / transitioning to a new benefits system are all external factors that impact on financial stability.
3. **Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

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<sup>1</sup> <http://www.financialinclusioncommission.org.uk/evidence>

- 3.1. For the majority of Affinity Sutton residents, who already live in affordable housing, the main driver of FE will be unstable income and a resulting lack of access to mainstream credit. Our research<sup>2</sup> found that some 47% of our residents are worried about money, with 24% running out of money before the end of the week / month and 20% of those with children using catalogues or weekly payment stores (such as Bighthouse). A report by the Money Advice Service in 2013<sup>3</sup> highlighted that of those experiencing debt 74% are unhappy and 56% report a negative impact on family life. This clearly demonstrates a need for an effective financial capability intervention to address these psychological and practical challenges.
- 3.2. FE can be exacerbated for those living in isolated or remote communities: digital access is often disproportionately low due to reduced connectivity, making digital access to both mainstream and alternative financial providers more difficult, and appropriate alternatives (eg Credit Unions) are harder to reach (because there are fewer of them, making travel to access more expensive and time consuming). The closure of bank branches and post offices further exacerbates access issues for those not living in large towns and cities.

#### **4. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

- 4.1. The relationship between various forms of exclusion is interdependent. For those who are disadvantaged (for example by mental health issues or low education attainment) or who suffer from other forms of exclusion the impacts of FE will be worse. Equally, experiencing FE can compound the consequences of deprivation. Our most recent customer survey<sup>4</sup> found that 17% of residents went without food to save money in the past year and 22% went without heating; both of these have implications for residents' health and in households with children or vulnerable adults this is a particular concern.
- 4.2. FE is a widespread problem; in the UK 3.2 million people have low digital and financial capability<sup>5</sup>. This report clearly shows that being digitally capable provides tangible financial benefits for low income households with an average saving of £516 per year. We see a link between Financial and Digital Exclusion.
- 4.3. Problem debt or the inability to manage debt plays a significant part in FE and in our sector can lead to rent arrears and eviction. Procrastination and failure to acknowledge problem debt exacerbates FE. We know through our support programmes that 'opening of envelopes' is the start of the process of acknowledging a debt issue, but sometimes this is left too late and the negative consequences of problem debts have already become entrenched, taking many years to resolve.

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<sup>2</sup> <http://www.affinitysutton.com/news-and-resources/latest-research/the-index-2015/>

<sup>3</sup> <https://mascdn.azureedge.net/cms/indebted-lives-the-complexities-of-life-in-debt-november-2013.pdf>

<sup>4</sup> Index 16 forthcoming

<sup>5</sup> Lloyds banking Consumer Index - Benchmarking The Digital And Financial Capability Of UK Consumers 2016

**5. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?**

- 5.1. Yes, among those on Employment Support Allowance (a disability linked benefit), over a third (34%) of residents tend to run out of money before the end of the week/month compared to 24% of all residents.

**6. Financial education and capability  
Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

- 6.1. Whilst basic principles of money management are being taught in school we still feel that more advice is needed both for young people and adults. Currently we fund a range of programmes which support residents of all ages in need.
- 6.2. The advancement of technology offers young people greater opportunities in having knowledge and access to financial services and products than earlier generations. Nonetheless although they may aspire to have long term financial stability young people are living under the shadow of austerity, high student debts and low disposable income. Their focus is not financial stability but short term saving goals such as a car or a holiday. In March 2016 Affinity Sutton compiled an internal report on the experiences of our young residents. The findings suggest that many lack the money skills to establish and sustain the lives they want. Only 4% of our tenancy holders are aged 18–24, however this age group makes up nearly a fifth of evictions.
- 6.3. The research emphasised that young residents often have multiple issues which impact on their ability to sustain their tenancies. Although they value their independence, they experience FE as they struggle to manage their money, and are unable to absorb financial shocks or to plan and provide for the future. They are also unlikely to have any savings. Some young residents have moved into social housing due to a breakdown in their family relationships and do not have anyone to ask for advice on managing finances.
- 6.4. To assist with sustaining young people's tenancies and to reduce FE, Affinity Sutton tries to foster positive relationships at the start of the tenancy. All new young tenants are contacted to make them aware of the training, employment and finance support that is available to them through their landlord. We have developed online tools such as the Home Truths website<sup>6</sup>.

**7. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

- 7.1. A long term approach, flexibility and the use of interactive methods are key to developing capability over a person's lifetime. As a Housing Association we have a long term relationship with our residents, with tenancies averaging around ten years. We have developed our Financial Inclusion Service over the last 6 years to be relevant across all age groups. This

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<sup>6</sup> <http://www.themix.org.uk/apps-and-tools/home-truths>

includes our telephone based Money Matters Guidance Service. Recently we have introduced proactive calls to our first time younger tenants who were increasingly having difficulties in maintaining their tenancy as part of the package of support described above.

- 7.2. For working age residents, we are working with Toynbee Hall to develop a new approach to influence and increase the working population's financial capability. The Money Buddy is a bespoke, digital financial capability intervention comprising of 5 modules of interactive learning and support, offering both a reactive and proactive route to improving financial health. It assesses the individual's current financial situation and explores how they feel about their finances. It identifies whether immediate action is needed (such as debt advice) and provides further financial planning support, such as a help setting financial goals, differentiating needs from wants, and managing income and expenditure. The modules are aligned to the financial behaviours identified in the Money Advice Service's Financial Capability Strategy (dealing with financial difficulty, managing money day to day, and preparing for and managing life events).
- 7.3. Liverpool Victoria's most recent State of Retirement report <sup>7</sup> found that 1 in 10 retirees are financially reliant on friends and family. Worryingly those due to retire in the next 10 years are almost 3 times as likely to be in this situation. It also found that these older age groups are turning to friends and family for advice on their finances rather than seeking professional advice.

**8. Addressing financial exclusion  
What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

- 8.1. As a business for social purpose housing associations can take a closely involved role in helping individuals escape from FE. But this is reliant on bolstering 'personal responsibility' though working in partnership with our residents, not taking a paternalistic stance. We are experienced in collaborating with financial charities as well as other businesses. The Governments' role is to support, fund and publish the effective activities these varied organisations are undertaking.

**9. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

- 9.1. There is considerable evidence that mainstream banks have designed products and services that overlook - and even penalise - the needs of low income individuals and families. As a result, there has been growing pressure on banks to improve their product offer to reflect the needs of all

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<sup>7</sup> <https://www.lv.com/assets/life/pdfs/01-state-of-retirement-report.pdf>

socio-economic groups, and alternative institutions have also stepped in to fill these gaps.

- 9.2. The Government has required financial services institutions and banks to develop products that help people manage Universal Credit payments more easily. As these products, such as the new basic bank accounts, are new it is too early to say whether they will meet the needs of FE groups both in terms of their accessibility (ie ease of opening) and functionality (eg transactional ability and ease of management without risk of penalties disproportionate to income). At present people without bank accounts can receive benefits using a Post Office Card Account (POCA). The POCA contract has been renewed until at least 2021, suggesting that people without bank accounts may be able to use a POCA to receive Universal Credit. There are concerns about the limited functionality of the POCA and its ability to promote FI. Failure to provide suitable, accessible products would undermine one of the main intentions of Universal Credit in promoting financial inclusion.
- 9.3. There has been initial interest from existing payment providers and new entrants in developing innovative prepaid and mobile payments for Universal Credit recipients. But this has yet to deliver a large scale, commercially viable product that supports Universal Credit.
- 9.4. The Co-operative bank has withdrawn running a retail banking service for credit unions, in effect stopping most credit unions from being able to offer a fully transactional current account and without which it is difficult for households/individuals to achieve FI. Credit unions have co-operated with us historically and are adept and offering financial products to low- and fluctuating- income groups, we are not (and never have) seeing the same willingness to promote transactional bank accounts from the mainstream banks.

10. **Accessing affordable credit**  
**What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

- 10.1. The supply of affordable credit has changed since 2013 when Government abolished crisis loans and community care grants. Each local authority was in control of designing their own scheme and whilst most local authorities provide assistance, eligibility criteria and application processes for these schemes vary considerably. An analysis by the Guardian<sup>8</sup> found that under new local welfare assistance schemes, application rejections have doubled.
- 10.2. From our resident survey in 2013<sup>9</sup>, resident usage of weekly payments stores (such as Brighthouse) shot up from 3% to 13% in a year. In response to this surge, Affinity Sutton collaborated with Leeds Credit Union to help residents manage their money. In 2014<sup>10</sup> the use of these high-cost credit stores had increased more modestly by 3% and in 2015 had stabilised, remaining at the same level.

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<sup>8</sup> Butler et al, April 2014

<sup>9</sup> <http://www.affinitysutton.com/news-and-resources/latest-research/the-index-2013/>

<sup>10</sup> <http://www.affinitysutton.com/media/808993/theindex2014.pdf>

- 10.3. Research by Liverpool John Moores University found that 5.7 million social tenants use credit and that it plays a key role in their ability to manage their financial commitments. For low-income borrowers the loan is judged affordable by the amount of the weekly or monthly payment – not the total cost of credit.
- 10.4. Liverpool John Moores interviewed Affinity Sutton residents who had accessed loans from Places For People Financial Services (PFP FS) as promoted by Affinity Sutton. 60% of those accessing the service had or were borrowing from high-cost lenders and 69% of these were in receipt of benefits. Credit was accessed for a variety of reasons but there was ample evidence from interviews that the loans project was having a significant positive impact on the lives of its beneficiaries.
- 10.5. 55% of Affinity Sutton residents have no cash savings<sup>11</sup>. Yet our research found that 80% of credit union borrowers save something regularly. However 50% of these savers regularly withdraw savings to cover unexpected financial pressures – which is preferable to using expensive credit.
- 10.6. There are successful alternative sources offering affordable credit (eg the PFP FS and Credit Unions) but help is required from government in promoting these sources more widely – in 2014, 38% of Affinity Sutton residents were not aware of credit unions or what they do<sup>12</sup>.

## 11. **Government policy and regulation**

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

- 11.1. Government policies such as Help to Save, the living wage and the increased national minimum wage for 16–24's are intended to help tackle FE and promote the narrative of work paying. But the cumulative effect of welfare reforms, such as capping of housing benefit for under 35s and removing automatic entitlement to HB for 18-21 year olds has undone progress around financial security and stability.

## 12. **What has been the impact of recent welfare reforms on financial exclusion?**

- 12.1. The government's welfare reforms continue to have a significant impact on our residents and business. In many cases the changes are complex and it is difficult to fully appreciate the many and various scenarios that households will be faced with<sup>13</sup>. Our expectation is that more of our working age residents will be worse off as a result of the reforms and it is now well documented that the cumulative impact of welfare reform hits social sector tenants the most<sup>14</sup>. Many of our tenants rely heavily on benefits, with only

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<sup>11</sup> <http://www.affinitysutton.com/news-and-resources/latest-research/the-index-2015/>

<sup>12</sup> <http://www.affinitysutton.com/media/808993/theindex2014.pdf>

<sup>13</sup> See the report Real London Lives <http://reallondonlives.co.uk/research/> for examples of the experiences of social housing residents in London, and how changes in welfare benefits over the last three years have affected them.

<sup>14</sup> Sheffield Hallam The Uneven Impact of Welfare Reforms 2016

[https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welfare-reform-2016\\_1.pdf](https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welfare-reform-2016_1.pdf)

44% of our residents in employment<sup>15</sup> (although a fifth of our residents are retired). We acknowledge the need for reform of the benefit system and welcome attempts to simplify current arrangements. However, policy changes such as the cuts in Tax Credits announced in the 2015 summer budget create new challenges for our customer groups. We believe more should be done to address in-work poverty and welfare reform undermines the government's commitment to supporting working households. FE and low income are inextricably linked.

- 12.2. The Index 2015 highlighted that 47% of our residents were worried about money issues<sup>16</sup>. This increased to 51% for those in receipt of benefits. When Affinity Sutton contacted those who were in receipt of Universal credit, 59% said that they were concerned about paying their bills.
- 12.3. Our analysis of rent accounts for residents currently claiming Universal Credit found that nearly half of those with rent arrears before transferring to UC had higher arrears. Circle Housing Association's pilot study into direct payment of UC<sup>17</sup> found similar increases in rent arrears (by 2.5 per cent) reinforcing that changes in their welfare payments exasperated the financial exclusion that residents were already experiencing.

**13. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

- 13.1. We are aware that FE is a complex issue which can be caused by numerous factors. As a national Housing Association we have seen disparity between Local Authorities dealing with Council Tax and Discretionary Housing Payments (DHP).

**14. 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? What balance should be struck between regulations and incentives for financial institutions?**

- 14.1. Further consideration around regulation would be helpful. As noted below in question 14 we would urge the regulator to look at providing greater protection for clients' funds in the prepayment card market as the requirement on banks to supply a basic bank account has only minimal coverage. It would be helpful if the FCA would review FSA guidance note 9 with housing associations to reflect the current financial markets.

**15. Financial technology (Fintech)  
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?**

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<sup>15</sup> <http://www.affinitysutton.com/news-and-resources/latest-research/the-index-2015/>

<sup>16</sup> <http://www.affinitysutton.com/news-and-resources/latest-research/the-index-2015/>

<sup>17</sup> <http://www4.shu.ac.uk/research/cresr/implementing-direct-payment-housing-benefit-evaluation-circle-housings-hb2u-pilot-project-pdf-77119>

15.1. Yes. FinTech by its nature is fast changing and pioneering yet it has potential benefits for expanding the reach of financial inclusion activities, enabling excluded individuals to access appropriate products quickly and efficiently. Working in conjunction with, but also challenging, the traditional financial services will develop the diversity of products and advice that is needed. However, there are risks, for example pre-payment cards have lower levels of consumer protection than provided by FSCS and further protection (up to a limit) could be instigated. Without an effective guarantee system and an amendment to FSA guidance note 9 housing associations are unable to explain the existence of these emerging technologies to tenants who would benefit from them as an alternative to basic bank accounts.

*15 September 2016*



## **Affordable Lending – Written evidence (FEX0102)**

### **Introduction**

This is the reply of Affordable Lending Ltd to the House of Lords SELECT COMMITTEE ON FINANCIAL EXCLUSION CALL FOR EVIDENCE. The Affordable Lending coalition would like to thank the House of Lords Select Committee for their interest in this problem, as FINANCIAL EXCLUSION represents a something intolerable in our modern society that can, with the right support and innovation, be eradicated within a generation.

### **Background to Affordable Lending**

Affordable Lending was born out of the round table discussions hosted by Cabinet Office, and chaired by Sir Brian Pomeroy in 2014, which considered the report and recommendations produced by the Financial Inclusion Commission. The report concluded that the ability to increase the supply of affordable credit at a national scale is inhibited by a number of significant challenges, these being:

- Infrastructure
  - The community lending organisations serve regional markets and do not have a national infrastructure that allows them to operate and compete at the national level and the national scale of the high-cost credit providers.
- Access to capital
  - The community lending organisations have limited access to capital reserves which creates a real risk of running out of money if demand is stimulated.
- Distribution
  - The community lending organisations are local by nature; regional at best and therefore lack the capability for national distribution without working together

As a direct outcome of these round table meetings, a working group was formed, led by Keith Rivers (an independent consultant working pro bono) to look at two of the three problems; “Infrastructure” and “Distribution”, which by 2015 evolved into the Affordable Lending coalition.

It's simple mission to break the continuing cycle of financial exclusion impacting low income consumers by:

- Increasing public access and choice to alternative financial service providers such as Credit Unions & Responsible Finance Institutions.
- Increasing the supply of affordable credit to displace high cost credit alternatives.
- Increase levels of personal financial capability in respect to personal finance and debt management
- Use technology to create national scale and ease of access.

*As such, Affordable Lending Ltd, and the Affordable Loans mission, is to reduce financial exclusion in the UK. To do this, we will increase the supply of affordable lending; reducing problem debt derived from the use of pay day and other high cost lenders by those who can least afford it, and help our customers develop new financial capabilities such that they may become financially included with access to previously unavailable services. We judge our success by the impact we have on reducing financial exclusion by engagement with customers, the provision of affordable loans and other products and where necessary by referring them for assistance.*

### **The theory of change**

Although our primary focus is increasing the supply of affordable credit at a national scale, changing the credit paradigm is only part of the solution, as this does not create financial resilience and capability across those suffering from financial exclusion. Access to credit is part of modern life for many of us, but for a significant proportion of the population, they are still excluded from main stream credit, and only have access to the high-cost credit market, especially during periods of acute financial difficulty. Making credit both affordable and accessible only delivers systemic change when it is coupled with increases in financial management capability and the take up of other financial solutions such as savings, insurances and financial planning.

In order to achieve systemic change, and create the conditions where people can lift themselves out of financial exclusion, we must create the conditions for, and the pathways to, being financially included using local, ethical and community based solutions. Simply replacing a high cost loan with a lower cost loan will not, ultimately break the inescapable cycles of debt and poverty. What will work is triaging unsustainable borrowing, and using the opportunity to increase financial capability so that people lift themselves into "financial inclusion"

Achieving systemic and sustainable change that addresses financial exclusion across a large cross-section of the UK population is challenging, but to help us, we can take evidence from other industries, such as Healthcare, to build out a theory of change model that will work. In common with other societal change models, we need to (and have) adopted a range of interventions and solutions that work on many levels:

- For people in acute (financial) situations, where the need and threat is immediate, we need to provide triage solutions that stop the people haemorrhaging through unsustainable levels of borrowing and financial distress. Learning from others, solutions here need to be easily accessible, and timely as to stop the problem getting worse. Although they are short-term in nature, they create breathing space, and are the precursor to any ability to focus on building future financial capability and resilience.
- For people who are at risk of escalating financial exclusion or are rehabilitating from an acute episode, solutions need to start building financial resilience and capability such that the future risk of financial exclusion is much reduced. Learning from others, solutions and interventions here need to be a balance of good behaviours and practices, with incentives for compliance and achieving positive outcomes.
- More widely, we need to change the norm, such that within a generation, financial exclusion is a thing of the past. This will combine personal education, increased market competition and availability, supported by policy that encourages good behaviours and discourages bad. With all the will in the world, there will always be people who find themselves in acute situations not of their own making, but for the majority, a shift from a very curative, reactive, day-to-day model, to one of prevention and well-being is entirely achievable. If our longer-term aspiration is that 80% of the UK population become not-at-risk of financial exclusion, we can concentrate our efforts and resources on the 20% that are-at-risk.

### **The power to change**

Moving what is a good model, into real practical activities is challenging, as our further notes on the experience of Affordable Lending shows.

From the very beginning in Whitehall, we have taken the view that “the answer is in the room”; that by working together, we can actually deliver real tangible benefits without the need for massive and expensive change programmes that governments have a tendency to commission. Affordable Lending has proven, with miniscule levels of seed funding, where the power to change really sits. To work properly, we need (and have harnessed) a combination of government, commercial business and people.

- Starting with commercial business, this is where the real power lies. These businesses touch the lives of the population much more regularly than any government and enjoy stronger brand recognition and trust. Ultimately, they are commercial businesses, which means they need to make a profit to remain sustainable, but they can also be harnessed to do much good as part of their business-as-usual. As the government’s own research into Mission-Lead-Businesses showed, even when dealing with laudable goals such as eradicating financial exclusion, the mission is doomed to failure without a sound business underpinning. The UK economy is worth c. £7 trillion as compared to the government expenditure of £700+ billion,

which if brought to bear, gives the commercial sector much higher potential leverage to deliver sustainable systemic change. Although the community lending sector in the UK is smaller and poorer than in many other countries, the overall banking sector, or even the overall commercial sector, has significant resources that can bring about change.

- People are an intrinsic part of our successful change model, and it is people's views and behaviours that can ultimately make or break initiatives, companies and governments alike. In acute situations, it is all about the empathy, not being judgemental, and a quiet efficiency to resolve the situation; as such people are very outcome focussed. As we move out of the acute paradigm towards a more forward looking position, people respond much better to an enabling approach that supports and incentivises them to help themselves, such as initiatives that put 2.5% of loans payments back into a savings account if a good payment history is maintained. Ultimately, most people don't want to be financially excluded, and welcome interventions that help them to help themselves
- Finally, the government has a dual role. On one hand, it provides the legislative framework by which commercial entities can deliver change, whilst on the other hand, it has a crucial role in facilitating discussion and smoothing a competitive market, allowing it to focus on what good looks like. On the former, delivering financial services into a population that finds itself excluded is challenging enough for front line organisations, which are often micro-finance businesses, such that overly burdensome regulation can often stifle innovation. Standards that protect the consumer are a good thing, but these must be set in the context of their application in small to medium businesses, who do not have the resources that mainstream financial institutions do. On the latter, the personal lending market, even to financially excluded segments is highly competitive; not in a good way that sees the best rise to the top; but in a way that drives insular behaviours (amongst some) and an inability to focus on "the best for the customer". As such, the government, or other such neutral body, has an opportunity to foster innovation for the common good, provide safe environments to explore mutuality, and support the germination of good ideas into successful enterprises.

### **Building the Affordable Lending coalition**

Affordable Lending is the first of its type that brings a whole market together in a broad coalition. It brings together mainstream banks, credit unions, community development finance institutions, and charities. It is owned and run by the community finance industry, for the benefit of the consumer and the industry; it is highly visible to government and the regulatory authorities; it operates on an "open book" principle; does not believe in making a profit from those who find themselves financially excluded, yet fully understands the potential risks of this customer segment, and the higher cost to serve, and therefore balances that service with an overriding need that lenders too remain financially stable but do not penalise customers unfairly.

With any first of its type, shaping a multitude of varying stakeholders into a functional coalition has been a journey of exploration, conflict and compromise. The fragmentation of the market; the competitive nature of the actors; the lack of standardisation across approach, products, systems and risk-appetite has necessitated an independent moderator and facilitator function to make this possible. In the first instance this was provided by the Cabinet Office in terms of bringing together an interested stakeholder group; picked up by the Community Development Finance Association (CDFA now Responsible Finance) and finally now under the auspices of the Affordable Lending structure. At each stage, we benefitted significantly from pro-bono support from outside the community finance industry, who not only brought an impartial and professional view, but much needed expertise from other sectors and industries. Without such impartial, independent and committed support, it would have been unlikely that all the stakeholders could have come together around a common mission.

### **Launching the service**

The simple plan for Affordable Lending was to create a national online market place where local and regional community finance providers could be connected to customers looking for affordable loans (as an alternative to the high cost credit market). By acquiring contacts through a high-street partner (in our case Asda for the initial pilot), and by collecting a few personal details, we could broker a referral to a choice of community finance providers who had been determined to best meet the customers need. The customer would be presented with a choice of several applicable providers, with a ranking of which provider was more closely aligned to their need and circumstance, and be able to be referred directly into the loan application process of their chosen provider. Apropos, the loan application forms not only the basis for access to more affordable credit, but the basis to start an ongoing relationship to promote financial capability and wellbeing.

In order to remain sustainable in live service, each participating party needed to be getting something out of it, as reliance on grants or corporate social responsibility (towards financial exclusion) is not a viable business model going forwards. Picking up the theory from earlier that the “answer is in the room”, the operation of Affordable Lending needs to make a net contribution to the normal business of each participant. For the community lenders, the business case is clear, it is a way of increasing their loan book through national exposure, and creating relationships for other financial products such as savings and the like. For the technology service providers, again the business case is clear as a (minimal) fee for service for each loan distributed or application made. For the high-street partner, again, with less money being spent servicing unaffordable credit, the consumer has more disposable income and is likely to see them in a positive light for resolving their financial exclusion issue; benefit from increased brand loyalty and consequent foot fall. For government, and society as a whole, a much-needed policy agenda and societal change programme is being delivered free of cost, as it is baked into business-as-usual operations of commercial entities.

The fact that the business itself is commercially sustainable does not exclude the fact that Affordable Lending is driven by a mission, and measures its success on the social impact it delivers. If through our efforts, we can create a coalition of lenders and partners that have sufficient capability and capacity to disrupt the high-cost-lending market with local, affordable products, then we will have succeeded. If potential investors can see both the fiscal and social return on their investment, then again, we will have succeeded. 2017 will be a year of growth for Affordable Lending, with new community lenders joining the coalition; new high-street partners taking the affordable lending products out to their customers; greater technical integration to improve the customer journey; broader acceptance of the need to achieve industry wide collaboration for the benefits of consumer and the industry; and perhaps recognition in government of things that we have learned that work, and pitfalls to be avoided.

### **Lessons learned and recommendations**

With practical experience of starting to address the issues highlighted by the Financial Inclusion Commission, we ask the Committee to consider the following learnings and recommendations:

- The need to eradicate financial exclusion needs to be instantiated in government policy that enjoys cross party support and spans beyond the lifetime of a parliament. The increase in personal financial capacity and capability that helps avoid financial exclusion can take years to mature, even to the point of being a generational shift.
- Systemic and sustainable change needs to be planned and executed in planning horizons; short, medium and long terms (beyond a parliamentary term) such that point solutions come to fruition, but are cumulative, holistic and coordinated.
- The role of government in promoting financial inclusion, particularly in the commercial sector need to be encouraged, which could be made more visible with a Ministerial appointment with accountability for Financial Health. We, as an industry coalition would be more than happy to host the Minister, or any Members of the Select Committee, in any of our regional operations to provide on the ground insight into the problem and the role that government could take; which could be further extended with non-executive position within the Affordable Lending board for ongoing engagement. In addition, the legislative tools in the Social Value Act 2012 already exist to allow government to set the pace for the commercial sector to be more proactive in delivering social value, such as supporting the financial inclusion agenda, when looking to do business with government.
- Although not one of the problems that Affordable Lending specifically set out to remedy (lack of access to capital), there is a clear requirement for a second round of the Financial Inclusion Growth Fund. For example, a £10 million investment as a 10-year bullet repayment Social Investment Bond would enable more than 150,000 loans over its life. Interest at 4% could be waived and invested in localised financial capability activities. It

would, of course, be better as a grant, with the capital transferring to the lenders balance sheets when it is loaned for the first time, which would enable leverage of up to another £10million. The social impact would be significant, saving well over £30million against high-cost lenders and putting that money back into households and communities.

- Affordable Lending has been built and launched with very little public funding; leveraging private sector money, expertise and good will, to achieve what we have, and as such a change in the eligibility/qualifying trades for Social Investment Tax Relief, that would include socially motivated financial activities, would significantly help innovative initiatives such as ours to leverage the private sector to greater effect.
- The community finance industry as a whole is still very fragmented and find it difficult to create opportunities for greater collaboration. From a FinTech, and more generally from a general business innovation perspective, there is a role for an independent innovation unit that can work on behalf of the industry; testing proofs-of-concept; bringing new partnerships beyond the industry together; and providing that safe space where innovation can be fostered without negatively impacting on established businesses. Government has a role in setting this direction and establishing this capability; yet the unit itself will have to retain independence and impartiality to retain the support of the industry.
- Why some people fall into financial inclusion, and others do not, is still somewhat of a mystery, which makes it hard to design interventions that successfully mitigate. We are still learning how people behave, especially in acute situations, which would warrant some further academic study into the behavioural science behind it. We are already seeing evidential links between financial behaviour and mental health, and this is an area (in general) that could do with greater clarity through academic research (which we are just starting); what makes people take high-cost-credit over other alternatives
- Specifically, from a FinTech perspective, much effort is being wasted with each community lender buying costly commercial technology systems, paying for expensive customisations and generally reinventing the wheel. The technology itself is only there to enable the community lender service and doesn't really add any value. As such, we could consider a more Open Standards Open Source approach to the industry that sees all of the community lenders contributing to an open library of technology that was free and available for all to use. The world of commissioning large proprietary systems is diminishing, there could easily be a case made under the Government Digital Service to create such an industry solution at a very low cost, that will constantly evolve to meet the changing needs of the industry. We (Affordable Lending) are already considering this path, to create a solution owned and operated by the industry, and would welcome any government support.
- If we are really determined to affect a change in the market that creates conditions for competition that benefits the consumer, it is unlikely that in the first instance that the private sector will be willing (or able) to provide the necessary finances to foster much needed innovation, and so

government help will need to be sought. The current *de minimis* rules only allow for investment of public funds of €200,000 over three years without invoking state aid issues. Even Affordable Lending, which has gone from concept to live on a very frugal budget, would have breached this limit if it was being funded as government sponsored initiative. As such, we need to look at mechanisms by which innovation can be fostered until the point it is ready for take up by commercial entities, without breaching state aid rules.

- Different models for community finance exist in different countries. In the USA for example, Credit Unions directly run CDFIs, thus putting the surplus capital in the Credit Unions to good use for commercial return. As such there is an opportunity to explore new business models as to their viability, and review (and amend) legislation accordingly, that could be championed through the FCA innovation hub in conjunction with the PRA

In summary, Affordable Lending, through our coalition, is very active in the provision and promotion of services to the financially excluded, and as such will be happy to provide support to initiatives that stem from the Select Committees work. We believe that this initiative has harnessed the best of the industry, and would welcome its inclusion by the committee in their report.

*17 February 2017*



## **Agenda – Written evidence (FEX0023)**

### **About Agenda**

Agenda is an alliance of more than 60 organisations who have come together to campaign for change for women and girls at risk. We believe society is failing to adequately protect and support women and girls who face the most extensive violence, abuse, trauma and extreme inequality. We are calling for systems and services to be redesigned with women and girls at their heart so that they can access the support they need to rebuild their lives and reach their full potential.

### **Summary**

Agenda welcomes the opportunity to input into this committee. It is well established that women are more likely to live in poverty than men, and more likely to be in insecure and low-paid employment<sup>18</sup>. Women who have complex needs and have experienced a combination of abuse and trauma, serious mental illness, substance misuse, disability, homelessness and/or contact with the criminal justice system are some of the most financially excluded in society.

The causes and effects of women's financial exclusion are quite distinct from those of men. It is important therefore to take a gendered approach when responding to financial exclusion.

Agenda recommends:

- Women's specific needs are included in all strategies to target financial exclusion at a national and local level. All such strategies recognise the drivers behind women's financial exclusion and seek to address these.
- Approaches to tackling women's financial exclusion involve other relevant government departments, and should include a focus on violence against women and girls (VAWG).
- Efforts to tackling financial exclusion go beyond the promotion of 'financial literacy' and widening access to financial products, and move into providing practical support to help the most vulnerable women build more stable lives.

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<sup>18</sup> [Poverty through a Gender Lens: Evidence and Policy Review on Gender and Poverty](#) University of Oxford for the Joseph Rowntree Foundation (2014)

## **Question 2: Drivers of women’s financial exclusion**

1. Women with complex needs are likely to live in poverty, and to face financial exclusion. According to forthcoming research by Agenda due to be launched in September, women who face the most extensive violence and abuse are most likely to face other forms of adversity, such as mental ill-health, struggling to find work, or homelessness<sup>19</sup>.
2. According to the same research, there is a stronger link between women’s experiences of abuse and their experiences of poverty than there is for men. Half of women who have experienced the most extensive violence and abuse live in poverty.
3. Previous Agenda research shows that 1.2 million women in England have experienced extensive physical and sexual violence and abuse as both a child and an adult<sup>20</sup> - these women are seven times more likely to have faced a financial crisis in their lives than women with little experience of violence and abuse. They are 21 times more likely to have been homeless<sup>21</sup>.
4. Abuse, violence, and linked forms of disadvantage are significant drivers of women’s financial exclusion. Experiencing abuse and violence can both cause and exacerbate poverty and deplete a woman’s financial capabilities. This can be direct: an abusive partner may limit a woman’s access to money, prevent her from using financial services, stop her from working, and make her feel incapable of managing her finances.
5. The links between abuse and poverty are also often indirect: experiencing the most extensive abuse and violence is strongly linked with low self-esteem and mental ill-health in women<sup>22</sup>. Some illnesses, such as PTSD, anxiety, and depression may make it very difficult for a woman to successfully manage her finances.

## **Question 3: Consequences of women’s financial exclusion – the relationship between financial exclusion and other forms of disadvantage**

6. Experiencing financial exclusion can make a woman more vulnerable to further disadvantage. Women who have limited access to financial resources are easy targets for perpetrators of abuse and exploitation. For example 28% of homeless women have formed an unwanted sexual partnership to get a roof over their heads, and 20% have engaged in prostitution to raise money for accommodation<sup>23</sup>.

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<sup>19</sup> *Joining the Dots, The combined burden of violence, abuse and poverty in the lives of women*, DMSS research and Herriot Watt University for Agenda (September 2016)

<sup>20</sup> [Hidden Hurt](#), DMSS research for Agenda (2016)

<sup>21</sup> *ibid*

<sup>22</sup> *ibid*

<sup>23</sup> *Crisis, Homeless women: still be failed yet striving to survive*, 2006  
<http://www.crisis.org.uk/publications-search.php?fullitem=182>

7. Women's experiences of mental ill-health are often linked to financial exclusion. Poverty and financial instability have a significant impact on women's mental as well as physical health. Trauma from abuse is also a key driver of women's mental ill-health<sup>24</sup>, and experiencing both abuse and poverty is associated with the poorest mental health outcomes for women, suggesting their impact is cumulative.
8. Our forthcoming research estimates that there are approximately 1 million women in England who experience the combined burden of poverty and extensive abuse and violence<sup>25</sup>. Half (55%) of this group have a common mental illness, and nearly four in ten (38%) have attempted suicide<sup>26</sup>.
9. These women are particularly likely to face precarious financial situations. Nearly a third (29%) had struggled to find work, and 38% feel their employment is insecure<sup>27</sup>. Many of these women seek financial support from non-standard sources. 37% of this group of women borrowed money from a pawnbroker, money lender (including loan sharks), or friends and family in the previous 12 months<sup>28</sup>.
10. This cycle of trauma, disadvantage, and financial exclusion can continue across a woman's whole life course. 77% of women who experience the most extensive abuse and violence are mothers<sup>29</sup>, and this financial exclusion can also have an impact on their children.
11. It is important to recognise the links between financial exclusion and the particular roles women occupy as mothers and carers. For example, women often bear the responsibility for ensuring the household's costs are covered and may need quick access to money to meet particular costs related to their children.

### **Question 7: Addressing financial exclusion and responsibilities**

12. The most excluded women are excluded not because they have taken insufficient responsibility for their lives, but because they face problems almost no one would be able to overcome alone. Most have been victims of serious violent crime, often repeatedly. Many have been unable to access to even a minimal level of support. For them, financial inclusion is not a question of personal responsibility – it is often impossible without help.
13. Government has significant responsibilities with regard to many of the complex problems women in multiple disadvantage face. Protecting women from violence and abuse and treating mental ill-health, for example, are both clearly in the purview of government. If the government does not discharge these responsibilities, there is little hope of financial inclusion for these women.

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<sup>24</sup> [Hidden Hurt](#), DMSS research for Agenda (2016)

<sup>25</sup> *Joining the Dots, The combined burden of violence, abuse and poverty in the lives of women*, DMSS research and Herriot Watt University for Agenda (September 2016)

<sup>26</sup> *ibid*

<sup>27</sup> *ibid*

<sup>28</sup> *ibid*

<sup>29</sup> [Hidden Hurt](#), DMSS research for Agenda (2016)

14. The Government also has a role in directing priorities and understanding of financial exclusion. By recognising the gendered nature of financial exclusion, the Government can help ensure the right support gets to the right places.
15. Once those priorities are set, the third sector is vital to delivering specialist services for women to support their inclusion in the economy. A number of successful models exist which support women all the way from crisis point to independence, including delivering financial literacy.
16. However, such services are few and far between, and struggle for funding. To ensure all women who need them can access them, it is essential that local and national government recognise the value of supporting women holistically and in a gendered way. Agenda recommends the provision of a central pot of funding for such services, to cover the gamut of support they offer.

**Questions 10 and 12: Government policy and regulation in addressing financial exclusion**

17. Women's needs must be recognised in local and national efforts to prevent and tackle financial exclusion. Given the extent of the barriers to financial inclusion faced by the most disadvantaged women, such efforts will have to be coordinated across a number of different Government agendas.
18. Currently, many women with complex needs cannot access any support services because their needs in any one category are too low to meet service thresholds, or because their combination of needs is too complex for services to deal with.
19. Women need to be able to access holistic, gender-specific support services, which are able to help them deal with the range of problems they face. Such services provide the support women need to stabilise their lives, on top of which financial literacy and resilience can be built.
20. Approaches to financial exclusion should therefore have reference to and influence on other government strategies, particularly violence against women and girls as well as public and mental health, and homelessness.
21. Women with complex needs are likely to need education programmes tailored to these needs and such programmes should be offered in settings which are easier for these women to access, for example in women's centres.

*13 September 2016*

## **Age UK – Supplementary written evidence (FEX0094)**

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This submission may be published by the House of Lords Select Committee on Financial Exclusion.

### **David Steele**

Policy Manager Financial Services

### **Lucy Malenczuk**

Senior Policy Manager

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798).

### **Summary**

1. The UK's population is ageing. Older people are a highly diverse group and in many cases those experiencing financial exclusion will have much in common with other age groups (for example, a low income, disability, digital exclusion). However some aspects of exclusion are either unique to the older population or significantly more prevalent among them and therefore it is important to look specifically at how financial exclusion affects older people.
2. In particular, digital exclusion or being a less confident digital user and living with multiple, overlapping impairments may disproportionately affect older consumers and may require different solutions to those used by younger consumers, or adaptations to technological solutions.
3. Age UK usually sees financial exclusion caused by one of a combination of:
  - a. mainstream financial services that do not meet the needs of older consumers e.g. banking services move online without suitable alternatives, meaning that older people who are not confident internet users are excluded from directly participating in the system and can only access it through family and friends;
  - b. financial services discriminate directly against older consumers, e.g. in insurance and mortgage lending; or

- c. older people who do not have sufficient financial capability to be adequately included, this could be because of changes in the external world, changes in their own situation, low confidence or an inability to access information and advice.
4. Age UK defines financial inclusion as access to the financial services and products needed to safely, conveniently and affordably access and manage money and to participate fully in society. Changes to the way that essential services and bank accounts are accessed and recent pension reforms have increased complexity and placed more responsibility on the individual consumer.
5. We set out detailed proposals for action in our main response below, however we would prioritise the following:
  - Place a statutory duty on the Financial Conduct Authority (FCA) to promote financial inclusion as one of its core objectives, as recommended by the Financial Inclusion Commission. This duty should include a mandate to require financial service providers to meet designated standards in relation to access and customer service. We identify the lack of safe, convenient and affordable access to payment and money management services as one of the first issues the FCA should address under such a duty.
  - High level attention within Government on financial inclusion
  - Improve access to information, guidance and advice
  - Require inclusive design of products and services
  - Consider financial inclusion during policy change
  - Review the law on age discrimination as it relates to financial services
  - Maintain access to essential services for people who are not online and launch a refreshed digital transition strategy.

## **The older population**

6. In mid-2015, the number of people in the UK aged 65+ stood at 11.6 million, with 3.1 million over the age of 80.<sup>30</sup> These numbers are forecast to rise to 18 million and 6.3 million respectively in 2039.<sup>31</sup> While people aged 65+ spend over £145 billion per year,<sup>32</sup> and wealth has an upward skew by age, there is a high degree of inequality among the older population. According to DWP, around half of pensioners live on incomes of £11,000 or less per year,<sup>33</sup> a quarter of people aged 65+ have net financial assets of £5,000 or less and six per cent of people aged 65+ are reported as having net financial assets less than zero (ie their liabilities

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<sup>30</sup> ONS 2015.

<sup>31</sup> ONS population projections, Oct 2015.

<sup>32</sup> Calculated from ONS population and spending data by age.

<sup>33</sup> DWP Pensioners' Income Series 2014/15.

are greater than their assets).<sup>34</sup> Within the older population there will therefore be many different forms of financial exclusion.

### **What is financial exclusion? (Qs 1-4)**

7. In Age UK's view, financial inclusion means access to the financial services and products needed to safely, conveniently and affordably access and manage money and to participate fully in society.
8. On this definition, the minimum requirement for older people to be financially included is to have sufficient income to live above the poverty line, to be able to safely, conveniently and affordably access essential financial services and utilities, not to be discriminated against on the grounds of age and to have a sufficient level of financial capability.
9. We are therefore interested, for example, not just in whether someone has a bank account, but whether they are able to operate that bank account appropriately. Further, the extent of what financial services are 'essential' will change over time. For example, the recent pensions reforms now make it essential that people with defined contribution pensions who do not choose an annuity have access to affordable and appropriate financial information, guidance and advice throughout their retirement. Much of our evidence in this submission focuses on the more traditional understanding of financial exclusion as relating to ability to access transactional banking services, however we add some specific comments on new and emerging risks to financial inclusion, especially connecting to managing income and assets in retirement.
10. We note that it can be difficult to define financial exclusion by a set of objective criteria. For example, Anne may choose to use a Post Office Card Account to receive benefits and withdraw the total in cash each week. This is likely to be less cost effective and on some levels less convenient than using a conventional bank account with direct debits and other payment methods. If Anne is aware of the other options and has chosen to continue to operate in cash using the Post Office because she values the face to face interaction and prefers to continue to use the budgeting systems she has always used and is able to conduct all the activities and access the services she needs then we may not see her as excluded but as having made a choice and having access to services which meet her particular needs. If on the other hand Anne is unable to trust banks because of previous bad experience, has tried to open an account but has been told she does not have adequate identification, has tried direct debits but ended up with unexpected bills she could not afford or has no way of safely drawing cash without relying on somebody else, then we may see her as excluded.

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<sup>34</sup> ONS Wealth and Assets Survey, Dec 2015.

## Who are the financially excluded and how many older people are affected? (Q2)

11. Individuals' needs, opportunities and abilities will change throughout their lifetime and so older people may move into and out of exclusion. Further, as longevity rises, complexity increases and there is more emphasis on personal responsibility, we might expect exclusion to increase, including among groups who previously managed well.
12. Most existing research into financial exclusion has focused on individuals who are not using financial services rather than on those who may be using them but with difficulty. On this measure financial exclusion has been found to be significantly associated with age, income, qualifications, ethnicity, housing tenure, source of income and household composition. Specifically, being aged 85+, having an income in the lowest quintile, 'no qualifications', BAME ethnicity, social or private renting, benefit income, poor health and living alone are all indicators of a higher likelihood of financial exclusion.<sup>35</sup>
13. A significant number of older people in the UK continue to be financially excluded, despite some improvements over the last fifteen years such as the reduction in pensioner poverty and the wider availability of basic bank accounts. Age UK estimates that at least six hundred thousand older people are financially excluded, depending on data source and definition, as shown in Table 1.

**Table 1: Indicators of financial exclusion of older people in the UK**

<b>Indicator</b>	<b>Percentage of reference group</b>	<b>Number</b>
Pensioners with incomes below the poverty line	14%	1.6 million
People aged 50+ excluded from all financial services on ELSA 2015 measure	2.6%	607,000
People aged 65+ not reporting access to a transactional bank account (ELSA 2015)	9.3%	1.1 million
People aged 80+ who never use a credit or	28%	870,000

<sup>35</sup> Kneale 2012.



debit card to buy things		
People aged 65+ with lowest scores on financial capability scale	19%	2.2 million
People aged 80+ finding it difficult to get to a bank or post office to use counter services	24%	760,000
People aged 80+ concerned about the impact of branch closures on access to counter services	19%	575,000
People aged 55+ who are not recent users of the Internet	30%	5.8 million
People aged 75+ who are not recent users of the Internet	61%	3.2 million
People aged 80+ not using Internet banking	93%	2.9 million
People aged 65+ not reporting purchase of home contents insurance	30%	3.5 million
People aged 65+ not reporting purchase of buildings insurance	43%	4.9 million
People aged 65+ experiencing difficulty with five or more activities of daily living	7%	840,000
People in the UK with dementia (all ages)	1.3%	850,000

Sources: See Appendix.

Note: The above numbers are overlapping rather than additive. Being drawn from different sources, it is not possible to identify the exact number of individuals affected by multiple measures of financial exclusion.

### **What are the causes of financial exclusion? (Q1)**

14. We usually see financial exclusion caused by one of a combination of:

- a. mainstream financial services that do not meet the needs of older consumers e.g. banking services move online without suitable alternatives and older people who are not confident internet users are excluded from directly participating in the system and can only access through family and friends;
- b. financial services discriminate directly against older consumers, e.g. in insurance and mortgage lending; or
- c. older people who do not have sufficient financial capability to be adequately included, this could be because of changes in the external world, changes in their own circumstances, low confidence, or inability to access information and advice.

### **Age discrimination in access to financial services**

15. Age UK continues to hear about cases of older people excluded from access to certain financial services (principally mortgages and insurance) on the grounds of age, though there have been some positive changes in 2015-16 especially in the building societies sector, where some building societies have removed age limits altogether and others (including Nationwide, the largest) have raised their upper age limit. The ABI/BIBA/HMG insurance signposting agreement appears to have had a positive impact on the availability of insurance for older people, though it is hard to evaluate precisely due to incomplete data<sup>36</sup>, and some older people are still likely to have difficulty finding insurance at a cost they can afford.

16. At the present time, financial services are excepted from the age discrimination provisions of the Equality Act 2010, so financial service providers are able to discriminate on the grounds of age subject to the provision that if they conduct a risk assessment, the information used

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<sup>36</sup> A new provision in the 2016 version of the ABI/BIBA/HMG signposting agreement requires BIBA to produce a report on successful and unsuccessful referrals, but the first edition of this is yet to appear.

must be relevant and from 'a source on which it is reasonable to rely.'<sup>37</sup> Nevertheless, the experience of being discriminated against on the grounds of age strikes many older people as being anachronistic and unjustified.

17. Age UK submits that there should be a review of the Equality Act financial services age exception, with the aim of making financial services accessible to all older people at prices that are not inflated, but fairly reflect risk.

### **Impact of pensions freedoms**

18. Auto-enrolment into workplace pensions has been a major success in addressing exclusion from pension saving, with over 10 million workers estimated to be newly saving or saving more<sup>38</sup>. However, initially at least many will be retiring with small pension 'pots', which is bringing new challenges for financial inclusion.
19. From April 2015, people with defined contribution pensions no longer have to buy an annuity. The increased choice means that (i) pension savers face increasingly complex decisions at retirement and (ii) many will continue to face similarly complex decisions throughout retirement. Even if savers have relatively small pots of retirement saving, decision-making can be extremely complex, especially where decisions need to take into account impact on benefit income and debt.
20. Pension savers with modest amounts are unlikely to be able to afford regulated advice and take-up of the free Pension Wise service is not as high as we would like. Age UK would like to see 'default' pathways built into pensions that would still allow choice but simplify decision-making and reduce the risk of making poor decisions. Where savers have been defaulted into retirement saving they may have even less experience of actively managing investment finances than other savers and may benefit more from defaults.

### **Scams**

21. Consumers who are not financially capable, are not confident users of the channels they need to access financial services or are not well connected to networks which raise awareness of scams may be more susceptible to

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<sup>37</sup> EHRC 2016, p 51.

<sup>38</sup> DWP, Workplace pensions: update on analysis on Automatic Enrolment 2016

fraud than others. The impact of fraud can be immense at any age, both in terms of the financial loss and also loss of confidence.

### **What policies and strategies should be adopted to address financial exclusion? (Qs 5-13)**

22. We recognise and are supportive of the various industry efforts to reduce financial inclusion and improve services for vulnerable consumers. However we note that to date many of the key developments in financial inclusion have involved Government or regulatory intervention and at this stage therefore believe that Government has a vital leadership role to play in order to make sure they do not fizzle out. Financial exclusion also has a cost to the Government, for example in providing Post Office Card Accounts.

23. Examples of areas where government or regulators have successfully stimulated action include:

- Treasury involvement in Basic Bank Account developments.
- Auto-enrolment into workplace pensions.
- Treasury Select Committee work on the future of cheques was pivotal in ensuring this valued form of access was maintained, followed by legislation to permit cheque imaging.
- Actions prompted by the Financial Conduct Authority's work on vulnerable consumers and developing a strategy for the ageing population.
- Establishment of public financial guidance services, such as Pension Wise and the Money Advice Service, including funding for financial capability interventions and debt advice

24. More generally, universal service obligations give UK citizens and residents certain rights to access to essential services such as water, energy, postal services and telecommunications.

25. In this context, we note and support the recent calls of the Financial Inclusion Commission which include:

- To designate a senior government minister with responsibility for financial inclusion.

26. In Age UK's view, the **priorities for action** to promote the financial inclusion of older people are:

- Place a statutory duty on the Financial Conduct Authority to promote financial inclusion as one of its core objectives, as recommended by the Financial Inclusion Commission. This duty should include a mandate to require financial service providers to meet designated standards in relation to access and customer service. We identify the lack of safe, convenient and affordable access to payment and money management

services as one of the first issues the FCA should address under such a duty.

- Improve access to information, guidance and advice
- Require inclusive design of products and services
- Consider financial inclusion during policy change
- Review the law on age discrimination as it relates to financial services
- Maintain access to essential services for people who are not online and launch a refreshed digital transition strategy.

## **27. Financial information, guidance and advice**

- The Government should ensure there is good public financial guidance, free at the point of use, to assist people make key decisions relating to their budgeting, pension and other savings, and whether or not to purchase financial products, including credit cards and others forms of access to debt. This must be available throughout and not just at retirement.
- To support the guidance, consumers need to be able to access independent, relevant and accurate information.

## **28. Inclusive design**

- Products and services including information and advice must be designed to meet the needs of the widest possible range of users. One major barrier to this in the case of older people is lack of research into how older people actually use financial services and a poor understanding of their needs. This can be challenging because some groups will be excluded from common research methods, such as online surveys. The coping strategies used by older people may also hide their needs further e.g. people who cannot access their own accounts and give passwords to family and friends, therefore appearing to be online. However various studies including by the Payments Council and more recently the Financial Conduct Authority and Finance Foundation have demonstrated how these barriers can be overcome. Combined with detailed customer journey planning and other design approaches this has the potential to significantly reduce exclusion among older consumers.

## **29. Consider financial inclusion during policy change especially around pensions**

- The Government should take a strong lead in ensuring that the pensions dashboard currently under development is easy to use, accessible, includes all pensions saving and the State Pension and contains tools which allow consumers to make good decisions
- Government, advice and guidance providers must work together to improve take up of guidance and advice and ensure that public financial guidance meets the increasingly complex needs of users. Increased

research and sharing of the experience of Pension Wise to date will provide a sounder basis for future developments.

- The Government and industry should examine current customer journeys and develop 'default pathways' to assist people at retirement. Experience within this sector has shown the limits of consumer education and provision of information and advice. At the same time we have seen significant success with defaults such as auto-enrolment.

### **30. Review the law on age discrimination in relation to financial services**

- Review the Equality Act financial services age exception, with the aim of making financial services accessible to all older people at prices that are not inflated, but fairly reflect risk.

### **31. Maintain access to essential analogue services**

- Government, regulators and the banking industry should work together to achieve universal coverage of accessible banking services via bank branches, post offices or community facilities and/or by the creative use of new technology.
- Ensure that older people can access cash, use cheques and complete other money-related paperwork in a convenient way throughout the country.
- Ensure that methods of third party financial assistance (Powers of Attorney, third party authorities etc) can be set up and used conveniently throughout the country.
- Give the FCA a mandate to require financial service providers to meet designated standards in relation to access and customer service.

### **32. Launch a refreshed digital transition strategy**

- Achieve universal UK-wide Internet and mobile coverage, at speeds that enable digital banking and other Internet-based financial services to be carried out quickly and efficiently.
- Address the cost barrier to Internet access for very low income households, including many retired people on low incomes.
- Re-design Internet and mobile access technologies to make them age-friendly, for example by developing new interfaces, new information displays and new ways of passing security.
- Provide assurance of the security of Internet and mobile financial transactions by initiating a comprehensive anti-fraud and computer security strategy.
- Ensure adequate provision of skills training and support for those who need it.

## **Other Matters**

### **Personal responsibility for financial inclusion (Q7)**

33. When Age UK hears about or offers advice in relation to financial exclusion it is nearly always in situations where people (themselves or their carers) are trying to take personal responsibility for financial inclusion but either, (a) do not have the information they need to do so, or (b) have met a barrier of some sort. From our point of view it is more productive to tackle the information deficits and barriers than to engage in a general discussion on personal responsibility. We note that many government policies over the past several administrations have, in fact, increased the amount of responsibility that individuals need to take in respect of their finances, for example by increasing choice at retirement.

### **Government role in relation to Fintech (Q14)**

34. From Age UK's point of view, one of the most productive interventions government could make in relation to Fintech would be to require developers of financial technology to adopt inclusive, age-friendly design. As argued elsewhere in this submission, from the point of view of most older people, Fintech must be radically simplified in terms of interface, use and 'passing security'. Older people also need greater practical reassurance of their security in an online environment. At the moment there is a generalised fear among many older people of fraud, scams, computer insecurity and data breaches which is holding back the adoption of Internet-delivered financial services even among those who already use digital technologies to a certain extent.

35. In relation to data capture (Q14), customers need assurance that captured data will be used for the benefit of the customer rather than the service provider. As we have seen in the insurance market,<sup>39</sup> data capture can lead to predatory pricing and increase the information asymmetry between provider and customer. Any regime for data capture should be designed and regulated to prevent this from happening.

An appendix with the supporting research for this submission follows.

(end)

### **Appendix: Supporting Research**

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<sup>39</sup> For example, Thomas 2012.

## **A1. Measuring financial exclusion of older people in the UK (Q2)**

### **A1.1 The poverty measure of exclusion**

According to DWP, 1.6 million pensioners in the UK have incomes below the poverty line, with a further 1.2 million having incomes just above the poverty line.<sup>40</sup> This continuing level of pensioner poverty reflects three things in particular:

- The number of pensioners who do not claim all the benefits to which they are entitled.
- The low relative level of the state pension, due to the breaking of the income link in 1980 and the relatively recent introduction of the 'triple lock'.
- The fact that the UK has never had an occupational pension system with universal coverage.

### **A1.2 Measuring exclusion from financial services**

In 2012 the International Longevity Centre (ILC) published a study of the financial exclusion of older people in 2002 and 2008 based on analysis of the English Longitudinal Study of Ageing (ELSA), which surveys a large sample of people aged 50+. In terms of single measures of exclusion, ILC found that 8.5% of older people in 2008 did not report having a current account and, on a multi-product measure of exclusion, the exclusion rate was 6.8%.<sup>41</sup> This equated to 1.26 million people in England and Wales in 2008.

Since the ILC report was written, Wave 7 of ELSA, for the year 2015, has become available. Table A1 shows the percentage of people aged 50+ not reporting use of selected financial products in 2015:

**Table A1: Percentage of people aged 50+ not reporting use of selected financial products in 2015**

<b>Product</b>	<b>Percentage of people aged 50+ <u>not</u> reporting use of product</b>	<b>Number of people aged 50+ <u>not</u> reporting use of product</b>
Current account	8.2%	1.9 million
Savings account	38.2%	9.0 million
ISA	43.5%	10.3 million

<sup>40</sup> <http://www.ageuk.org.uk/professional-resources-home/policy/money-matters/poverty-and-inequality/>

<sup>41</sup> Kneale 2012, pp 37-38. The multi-product measure used a scoring system based on the number of financial products accessed.



Stocks and shares	75.1%	17.7 million
Unit and investment trusts	93.6%	22.1 million
Bonds and gilts	92.7%	21.9 million
Private pension	48.5%	11.5 million
Life insurance	65.2%	15.4 million
Financially excluded on ILC composite measure	3.1%	740,000
None of financial products listed in ELSA	2.6%	607,000

ELSA, Wave 7, 2015<sup>42</sup> The total UK population aged 50+ in 2015 was 23,628,900 (ONS)

Table A2 shows the same measures for people aged 65+:

**Table A2: Percentage of people aged 65+ not reporting use of selected financial products in 2015**

<b>Product</b>	<b>Percentage of people aged 65+ <u>not</u> reporting use of product</b>	<b>Number of people aged 65+ <u>not</u> reporting use of product</b>
Current account	9.3%	1.1 million
Savings account	9.3%	1.1 million
ISA	38.7%	4.5 million
Stocks and shares	76.1%	8.8 million
Unit and investment trusts	92.8%	10.8 million
Bonds and gilts	90.7%	10.5 million
Private pension	27.6%	3.2 million
Life insurance	74.0%	8.6 million
Financially excluded on ILC composite measure	2.7%	314,000
None of financial products listed in ELSA	2.0%	230,000

ELSA, Wave 7, 2015<sup>43</sup> The total UK population aged 65+ in 2015 was 11,611,200 (ONS)

### **A1.3 Importance of the cash economy and access to cash**

For those without a current account, the options are to work and live exclusively in cash, use a Simple Payment card or open a Post Office Card Account (POCA), which is a means of receiving state pension and benefits and withdrawing cash. At the end of 2014, 2.5 million people, over half of whom were pensioners, had POCAs.<sup>43</sup>

<sup>42</sup> Queried by Age UK Research Unit.

<sup>43</sup> <https://www.gov.uk/government/news/post-office-service-for-pensioners-and-benefit-claimants-to-be-safeguarded-with-new-government-contract>

One persistent finding of Age UK and other research<sup>44</sup> into the financial behaviour of older people is the degree to which many older people still operate in cash, not only to pay bills but also to do their budgeting. For example, a recent study of the over-80s by the Finance Foundation<sup>45</sup> found that 21% *never* pay bills by direct debit or standing order, 28% *never* use a debit or credit card and 87% *never* use the Internet for banking or shopping, as shown in Table A4.

**Table A4: Survey participants aged 80+ who never use the named methods of making transactions**

<b>Transaction type</b>	<b>% aged 80+ who <u>never</u> use</b>	<b>Estimated number</b>
Write cheques	46%	1.4 million
Take out cash	7%	218,000
Pay bills by direct debit or standing order	21%	653,000
Use debit or credit card to pay for things	28%	871,000
Pay over the phone	79%	2.5 million
Use Internet for banking or shopping	87%	2.7 million
Use cashback when shopping	59%	1.8 million
<b>Total population aged 80+ in 2015</b>		<b>3.1 million</b>

Source: Cooper 2016, p 18.

For people who operate almost exclusively in cash, cash has the benefits of being tactile and tangible. It can be arranged physically, for example in jam jars or in specific pockets of a purse, to help plan payments and avoid going into deficit and incurring high overdraft charges.<sup>46</sup> While this might seem anachronistic to a financially sophisticated reader, for the people concerned it can be a positive decision, avoiding the risks and complexity of credit and new technologies.

Cash is also vital even for those who do use other payment methods. Many cash payments will be small person to person payments e.g. paying a share of a car ride, a small amount for coffee at a day centre or small gifts. These payments may be relatively hidden and because small can be easily forgotten, however they are essential enablers of social inclusion and independence.

Given the importance of cash, it is necessary to look carefully at the means people have for accessing cash. Bank branches, post offices and ATMs are essential for access to cash. The free ATM network has improved in recent years, but bank branch networks are shrinking and smaller post offices, due to limited resources, are patchy in their performance. Age UK increasingly hears of communities that have lost all their bank branches, creating significant difficulties for local businesses and stranded customers, many of whom are in the older age group. Stranded customers are also affected by limited bus

<sup>44</sup> See for example Age UK 2011.

<sup>45</sup> Cooper 2016.

<sup>46</sup> Cooper 2016 p 25; Age UK 2011 p 16.

networks, sometimes making a visit to a bank branch a major round trip or, on occasion, impossible. Banks encourage people to shift to Internet or phone banking, but cash cannot be withdrawn by either of these channels.

Regarding ATMs, people over the age of 75 report that they are reluctant to use on-street ATMs because they are concerned about security.<sup>47</sup> Cooper 2016 found that only 14% of survey participants aged 85+ would use an on-street ATM, while 30% would use an ATM only in a bank or post office.<sup>48</sup> In this age group, 29% had never used an ATM and 17% avoided using one if possible. This means there needs to be an emphasis not only on availability of ATMs, but on the *safe location* of ATMs from the point of view of the older user.

#### **A1.4 Financial capability and exclusion**

There have been many surveys of financial capability in the UK, with the results tending to show that a large proportion of the population has limited financial skills, even when tested on what might be considered simple questions involving addition, subtraction, percentages and basic financial or economic knowledge.<sup>49</sup>

Addressing the financial exclusion of older people, Sinclair et al 2016 report that 9.2% of people aged 55-59 had the lowest scores on a simple six question test included in the English Longitudinal Study of Ageing (ELSA). This rate rises with age until 31.9% of those aged 85+ had the lowest score in the same test.<sup>50</sup> This age-related decline is consistent with findings in the scientific literature that show that on average financially-related cognitive skills decline with age.<sup>51</sup>

Applying the age-related financial capability table in Sinclair et al 2016 to ONS's UK population estimates by age group suggests that around 2.2 million people aged 65+ would be in the lowest scoring bracket on the ELSA financial capability measure. The Money Advice Service's 2015 financial capability survey paints a broadly similar picture. For example, MAS found that only 66% of older people in retirement were able to answer correctly basic financial skills and knowledge questions, falling to 53% of those aged 75+.<sup>52</sup>

It may be that the impact of declining test scores is mitigated by the way older people choose to manage their money. It is therefore especially important that older people are enabled to use their full range of coping strategies and not further restricted by service design.

Age UK's experience, as well as research evidence, suggests that it is hard to teach financial capability in the abstract. People tend to seek assistance when

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<sup>47</sup> Age UK 2011, p 45; Toynbee Hall & Policis 2013, pp 10 and 31.

<sup>48</sup> Cooper 2016, p 21.

<sup>49</sup> For example, Ipsos MORI 2015; Lloyds Bank 2016.

<sup>50</sup> Sinclair et al 2016, p 3.

<sup>51</sup> For example Salthouse 2004. The Edinburgh University 'Disconnected Mind' project, part funded by Age UK, has shown that there is a significant dispersion around the average results for cognitive function in older age.

<sup>52</sup> MAS 2015, p 51.

they are facing a life event or challenging situation, and the assistance given needs to be of a concrete, problem-solving nature.<sup>53</sup> Sinclair et al 2016 say that 'financial education may therefore be part of a solution at the margin, but it is by no means a silver bullet.' We note that evidence on financial capability is currently limited and that much more needs to be learned about how to help people to change their behaviour in this area.

In this context it should be noted that a large majority of the UK population do not access paid-for financial advice. ILC 2015, based on analysis of the Wealth and Assets Survey, found that only 4.9% of the UK population aged 16+ had taken advice from an Independent Financial Adviser (IFA) in the previous two years. Of those who had purchased a financial product the rate of taking IFA advice was 11.25%.<sup>54</sup> Thus paid-for financial advice is unlikely to play a large role in improving financial capability, especially for those who are financially excluded on other measures.

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<sup>53</sup> Age UK 2015a, p 14; Sinclair et al 2016, p 4; Spencer et al 2015, p 42.

<sup>54</sup> ILC 2015, p 5.

### **A1.5 Physical access and exclusion**

Postcode level data on bank branches, post offices, ATMs and population by age would be required to identify the precise number of older people affected by distance to counter services or the impact of bank branch closures. However an estimate can be made from the Cooper 2016 survey of the financial practices of those aged 80+. Of the survey participants, 74% reported that they used counter services to take out cash and, of these, one third were finding it difficult to get to a bank or post office branch and over a quarter were concerned about the impact of branch closures on access.<sup>55</sup> Such concerns were also reported in the 2016 Age UK report, *Age-friendly banking – what it is and how to do it*.<sup>56</sup>

Applying Cooper 2016's percentages to the ONS UK population data by age, it can be estimated that 760,000 people aged 80+ were finding it difficult to get to a bank branch or post office to access counter services and 575,000 people aged 80+ were concerned about the impact of branch closures on such access.

### **A1.6 Digital access measure and exclusion**

Access to the Internet is strongly associated with age, with the latest (2016) ONS statistics showing that while 88% of people aged 55-64 describe themselves as recent users of the Internet, this rate drops to 74% of those aged 65-74 and 39% of those aged 75+.<sup>57</sup> Among older people, Internet use is associated with social class, with the 'DE' social group having a significantly higher non-use rate than average.<sup>58</sup> There is also a slight gender bias, with older men having a somewhat higher Internet use rate than older women.<sup>59</sup> This may in part reflect the over-representation of women among the oldest old.

Converting the above percentages into numbers using ONS's 2015 population estimates suggests that 5.8 million people aged 55+ (out of a total of 19 million) are not recent users of the Internet. Of these non-users, 3.2 million are aged 75+.<sup>60</sup>

Factors contributing to this high rate of non-use are: unfamiliarity with computer technology and the Internet, cost (for those on low incomes), poor availability of broadband in many rural and semi-rural areas, lack of age-friendly design and security concerns about the Internet.<sup>61</sup> Security concerns are a particular factor deterring older people from engaging with Internet and mobile banking. For example, Cooper 2016 found that only 7% of her sample of people aged 80+ were 'active Internet bankers', while fewer than half of those who used the

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<sup>55</sup> Cooper 2016, p 22.

<sup>56</sup> Age UK 2016, pp 11, 27, 29.

<sup>57</sup> ONS 2016, Figure 1.

<sup>58</sup> Age UK 2016, based on Ofcom data.

<sup>59</sup> ONS 2016.

<sup>60</sup> Age UK calculations using ONS 2015 population UK estimates and ONS 2016 Internet use estimates.

<sup>61</sup> Age UK 2016.

Internet for banking or shopping were doing so more often than once a month. Respondents reported 'widespread concerns about either making mistakes or being caught out by fraud.'<sup>62</sup>

While there has been some improvement in Internet participation rates from year to year, the rate of change, particularly among those aged 75+, is not fast, suggesting that it will be many years until Internet use becomes ubiquitous among the oldest old. Age UK's 2015 research into the digitally excluded found that the barriers to Internet uptake among some older people were high and that programmes to change this would need to be sustained and well resourced.<sup>63</sup>

### **A1.7 Impact of physical or cognitive ageing**

Physical and/or cognitive changes can impact ability to access financial services. Data from the English Longitudinal Study of Ageing suggest that the proportion of people with five or more difficulties with activities of daily living rises from around 3% in the 65-69 age group to around 20% at age 90.<sup>64</sup> Age UK regularly hears about the difficulties such people have in accessing financial services, where problems with mobility, dexterity, stamina, hearing, vision and cognition can combine into very high practical hurdles in accessing transactional banking or selecting new products.<sup>65</sup> Applying the above percentages to the ONS UK population estimates for 2015 suggests that around 840,000 people aged 65+ in the UK are affected by five or more difficulties with activities of everyday living.

Normal age-related cognitive decline has an impact on financial capability. Mild cognitive impairment can severely affect interaction with money and financial services.<sup>66</sup> The extent to which this limits an individual's ability to manage their money will depend significantly on the design of the services they use and the other support available to them. It is not inevitable that ageing means that we will become unable to manage our own finances.

The onset of dementia makes independent financial management increasingly impractical and forces a person to be reliant on others for financial management via Power of Attorney or a Court of Protection Deputyship Order. According to the Alzheimer's Society, there are 850,000 people in the UK with dementia.<sup>67</sup> These people depend on unpaid carers and other forms of assistance to conduct their financial affairs, meaning that the methods and convenience (or not) of

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<sup>62</sup> Cooper 2016, p 15.

<sup>63</sup> Age UK 2015b, pp 5, 39-41.

<sup>64</sup> Mortimer & Green 2015, p 15.

<sup>65</sup> See for example Vass 2016; Toynbee Hall & Policis 2012.

<sup>66</sup> Lichtenberg 2016.

<sup>67</sup>

[https://www.alzheimers.org.uk/site/scripts/documents\\_info.php?documentID=535&pageNumber=2](https://www.alzheimers.org.uk/site/scripts/documents_info.php?documentID=535&pageNumber=2)

third party assistance affect probably more than two million people at any given time.

### **A3 Financial exclusion arising from the incomplete digital transition (Q1)**

A salient feature of the UK in 2016 is the incomplete nature of the digital transition, particularly as it affects older people. While Internet use is almost universal among people in their twenties and thirties, a majority of the over-75s and a large minority of the 65-75s are still not online.<sup>68</sup> Non-participation in the Internet by people aged 65+ is a product of the cost (out of low incomes) of Internet access and devices, unfamiliarity, lack of age-friendly design, age-related disabilities and security fears. Together, for some older people, these factors create an insurmountable barrier.<sup>69</sup>

Furthermore, the Internet itself is not yet ubiquitous in the UK. There are many rural and semi-rural areas that have Internet and/or mobile black-spots or low running speeds, which make a satisfactory Internet experience difficult or impossible.<sup>70</sup> It is hard to persuade people to try something new when the infrastructure itself is not yet of a quality standard.

#### **A3.1 Closure of bank branches**

Despite the large number of people who are not Internet-enabled, banks are closing branches at a high rate. It has been reported that 1700 branches have closed in the last five years<sup>71</sup> and further closure programmes have been announced in 2016. Branches are closing even in busy tourist locations such as Glastonbury and Windermere. While banks report low footfall in their closing branches, this is contradicted by observers and community groups who report that closing branches are often busy.<sup>72</sup>

Participants in Age UK workshops tell us that face-to-face services are important for them<sup>73</sup> and Cooper 2016 reports that a high proportion of people aged 80+ have concerns about bank branch closures or are already having difficulty accessing bank branches and post offices.<sup>74</sup>

At the moment, the contradiction between analogue reduction and digital exclusion is insuperable, leaving many older people in a very difficult situation. To bridge the divide, new thinking is needed. There could be solutions involving:

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<sup>68</sup> ONS 2016.

<sup>69</sup> Age UK 2015b.

<sup>70</sup> See map at: <http://researchbriefings.files.parliament.uk/documents/SN06643/SN06643.pdf>

<sup>71</sup> Treanor 2016, based on figures collected by the Campaign for Community Banking Services.

<sup>72</sup> For example Prestridge 2016.

<sup>73</sup> Age UK 2016

<sup>74</sup> Cooper 2016, p 22.

- Shared bank branches.
- Enhanced banking capabilities for the post office network.
- Banking access in community facilities.
- Using new technology to create age-friendly banking access at a distance.

Whether solutions will be found by the industry acting voluntarily remains to be seen. Age UK suggests that the government will need to be pro-active to ensure that all older people can conveniently maintain access to banking services in the years immediately ahead.

### **A3.2 Digital exclusion and switching for 'best deals'**

Digital exclusion has an additional impact, hampering offline people from gaining access to the best offers for financial services such as savings and insurance and other services such as energy and telecommunications. Service providers are increasingly separating their customer base into 'active' and 'passive' customers, offering cheaper deals for the former while raising prices to the latter. This practice is known as 'demand-based price discrimination', 'inertia pricing' or 'price optimisation' and is particularly prevalent in the market for insurance.<sup>75</sup> It is also seen in other markets, such as current accounts and savings accounts, where offers are made to 'switchers' while loyal customers pay more or earn less for the same service.<sup>76</sup>

In such markets, digital access, digital skills and financial capability are essential for accessing best price offers and those who cannot do this are excluded from the leading value channel in many contemporary financial and product markets. Empirically it has been found that older people are over-represented in non-switching customer groups.<sup>77</sup>

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<sup>75</sup> Thomas 2012; Minty 2016.

<sup>76</sup> For example, Which? 2016.

<sup>77</sup> Thomas 2012.



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9 November 2016

## **Age UK and Disability Rights UK – Oral evidence (QQ 61-68)**

Evidence Session No. 6

Heard in Public

Questions 61 - 68

Tuesday 13 September 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); the Bishop of Birmingham; Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord Northbrook; Baroness Primarolo; Lord Shinkwin

## Examination of witnesses

Philip Connolly, Policy and Communications Manager, Disability Rights UK, and Lucy Malenczuk, Senior Policy Manager, Age UK.

Q61 **The Chairman:** Thank you very much for coming along. We very much value the time that you are giving up for the Committee. Welcome to this evidence session. You have in front of you a list of interests that have already been declared by members of the Committee. This meeting, as I think you know, is being broadcast live via the parliamentary website, and a transcript of the meeting will be taken and published on the Committee website. You will of course have an opportunity to make any corrections that you feel are needed.

Could I ask you both to say a few words, from your experience, about the nature of financial exclusion that your members—the people you are particularly concerned about—experience? What do you think are the main causes of this exclusion?

**Philip Connolly:** My name is Philip Connolly. I am the policy and development manager for Disability Rights UK. The experiences of our members and of the organisations that are members of Disability Rights UK in terms of poverty are manifold and complex. They have particularly got worse over the last number of years.

People experience financial exclusion in lots of ways. They experience financial exclusion because they live in areas with a high concentration of people on low income and people with disability, where even accessing their cash from ATMs can be quite a challenge. The ATMs might charge for them being able to withdraw money, and there might be very few ATMs. That is particularly true for people in social housing in outlying suburbs of towns and cities.

People may experience financial exclusion because the way they are being communicated to is not appropriate or even legal. Many of the communications from financial institutions are standardised. There is no respect for whether people can actually read, whether people have a cognitive problem, whether people have a disability that impairs their understanding of what they are receiving or whether they are visually impaired and cannot see the printed word. So, they are excluded from information, which is one of the more serious forms of financial exclusion.

People experience financial exclusion because their incomes are simply too low—and falling—to meet basic needs. People are struggling to pay for housing and food. Perhaps even more important than that is contact with other people, which is a source of support and information—a source of financial support in itself. I can come back to this but, increasingly, people are being driven indoors. Despite the high profile of the Paralympics, we are not seeing many people with disabilities in our high street. People experience financial exclusion in other ways, too. Getting access to pay for things is becoming difficult because of the disability poverty premiums in making purchases.

On the causes of this, clearly, the austerity programme of the Government and the cuts in benefits have had an enormous impact. It is a complex

picture. Many disabled people have the talents and skills to get jobs but face negative attitudes from employers towards employing them. There are weak legal protections for people who have become disabled. Often, these people are failed on performance instead of being supported through the duty to make reasonable adjustments and to help keep them in employment. More people are losing their jobs in this way than are getting jobs through the work programme or work choice.

Another problem here is the poor performance of the Government's back-to-work support programmes. People were being presented in the early years of the austerity programme with, "Don't worry so much about the cuts. Look at the fantastic support to help you get into work", but that has not materialised. The performance of it is abysmal. So, people are compounded in their financial exclusion because not only are they facing cuts, but their support is not there to get into work, and the support is not there to stay in work.

There are many other issues, all connected with this, that we could and should explore, and I am sure members will have specific questions on these, but those are my opening contributions from the perspective of disabled people.

**Lucy Malenczuk:** We would describe the two ways you might be financially excluded as relating to either financial capability or goods and services not meeting the needs of the user. By financial capability, we would include your knowledge, your skills and your motivation or confidence to interact with the system.

It is very important that we look at the fact that goods and services are often not meeting the needs of many of the people we are working for. We separate it out in that way because a lot of the interventions that we would want to see might address one or the other.

In more concrete terms of who we are talking about and the problems we are talking about, we see barriers to people managing their money day to day. Some of the chunkier questions in that area involve the move of services online.

A smaller but very important issue is the lack of flexibility for people who need some help to manage their money. That can happen at two ends. You may need help to access cash or to communicate with your institution, but you want to be able to make all the decisions yourself. Alternatively, you may feel that you would like somebody else to help you with your larger decisions, but you want to be in control of your day-to-day managing yourself. The system does not currently work very well for people in either of those situations, which is why we would talk about flexibility and third-party access broadly. They would be two specific issues in terms of managing money day to day that I would bring out.

The other area that we are particularly concerned about—there is a risk here that we are broadening the understanding of financial exclusion too much, but I think it is appropriate to think of it in these terms—is looking at what is happening in retirement now. I hope there will be more questions on this later. We are placing demands on people to manage their money and to make what are complex investment decisions, perhaps not with large amounts of money, such as how you accumulate enough for the length of retirement that many of us hope to have. The world is not equipped to help people to do this

at the moment, as individuals. Those are some of the things that we are particularly concerned about.

**The Chairman:** Thank you both very much. I am sure we will pick up on a number of the issues and themes that you have raised as we go through the questions.

Q62 **Viscount Brookeborough:** To what extent have policy interventions to tackle financial exclusion assisted your members? How effective are targeted interventions to assist the most vulnerable, such as those with dementia, and are further measures required?

**Philip Connolly:** I think the policy interventions are few and inadequate. They have even been withdrawn in some cases. For example, many local councils implemented their own welfare support measures as part of emergency procedures to help people with disabilities who are facing the loss of benefits. Many of those schemes have since been withdrawn. The policy interventions and support are few and far between, and they have been progressively withdrawn. Under universal credit, severe disablement premium has been withdrawn. When people were migrated from the disability living allowance to the personal independence payment, even before the assessment was created, it was announced that 600,000 fewer people would get the support. The effect of all the assessments has been to restrict eligibility and ration the number of people who can obtain support.

People often focus on the people who are on benefits, but huge numbers of disabled people are now not in receipt of any benefits, such as the personal independence payment or the employment support allowance, through the effect of the work capability assessment and the fact that we have now moved to the abolition of the mild or moderate categories in social care, so that only people in the severe and critical categories receive social care. We have had a succession of assessments—and the trend is continuing—that restrict eligibility and ration support, and many disabled people are outside those systems now.

**Viscount Brookeborough:** I have a more general question, which applies to both of you. Obviously, those people who are the most excluded are those we do not have contact with, either from the banks or from you or from anybody else. Organisations such as yours either have a membership or they are involved with a group of people. We talked about the banks and their social responsibility. To what extent do you take on that social responsibility? Do you have programmes? Do other organisations, representing the blind or whatever? What programmes do you have for contacting every single one of the people you are in contact with about financial exclusion and ensuring that, if they are capable of it, they may be aware of it?

**Philip Connolly:** We run a second-tier advice service. We provide an advice service for people who are on the front line giving welfare rights advice. We expect that most people, even if they do not have a bank account and do not get any financial support from their bank or the banking sector, might go into a citizens advice bureau or a money debt agency and might get advice from those people. We provide advice to the people who are advising them. We are a very small organisation; we are a national organisation. We are very small, but we are trying to deal with all the public policies, which affect about 12.2 million people.

There are severe limits on what we are able to do, but it is in this area—

**Viscount Brookeborough:** Are you proactive, or do you wait for somebody to ask you? To the people you are involved with, do you say, “Do you have a bank account?”, or is that too much intrusion? Do you say, “Do you have any savings? If not, here is who you should go to”?

**Philip Connolly:** I fulfil the campaign, policy, research, development and communications function of our organisation. That is how small we are. I try to split my own workload such that I spend about 40% of my time trying to be proactive and about 60% trying to react to aspects of government policy.

There are particular programmes that I am developing to help young disabled people in particular to get work. I could mention those and am happy to talk about them, but I thought they might be outside the remit of your Committee.

**Viscount Brookeborough:** Well, we are really talking about the exclusion bit rather more than the work in itself.

**Lucy Malenczuk:** To answer your second part first, we have an information and advice function. A significant part of that is reactive. People call up the advice line, and we still send out paper copies of a number of guides that we have, or we will talk people through them over the phone. We will also try proactively to distribute those guides at various events where we think people who might need them will be.

We are fortunate to have a very strong network of local Age UKs, which will be much more proactively involved, going out and trying to find people who need support.

**Viscount Brookeborough:** Are all those local ones—we have them in Northern Ireland, in our local villages—aware that they should be focusing on financial exclusion? You help them in various other ways, with trips and looking after them.

**Lucy Malenczuk:** They might not call it financial exclusion. It would probably be “managing your money” or asking whether they need some help with something else, but, particularly if somebody is providing benefits advice, it would come up as part of that. I think it would come up as an adjunct to other things that are likely to be core activities.

We run some more specific programmes, which will be really proactive, going out to try to find people who need help in addressing this issue in particular. That will not be happening across the entire network, because it is simply a funding issue.

In terms of quality interventions more generally, in the past, we have seen some very successful interventions, and the Financial Inclusion Taskforce was certainly one of them. I hope that we are now moving on from the focus on getting people a bank account, which is very important, to a bank account that they can use and that works for them. Certainly, we have a lot of people who, on the surface, look banked, but I would say they are not banked. If you withdraw all your money in cash once a week and direct debits do not work for you, because you do not have the margin to allow for the failure of direct debits, am I making you more financially capable to encourage you to use that service? I am probably not, actually. It is a case of whether those



services work for you and whether you know how to use them. That is the kind of intervention that we would like to move towards.

We are seeing a lot going on right now—this has been mentioned before with the FCA's work on vulnerability, access and its ageing population strategy, which we are obviously extremely pleased about—but I would say that the proof is yet to come out of those interventions. The British Bankers' Association has a task force, but a task force does not help me access my cash or make it easier for me to register my power of attorney. That is where the recommendations that have been made previously around having a greater focus could be really useful.

You mentioned the case of the hardest-to-reach people—the people we do not have contact with. One of the biggest problems is that we do not know them and they are not researched. That is a really big problem for the older population. It is getting a bit better, but it is not good enough. We do all our research online and we say that everybody is using online services, but of course the people you ask on the computer say that they are happy to do that. I do not believe you have managed to do the jiggery-pokery especially—that is the wrong word. You can to a certain extent, but not adequately to cover that hard-to-reach group.

Are we really trying to understand how these people are using financial services and what their needs are? That is very important.

**Baroness Primarolo:** I wonder if we could focus specifically on the question of dementia and of being able to identify the vulnerabilities. What I have in mind here is that we all probably know individuals who manage perfectly well all their lives, but the development of dementia means that their capability to continue to do that can decline, and nobody knows. Then, there is a most almighty financial crisis, which will bring together a whole range of things.

When you were talking about identifying vulnerabilities and power of attorney, I was interested in whether there is more that we can require to be done that recognises an individual's fluctuation. It would not just occur with dementia, of course. Due to other pressures on them and on their health, things can decline and improve. What could we do there? We are seeing more and more people ending up in a terrible mess with the bank, with tax and with the payment of bills or whatever, simply because nobody knew about the presence of developing dementia in their lives.

**Lucy Malenczuk:** There are a range of interventions, some of which are perhaps beginning and will need to be drawn along and some of which will not have started yet. In terms, specifically, of how we could require that to happen, I might have to think. I do not think we have a call at the moment around the requirements, save that we think that, to be able safely, conveniently and affordably to access financial services, which I think has particular relevance for the group we are talking about, is an essential service. There is a strong case now for moving further beyond things like the duty of care to say that this is an essential service. There are a lot of costs to individuals and society if it is not adequately provided. That should be our expectation behind everything. Flowing from that, you may have more specific requirements.

In terms of the interventions, working on the stuff the FCA has done to help encourage identifying vulnerabilities through staff training and recognising

patterns of spending, a lot of work has been done there. Firms also need to be able to respond to that, and I am not sure that, currently, we always have the services to give people the flexibility to manage their money in the way that we would like them to in order to maintain independence.

The biggest thing will be encouraging people to plan ahead, with help managing their money. There is a stream of work that we are involved in on that, saying, "What do we actually know about how we can encourage people to plan ahead, not in terms of saving but people thinking that they may need some help with their finances? How would they be happy to receive that?" That needs to go in tandem—and, hopefully, is at the moment—with the developments that say what is available to people. It is then about working out how we communicate that effectively to people.

**Baroness Primarolo:** What I had in mind—

**Lucy Malenczuk:** Sorry, I am not sure I have answered that.

**Baroness Primarolo:** It is a really difficult area, but what I had in mind was, for example, the number of people who have decided to take out lump sums of pensions that would not provide enough of a regular income, because they know that they are going to have to pay for care, and the development of their dementia gives that urgency. It might not be the best thing for them to do at that time, but they then do it in isolation. Is there something that is joined up that we can do that flags that in the system?

**Lucy Malenczuk:** In that situation, you have a stronger case for saying that everyone needs to have a Pension Wise appointment, and to have those before you withdraw money in some situations. Those kinds of issues will arise with secondary annuities. We are very concerned about that in particular, especially where there are joint annuities. How will you spot needs then? We think that some advice—I know there are questions around costs—should be required before an annuity is sold on the secondary market.

Q63 **Lord Harrison:** I am very grateful to Baroness Primarolo for pre-empting my question, but how will recent welfare reforms exacerbate or alleviate financial exclusion among your members? I have in mind recent pension reforms. Andy Haldane, the chief economist, says, astonishingly, that he is "moderately financially literate", which is good news for all of us, but he was not able to make the remotest sense of pensions. Tell us more.

**Lucy Malenczuk:** I think this is a question that may not traditionally relate to financial exclusion, but we saw in the recent Citizens Advice report that people reaching retirement age with £100,000, not an inconsiderable sum, do not know what to do with it and put it in their current account. I am not a financial adviser, but I am pretty sure that is not a good idea over an extended period.

There are lots of things that we could do to improve the situation as is. The pensions dashboard is an excellent start, but whether it is really useful will depend on whether all providers are required to input their information. We can understand why some providers may not wish to, because there will probably be a drive to consolidate pots. If you are not very competitive as a provider, you may lose out, so you may feel that you do not wish your information to go on to the pensions dashboard. The state pension should also be included, as should really good tools to help you understand the rate at

which it is wise to draw down and how to make decisions. We are very pleased that the pensions dashboard is going forward, but we would like more attention from the Government to ensure that it is as good as it can be and is actually useful.

One of the most successful interventions that we have had in this space is auto-enrolment. We have talked a lot about financial capability. That is an incredibly long-term, ambitious intervention, and I think we will need what we call default glide pathways in the intervening time. The industry is always working with people's biases and defaults, and we need to do the same now. It needs to be easier to do the right thing than the wrong thing.

We need improved take-up of Pension Wise and we need to keep monitoring how well it is performing.

Q64 **Lord Harrison:** Chairman, I wonder whether Philip might like to respond to that, too, but if I can just plug the last Select Committee I sat on with Lord Northbrook, we looked at the Equality Act and the effect on the disabled. I hope that Philip has the opportunity to read that, although it does not particularly deal with financial exclusion.

Is there anything in the way of recent reforms that affects your disability role?

**Philip Connolly:** Yes. First, with respect to the previous committee of which you were a member, Britain is a signatory to the UN Convention on the Rights of Persons with Disabilities, which was ratified in 2009. There are many articles in there, but Article 27 covers employment and access to adequate social protection. Those are cast into doubt by the recent Welfare Reform and Work Act 2016, which abolishes the work-related activity group for people on employment and support allowance. Those are people who are too ill to work. Yet those people are facing a 28% cut in their income from next April.

The trend in welfare reform has been to cut people's income. All the engagement that we have with DWP is really about the nature of the cuts. We do not have a conversation with DWP, for example, about how we can drive down the costs that disabled people face in their living standards. How can they start to have a leverage, as a consumer group, over the price of goods and services sold to them? We do not have a conversation like that with DWP. It is only ever about, "Well, we are thinking about this cut. What do you think?" We provide the evidence about why it is not a good idea, and it then becomes a reality. The only exception has been the awarding of points for the PIP in February-March, which led to the resignation of the Secretary of State. That was a very rare exception.

**The Chairman:** Lord Harrison, I am conscious that we have already started to get into pension reforms, but do you want to—

**Lord Harrison:** I was going to say that I think we have really covered this question of pensions, and of what happens after you have the ability to draw down at age 55, very fully; so I suggest we move on.

**The Chairman:** Okay.

Q65 **Lord Shinkwin:** I am interested, following on from Lord Harrison's remarks, in the report of the House of Lords ad hoc Select Committee on the Equality Act 2010 and Disability, in which reasonable adjustment was a key theme, in

particular the duty as it applies to providers. I would be interested to hear your comments on that document.

I would also be interested to know to what extent you feel that the market has responded with products and services. In its submission, Scope mentioned that the insurance industry needed to make greater “efforts to understand how the market is working” and, by implication, is not working, as may be the case, “for disabled people”.

Do you feel that the market has got it right, is listening and is understanding? Are there further measures that could usefully be taken, either through greater encouragement or through regulation?

**Philip Connolly:** Yes. First, the market is generally unresponsive, largely because it wants to deal with bulk markets—large markets with large numbers of consumers within those markets with similar characteristics. The disability population defies all that. The disability population is big, but very diverse. It is diverse in terms of its impairments, the severity of its impairments, the extent to which they have adapted to their impairment or found a coping strategy and the extent to which they are able to advocate for their own needs. The disability sector is vast and very diverse. The market generally fails to distinguish and differentiate.

There are trends that are happening that may stand to make things better. One trend is in the area of technology, for example with digital fabrication. One of the projects that I have been running is a mobile digital fabrication laboratory in the city of Salford, to help disabled people to design and make their own bespoke products that are appropriate to them and that meet their needs.

Another trend that may be helpful in this is IBM’s Watson, which is a software package that allows us to number-crunch non-quantitative data, so that we can compare terms and conditions of insurance claims, for example.

Then, however, you have to make that public and give disabled people a way to access that information. Disabled people are the biggest single group who are not online: 42% of disabled people are not online, looking at the digital inclusion strategy.

The market needs some kind of coercion over it, and that coercion should take at least two forms. First, there should be some regulations, which I would look to this Committee to recommend to government. The other thing should be helping disabled people to coalesce into communities, and for those communities to have leverage over the goods and services sold to them, both specialist and non-specialist.

At the moment, one of the biggest fault lines in the way the Government deal with disabled people lies in a story that runs like this—or rather, a story that never runs like this. “Oh, you are disabled? Have you ever met anybody else with your condition? Have you ever had some engagement or some conversation with somebody else with your condition? Have you ever learned something about adaptation, coping or a responsive strategy from somebody else in your situation? Have you ever met your peers? Would you like to do so? Would you like to be part of a learning network? Would you like to be part of a consumer group that could pool personal budgets and get a better deal

from providers?" At the moment, that conversation never happens. People are only ever treated as individuals. They are in a much weaker position because they are treated only as individuals.

The state could do a huge amount to facilitate that coalescing. For example, Jobcentre Plus knows a lot about its clients. It knows where they live. It knows a lot about their backgrounds. That conversation that I have described never happens when someone goes to Jobcentre Plus.

There is a lot of scope, but this is one of the biggest fault lines that lies between how disabled people are treated.

**The Chairman:** Would it be possible for you to provide the Committee with a bit more information about your project in Salford at a subsequent date?

**Philip Connolly:** Yes.

**The Chairman:** It sounds very interesting.

**Lucy Malenczuk:** I largely agree with Philip, unsurprisingly. We could say that Nest is a market response, which is very positive, but a lot of the things we might say have come from a government or outside push as well. I do not think that we have seen a great flourishing of wonderful responses to the needs of older people by means of the traditional demand, supply and competition. That is partly because market research typically has not addressed the needs of older people. There has probably also been stereotyping around the needs of older people.

Older people are an incredibly diverse group. They are not a one size fits all. Even as the population ages, you still cannot say that this type of person is your new market, because there is no "this type of person", as we all know.

Demand is weak. It is not a strong enough driver to create the outcomes that we are looking for. I worry that it could get worse as firms become more sophisticated in analysing their consumers. Will those consumers who do not appear attractive, in particular, be even less well served? Thinking about the price optimisation analytics that sit underneath decisions now, not just for credit but for other products as well, will we see that getting worse? That will be very hard to advocate around, because it is ever so hidden. That is something of interest.

**Lord Haskel:** I suppose I ought to declare an interest as a donor to the University of Salford dementia unit, which works with your organisation.

You explained the problems, but you did not say whether you thought there was any way that the market could be incentivised to respond to the financial exclusion of disabled people. Is it regulation, or should there be any special accounts? Is there any way that you think it could be incentivised?

**Philip Connolly:** Yes, absolutely. One of the first ways forward is to help disabled people form a community and to have the leverage of a consumer group, with the power to shift things. For example, it is like the way in which Groupon works. If disabled people could be brought together in a group, they could negotiate a price. That price might only exist for a certain length of time or it might be contingent on the number of consumers, but it could be offered to people on the basis that there are enough people wanting it at that price.

The spending power of disabled people has been estimated by the Government at £212 billion. That is known as the purple pound. It is a huge sum of money, but industry and commerce have very little knowledge of the market. It is as if everybody is spending a lot of time trying to access the Chinese consumer market. There is a hidden, underserved market in our own country, which, globally, is of the same sort of dimensions as the Chinese consumer market.

**Lord Haskel:** Could they be serviced, for instance, off a digital platform or something like that?

**Philip Connolly:** Yes. There is scope, as I say, with IBM's tool. It needs exploring—it is in its infancy—but it offers up the possibility of being able to help people compare and contrast markets in complex products such as insurance or travel insurance. There is a need for some investigation in this.

One of our sister charities, Scope, did a report into the extra costs of being disabled and what was required to remove some of those extra costs. In a wide range of recommendations that were made, it included recommendations for the Financial Services Authority and the various regulatory bodies. A lot can be done in this area, particularly to remove these disability poverty premiums, whereby, if you are poor, you are paying more for things, because you lack the consumer leverage. For example, if you can make a quick cash outlay, you can buy things in bulk. If you are poor, you cannot afford to buy things in bulk. Those kinds of principles work across all sorts of products and services. I am sure that the people here know of their own examples.

Q66 **Lord Kirkwood of Kirkhope:** It is a very interesting idea. Motability is a very good example of what Philip has been explaining. Enhanced eligibility for PIP gives people access to mobility. I would be really interested in trying to develop ways to translate some of that. The DWP supports all that, but you might be able to do something that would give group access to financial capability. I think it is a very good notion. I am really grateful for the evidence.

I want to ask you a question about the Post Office card account. I guess it is really directed more to Lucy than to Philip—but maybe not. On the recommendations that we could make as a Committee, we are about trying to enhance capability in any way we can, and those of us who have been in the game for a long while remember the transition from the old giro book to the 2003 Post Office card account when it was introduced. Over the past 12 or 13 years, it has had a chequered history. It has been two steps forward, three steps back.

The Government panicked in 2014 and said that they were going to confirm the existing limited functionality through to 2021, which was of some disappointment to a lot of us, because it is of course limited. It cannot take wages in, and it cannot carry direct debits.

It would seem to us as a Committee that we could make a recommendation, saying that the new Government could look again at the facilities that the Post Office card account currently offers and enhance them. Does either of your organisations have a position on that in terms of the representations that you have made to Government or, perhaps in a wider context, looking at the

wider pressure group community, are you aware of any feelings that might encourage us to make a recommendation that the Government should try and expand what is available through the Post Office card account?

**Philip Connolly:** I think that is one for you in the first instance, Lucy.

**Lucy Malenczuk:** Our strongest recommendation around the Post Office card account has been that banks should learn from it and offer a second card on their conventional account. I do not know how familiar you may be with the Post Office card account, but there is an ability, which not everybody takes up, to have a second card on your account. If your son or daughter is the person who regularly accesses cash for you, or even if you just have the flu and cannot get out, you can give them this card instead of your own card with your own PIN. That functionality is something that we would like to see on conventional bank accounts, because we think it would help a lot with the third party access issue—which does not answer your question, I am sorry.

**Lord Kirkwood of Kirkhope:** But it does, actually. What you are saying is that you do not think the Post Office card account is worth having.

**Lucy Malenczuk:** No, no, I do. Interestingly, there has been an innovation within that product, which is not a market-driven product and which is extremely important for our client group. They have recognised that some people need help managing and accessing their money, and they have put a second card on. It shows that it can be done, so there is no reason why other institutions should not develop something like that. From our perspective, it has been a bit of a pathfinder in that respect.

We would probably like mainstream institutions' accounts to be designed so inclusively that we did not need any of these additional requirements, but we are not there yet at all. That is another big reason for asking firms to design more inclusively, so that we do not have to fund all these additional services for people in different ways.

**Lord Kirkwood of Kirkhope:** Could Lucy perhaps be invited to produce a page of A4 expanding that?

**Lucy Malenczuk:** Yes, of course.

**Lord Kirkwood of Kirkhope:** I am waiting for the moment when I get my hands on some Post Office people to give them a really hard time about not being more adventurous about the limitations on the card. However, you seem to be saying that you would not want to lose it, because there are indirect advantages.

**Lucy Malenczuk:** I am not saying that they should not also be more ambitious, and I would be very happy to write. It was simply to highlight that they have done something very good, which nobody else has yet done.

**Lord Kirkwood of Kirkhope:** I did not know that—and that is very useful.

**The Chairman:** We would be very grateful to receive some extra written thoughts from you on that. Thank you.

Q67 **Lord Empey:** I have a question on technology, which was touched on earlier, pointing out that a large number of the client group is currently excluded from that. Do you see what might be required to ensure that technology reduces rather than exacerbates exclusion? By definition, we might talk about

platforms and so on, but to a very large part of the client group that is irrelevant, because they are not there. However, if more is done using technology—of course, there can be different types of technology—is it possible to reach into that client group to prevent them being excluded and to move them from exclusion to involvement?

**Philip Connolly:** Obviously, the short answer is yes. We need to make more of existing assets. For example, schools, colleges, developers and employers often have massive banks of computer equipment, yet they are in buildings that are open only around two-thirds of the working day, and the equipment in them might be available for only half the working day. They are spending the rest of the time employing guard labour to stop people using it, rather than training labour so that people might get to learn how to do things on it.

We really need a different attitude towards the current stock. We have to understand what that stock is, and we have to understand why we do not have a programme that makes use of it. Why are schools, colleges and universities not open to the community to go in and learn how to do things—perhaps how to use money management software, learning to manage bank accounts or to budget, or learning basic numeracy on that equipment?

We also need to take a leaf out of what Barclays does. It has a thing called Digital Eagles, which is a mentoring system to help people to become more digitally savvy. We need some kind of mentoring programme, too. To use the phrase that I like, we need to connect the people who can inspire to the people who aspire. We connect the people with the talents and skills to help people understand and manage what is often a very tiny amount of money and an unfair amount of money. At least it is trying to connect them to people who can offer the time and the skill to help them with that. The banks should finance this.

There are things that could and should be done—making more use of the assets and having mentoring systems to help with this—but that is one of the ways forward.

**Lucy Malenczuk:** I think it is a “yes, but”. We will not get rid of the need for non-digital options for several decades to come, if we ever do. That needs to be very clear. There need to be alternative channels for people who will not get online.

That said, there is a lot that we can do to encourage more people online in Age UK. There is a lot of work on this, and we could write ad infinitum to you about it, if that would be of interest. There is also more that we can do to design the products and services so that they encourage people to get online, by taking an inclusive approach and saying that, if we can design something for an older person who may not be terribly confident online, who may have some sight impairments and who may be using old, dodgy equipment, perhaps we do not all want everything to be very complicated. Perhaps that will be simple and attractive for a wider range of people. It need not be a negative form of design; actually, we think it could be a very positive form.

**Lord Empey:** We have things like silver surfers and all sorts of things that are attempting to improve the situation, but, as Philip pointed out, anybody who has ever had a constituency will know that the issue of schools, their playing fields and their pitches is difficult—some of the schools want grants for more barbed wire to keep people out. That is an issue that goes way deep into local



communities, boards of governors, insurance and all sorts of things. However, I still think there is an underlying reality to the potential benefits in what you are saying. It makes common sense. They are community assets, after all.

**Q68 Lord Northbrook:** In wrapping the session up, in considering financial exclusion, where would you like to see the Committee focus its attention?

**Lucy Malenczuk:** I would like to see the Committee strongly recommending that the Government take a lead, as the Financial Inclusion Commission asked. I would like that commission—that person—also to increase, in particular, the transparency of data that we have around how the currently excluded groups, including—although low income is definitely a very big issue—some of the more hidden, hard-to-reach groups, are using financial services now, so that we can understand what the solutions are, based on good, solid evidence.

I would like an enormous focus on information and advice, recognising that that needs not just to stop at retirement any more; that will be ongoing throughout retirement, which is incredibly challenging. We are very concerned about the direction of travel with the reforms to the Money Advice Service. Reform may be needed, but we think that there is a huge potential danger there.

Lastly, firms should be encouraged to design inclusively. That should be the norm. Financial services are essentially a public good.

**Philip Connolly:** I would like to see the Government compelled to have some kind of disability impact measure and to understand that impact before they bring about policy—even before they consult on policy.

A week last Monday, I had a meeting with Dame Sally Coates, who has just led a review of education in prisons. Her review, *Unlocking Potential*, which came out in May, showed that, officially, 32% of the prison population are people with disabilities. The real belief is that it is a lot higher than that when you take into account mental health and emotional and challenging behaviour linked to a disability.

It strikes me that a lot of the people who go into crime do so because of a lack of opportunity in everyday life. We know that disabled people are on low incomes, we know that disabled people struggle to get jobs and we know that disabled people do not benefit, in the main, from a lot of the employment support on offer.

When the Government deny opportunity, or when the effect of government policy is to deny opportunity in lots of other areas, inevitably people will end up in prison. That is one of the places we will find people. We need to understand the cumulative impact of government public policy on disabled people's life experiences. In particular, financial exclusion is a key one here. At the moment, the Government have resisted this. There have been studies and literature done on it. That is what we need to understand. We need to understand the interplay of the different aspects of government policy. That would go a long way towards informing what the Government choose to do.

**The Chairman:** I thank you both very much. It has been an absolutely fascinating session, with lots of very interesting ideas. We are very grateful to you.

**Philip Connolly:** One of our jobs as a charity is to try to give a voice to people. I just wondered if I would be permitted to read a paragraph from an email that came from a disabled woman who had contacted us when she knew that we were giving evidence today.

**The Chairman:** Would it be possible to send it in to us, so that I can circulate it?

**Philip Connolly:** Sure.

**The Chairman:** It is just that we are slightly behind time now—I do not know how long it is. If you can send it in, I will ensure that it is circulated to all members.

**Philip Connolly:** Okay.

**The Chairman:** Is that okay?

**Philip Connolly:** You are the Chairman—it is your decision.

**The Chairman:** We are just a little behind time. I know that one or two colleagues have to go, and we just have to transact a bit of further business. I shall look forward to receiving it, reading it and circulating it. Thank you very much.

## **Dr Christine Allison – Written evidence (FEX0017)**

### ***Definition and causes of financial exclusion (Q 1,2 and 3)***

Holding a (transactional) bank account is often used as the top-line indicator of financial inclusion, but genuine financial inclusion is a broader concept. It requires access to a full suite of quality financial services - that are easy to use and meet people's changing needs as circumstances change over a lifetime. It also requires that people have the tools – skills and motivation - needed to manage their financial and economic lives. People can be completely excluded (usually called *unbanked*), and/or under-served/poorly-served (usually called *underbanked*) by systems which are designed for other circumstances. As such, financial inclusion calls for:

- Access to a full suite of financial services, including credit, savings, insurance and payments
- Quality, suitable and flexible products and services which are convenient to use
- People have the financial capability to interact with what the marketplace has to offer.

While many people are excluded from (conventional) financial services at the discretion of the service provider (criminal background, past insolvency, poor credit rating, insufficient residence documentation etc) some people choose to not have a relationship with e.g. a bank. This may be for reasons of unsuitable product offering, cost/price, access, fear of unpleasant treatment and mistrust.

One of the main impacts of financial exclusion and/or financial marginalization is the "poverty premium", that is the additional cost incurred by people carrying out their various transactions relative to people who have full access to financial services. Pay-as-you-go mobile phone contracts, utility payments, high cost credit and insurance are some of the main areas of life where additional costs are incurred. These can be quite significant (running into thousands of pounds).

### ***Addressing financial exclusion (Q8)***

For financial exclusion to be adequately addressed, change is needed on both the side of the consumer and the providers of financial services. On the side of the consumer, education, skills and motivation are the key elements. To address these, interventions should start from a young age, and continue throughout life. One of the initiatives of the Archbishop's Task Group on Responsible Credit and Savings<sup>78</sup> is the introduction of financial education and a savings club in Church of England primary schools (the *Life Savers* programme).

On the supply side, the major providers of financial services, especially the banks, are primarily focused on the stable, established, lower risks segment of the population. To a certain extent, credit unions serve a similar population, but with some key differences (see below). Much of retail banking is geared towards people in stable employment, with regular pay cheques, and routine outgoings.

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<sup>78</sup> Launched in early 2014 and concluded in February 2016, the Task Group was chaired by Sir Hector Sants and comprised a cross-section of specialists. The final report of the Task Group can be seen on the ToYourCredit website.

Pre-authorized overdraft facilities provide a source of short-term credit for a sub-set of bank customers. In the aftermath of the 2008/09 financial crisis, bank retrenchment and rebuilding the balance sheet was both required and necessary, and this led to a tightening of credit provision and withdrawal of services from some segments of the population. In more recent times, say post 2013, there has been some progress with, for example the introduction of basic bank accounts and systems to support the introduction of universal credit which requires transactional accounts to receive and make payments. Some banks have extended their service offer to less creditworthy customers, but at the end of the day, banks are commercial profit making businesses (they do not have a central social agenda beyond their CSR activities), and their business model is to offer products and services to customers who serve that goal.

By comparison with the UK, Banks in emerging markets have done a lot to address financial inclusion, and banks are playing a leading role in providing and extending financial services to underserved populations. According to the World Bank's Global Findex database, over 90% of the 720 million new accounts opened between 2011 and 2014, were opened at financial institutions, the vast majority banks. (Credit unions, cooperatives, and postal banks being the others.) This is due largely to advances in technology which allows banks to design viable business models that serve otherwise very costly unbanked and underbanked populations. Interesting, in emerging markets, the majority of banks treat inclusion as a direct business strategy with a timeline to achieve breakeven. A few use their CSR to provide complementary services such as financial education.

"For banks that integrate financial inclusion into operations, digital payments are the main gateway for new customers, starting with transactional accounts to make and receive payments. The payments often involve employers/wage and government/benefit payments as well as payments between individuals. This starting point means that banks often start with underbanked (more than unbanked) customer segments in the low-income and informal population and build their strategies around deepening inclusion for those customers. They cross-sell products that meet these customers' needs such as savings, credit, insurance and pension. Many banks are also launching e-money products, mainly for the unbanked." (*Extract from the Centre for Financial Inclusion/Institute of International Finance report – Insights from banks in emerging markets, July 2016*)

Is this type of innovation viable for the UK? Is it realistic for UK banks to engage with inclusion in the manner that one sees in emerging markets? Is it perhaps more likely that new entrants to the marketplace will be better positioned to innovate? The answer to these questions is that it is more feasible for new providers of financial services to offer innovative products - and this is where support is best placed: removal of barriers to entry, and a variety of enabling support mechanisms.

### **Accessing affordable credit (Q9)**

Demand for short term credit of relatively small sums, readily accessible is as buoyant as ever. In the absence of savings, people need credit to deal with the lumpiness of income and expenditure (consumption smoothing), an increasing reality of life today as fewer people are in regular salaried employment. After transactional bank accounts, access to short-term credit is arguably the most

important financial service, and the UK consumer credit market is one of the largest in Europe. Credit cards and bank overdrafts have traditionally been the most widely used sources of credit, and for the largely banked population they remain hugely important. However, as the recent FCA study revealed, credit card debt is not without problems; the CMA review of over-drafts revealed a similar problem with unauthorized over-drafts and excessive charges.

Next in scale are payday lending and home credit (doorstep lending). At its peak, payday lending was worth around £5 billion, and served some two million consumers. Home credit/doorstep lenders serves around 3 million people. Pawnshops, rent-to-own shops and logbook loans are other sources of short-term credit. A small number of credit unions provide short-term credit. Beyond the legal, regulated market are ill-legal money lenders, the loan sharks. There is considerable market segmentation, with income/assets, credit rating, age, gender and location all playing a role as to what type of credit is available to different population groups. Typically, demand for short term credit increases with low and volatile incomes, and cost of borrowing similarly increases.

The question of how to provide reliable, affordable short-term credit for citizens and communities with low incomes and poor credit scores has long been a difficult and complex public policy issue. There are real moral dilemmas about who should be able to borrow money and how this access should be provided. The routes through which many low income people currently borrow money are far from optimal. Their small-scale, short-term, immediate borrowing needs are often met by a highly commercial high-cost credit provider – such as payday lending – as they are unable to access cheaper, mainstream financial products. Advertising and asymmetric information also play key roles.

**Payday lending** The changes the FCA has introduced since taking control of the regulatory regime have had a major impact on the payday lending industry. Indeed, the industry today is markedly different from the headline grabbing one of two years ago. A number of lenders already exited the market in 2014 - estimates suggest 25-30% of providers, and more continue to do so, opting not to apply for full FCA authorization. To-date, around 50 firms have received full FCA authorization to offer high-cost short-term credit (compared to 240 firms operating two years ago), among which are the larger ones, such as Wonga, Sunny and Quick Quid who have the means to adapt to the new reality. The other major adjustment is on product offering. Very few firms are now offering single payment loans, as they are largely unprofitable under the new pricing regime. Instead, larger instalment loans spanning a number of months are under offer. Guarantor loans, where family and friends guarantee the loan are another growth area. They generally offer a lower interest rate than payday loans as the perceived risk on default is less.

Many of the new firms and new products are building on the innovation brought to the market by the likes of Wonga. One such new entrant is Provident Financial Group's Satsuma. Launched in 2013, self-branded as "best in class" on price (costing £40/£100 borrowed compared to Quick Quid £72), loan amount (up to £1000), flexible repayment terms (monthly and weekly), and no hidden costs (such as missed payment fees). Like the majority of online lenders, Satsuma is targeted at younger borrowers, in full-time employment who need short term loans to manage their lives and afford discretionary purchases. In this way it complements the Provi's more traditional face-to-face doorstep loan

(the loan that comes to you), serving the less credit worthy customer. Provident has also launched a pilot guarantor loan product, offering larger sums of money over a longer period to borrowers whose own credit record is wobbly, but where a friend or relative provides a backup guarantee on repayments. Another new entrant to the online short term credit market is Uberima. Uberima offers interest-charge only loans, i.e. no other charges, of up to £1000, with flexible repayment terms. Uberima loans undercut Wonga by around 25% on cost.

According to the Consumer Finance Association (CFA), one of the main trade associations for online short term credit lenders, at the end of 2015 approximately 80% of loan applications are being rejected and lending volumes are down by 70%. This largely reflects tighter affordability checks such that only those with good credit records are granted loans. For those who are denied a loan, a CFA/YouGov poll found more than a quarter said they failed to pay some form of bill or credit repayment, a tenth used an unauthorised overdraft at a bank, and others delayed the planned purchase. A small percentage said they had borrowed from an unlicensed lender, and a very small percentage (2%) turned to a credit union. According to some observers (Policis, CFA) there is a real danger that some new on-line market entrants will be operating illegally outside UK regulation. Their view is that many customers are unlikely to check the legitimacy of a lenders licence and they will not know who they are dealing with. This is the contemporary version of the loan shark, and draws on experience in the USA where there has been a rise of illegal activity in those states with the most restrictive regulation. Monitoring the activity of illegal lenders is a new challenge, and calls for action by government, the regulators and the justice sector.

**Loan sharks**, of the traditional sort, are still active in the UK. According to the illegal money lending team (England), around 300,000 households borrow from illegal lenders. There is no typical profile of a borrower, but they are generally located in low income neighbourhoods, have bank accounts (95%) and a high level of debt (owing on credit cards, council tax, door-step loans, utility bills, previous overpayment of benefits, rent-to-own, payday loans, rent and phone bills). As such, they have few alternative sources of credit when money is needed for everyday expenses such as food and clothing. Loan sharks are generally known to family and friends, and are regarded as part of the community. The impact of involvement with a loan shark can go well beyond financial extortion to physical and mental distress, at its most acute leading to suicide. Immigrant populations are particularly vulnerable to loan sharks as they have yet to establish residence and other requirements, necessary to interact with the formal credit sector.

**Credit Unions** have long been viewed as one of the most effective ways to provide basic financial services to un/under-served populations, both promoting saving and offering affordable credit. In Scotland, an Affordable Credit Working Group which brought together a wide range of stakeholders with the view to improving access to fair, affordable short-term credit in Scotland recently came to the same conclusion. The Working Group published "Gateway to Affordable Credit" in the spring 2016, stating that "we believe that the solutions to widening the availability of affordable credit lie in growing our credit union and CDFI sectors". The report goes on to say "Scotland is ideally placed to lead the UK in identifying and testing solutions to deliver more affordable credit on a viable basis, at scale." Similarly, this was the proposition of the Archbishop

of Canterbury three years ago when he spoke out against Wonga and the payday lending industry. Out complete the bad with good. One thing the Archbishop has appreciated is the slow gestation inherent in growing the credit union/community finance sector as a serious alternative, often saying that ten years will be needed. This would seem to be a realistic time frame, given the significant challenges facing the sector: vision, leadership, fragmentation (small autonomous entities, non-collaborative trade bodies), capital, technology, product and service innovation, capacity and skills. Progress in the past two years is nonetheless quite promising with the DWP financed (plus Barclays and Lloyds) credit unions expansion project beginning to deliver much needed infrastructure support to participating credit unions. In addition to this there is considerable innovation elsewhere in the credit union sector, and a sub-set of credit unions are on a trajectory to become full service, modern financial institutions. This is good news for both current and future users of credit unions. But there are points of concern. The customer base that will benefit from credit union expansion and modernization. Indeed, it is unclear whether the offering will attract the largely financially excluded, or – more likely – those in employment and with a stable financial profile who prefer credit unions over mainstream banks for ethical reasons. For sure, the credit unions themselves need this customer base to be financially sustainable and to be relevant in the 21<sup>st</sup> century.

At the local level, there are a number of good initiatives such as Sheffield Money, the city's new one-stop shop which provides joined up money and debt advice together with access to loans (from credit unions and CDFIs), credit for white goods, and savings and bank accounts from the "better" banks. Birmingham's Fair Money works along similar lines as an on-line multi-agency service. London Capital, Leeds and Pollock Credit Unions all offer payday like short term loans, and Street UK and Northern Money provide sizeable lending services in the Midlands and the north respectively. Lendlocal is a peer-to-peer platform connecting people with spare cash to people who need a loan, brokering the money through credit unions and CDFIs. Fair for You, a competitor to Brighthouse, offers more reasonable finance for household goods via an on-line platform (see below).

Other areas where there are exciting developments are with credit scores and price comparison sites. On the former, Pariti provides on-line tools, guidance and access to low cost loans, and offers a different approach to credit assessment, building on positive debt reduction steps. Price comparison websites, purpose built for customers of short-term credit and with poor credit scores are beginning to emerge in response to the CMA recommendation (e.g. FairMoney.com). A particularly interesting development is the use of metrics other than APR to compare the cost of borrowing short term.

But this is not to suggest all is well. New market entrants (such as Fair For You) are finding that credit rating companies often misrepresent the credit histories of many people, typically those with complex histories. Inconsistent reporting, mislabelling defaults where debts have been settled, and duplication of debt from the same source are a sample of the errors that are recorded.

**Rent-to-Own**. Like most forms of high cost borrowing in the UK, the Rent to Own (RTO) sector has experienced huge growth following the onset of the recession, establishing itself as ever present on the high streets of our more

deprived towns, cities and communities. It enables over 400,000 households, almost exclusively with low incomes and reliant to some degree on benefits, to take out expensive credit to spread the cost of purchasing consumer goods from furniture and large household items (cookers and washing machines) to electrical items (such as TVs and computers). It has proven to be recession proof, more than doubling in size over the last five years since the onset of the economic crisis. The market is dominated by three just providers, with BrightHouse, by far the most well recognised and largest firm. The business model relies upon costly hire purchase arrangements whereby the customer has a credit agreement but does not actually own the goods outright until the last payment. Therefore, in addition to the huge cost of purchasing the products, falling behind with RTO repayment means customers face losing goods, which can put undue pressure to prioritise such payments. A number of other unfair practices have also been highlighted - all shown to compound the debt trap for many low income families.

By way of offering an alternative a number of social businesses (such as Fair for You) have been launched, trying to address some of these consumer detriment issues. These assemble a range of local stakeholders together with suppliers of household goods and affordable credit lines, combining some of the more positive characteristics of the RTO model that appeal to consumers but delivered in a way that designs out some of the more harmful aspects. By doing so, these alternatives are able to generate significant cost savings for low income customers and thus help to avoid paying a poverty premium for their essential goods. It is early days for these alternatives and they face a number of big challenges to reach scale and make a tangible impact.

### **Government policy and regulation (Q13)**

Regulation, done well, can protect consumers *and* make markets work for consumers. Recent changes to consumer credit regulation are a good example. The responsibility for regulating the consumer credit sector was transferred to the FCA in 2014. This heralded a major change from the light touch used by the OFT. The FCA has a different approach and philosophy to the OFT and is more willing to intervene in markets (for now). The FCA's authorisation process is much tougher than the OFT's licensing approach. There are now meaningful conduct of business rules which determine how firms should behave and treat consumers. The FCA has much greater resources to scrutinise the business models of firms much more intensively during authorisation, undertake more intensive supervision of firms, and enforce against breaches of regulation.

The introduction of a tough charge cap on payday lending was a landmark decision for contemporary regulation. In addition to providing additional consumer protection by constraining unscrupulous lenders to target vulnerable consumers, it allows non-profit lenders such as credit unions to compete more fairly against aggressive payday lenders. Historically, non-profits have been crowded out of the market by payday lenders who could deploy huge marketing and advertising budgets - generated from exploitative business models. Capping the charges on payday loans should constrain the ability of payday lenders to win and maintain market shares so clearing space for alternative lenders.

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But whilst we have seen real progress in the payday lending market, major problems remain in the wider consumer credit market, harming consumers and acting as barriers to non-profit lenders who want to offer consumers a fairer deal. For example, the credit card and overdraft markets are not working for financially vulnerable households. Millions of vulnerable credit card borrowers face an uphill struggle trying to manage over-indebtedness. Consumers in the high risk credit card market are at risk of unfair practices and high charges from four providers who dominate this market. High unauthorised overdraft charges continue to harm vulnerable consumers struggling to make ends meet. Unfortunately, the CMA recently decided not to recommend a regulated charge cap on overdraft charges leaving consumers vulnerable.

A recent report on the rent-to-own (RTO) sector<sup>79</sup> shows the huge consumer detriment in the RTO market with consumers paying a high cost to own basic consumer goods. Such issues have placed the industry firmly under the spotlight of policy makers and the regulator. Falling under the Financial Conduct Authority since 2014, a process of authorization is ongoing, paying particular attention to affordability assessments, arrears handling and forbearance, and price transparency. The 'big three' have all been given authorization. The only substantial new requirement is the appointment of an independent 'Skilled Person', effectively a self-policing provision. Compared to the treatment of the payday lending industry, this is a very mild regulatory stance. However, the FCA did impose a redress scheme in March 2016, against Buy As You View, requiring close to £1 million payment to 59,000 customers for arrears payments.

We believe that the FCA should apply tougher regulatory interventions to stamp out unfair charges and practices in credit card and overdraft markets, and to apply the same approach adopted for the payday lending market to the RTO sector. But we need to be realistic. The CMA's weak conclusions may hinder the ability of the FCA to apply tough regulatory interventions such as capping unfair charges in the credit card and unauthorised overdraft markets<sup>80</sup>.

What does this all mean for non-profit lenders such as credit unions? The clampdown on payday lending has created a real opportunity for non-profit lenders to offer the short-term, convenient credit consumer something they need and *want*. But there is concern about the regulatory framework in which credit unions operate. As a small part of the financial services landscape, their treatment is a delicate balance of fair attention to consumer protection and over regulation. Although sector-specific regulation was introduced in 1979 it was only the 2011 Legislative Reform Order that gave credit unions the scope to widen activities, allowing them to liberalise the common bond, enrol community groups and businesses as members, to pay interest on savings (as well as a dividend), and to charge for a limited range of additional services. However, the cap on interest rates remains, now sitting at 3%/month. In 2014, regulation of credit unions moved to the FCA and the PRA. The FCA is still finding its way with credit union regulation, and guidance around (customer) affordability and vulnerability is proving challenging for some new market entrants/potential

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<sup>79</sup> See <http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2016/03/Better-and-Brighter-Responsible-RTO-Alternatives-Full-Report-150316-1.pdf>

<sup>80</sup> the banking industry will now be able to cite the CMA recommendations to argue that further interventions would be disproportionate

innovators, who find the FCA over protective and imposing considerable costs on their businesses.

### **Fintech (Q14)**

FinTech developments have the potential to significantly improve the financial health of lower income households. For example, the use of technology to deliver automated lending online has enabled credit unions to better meet customers' increasingly high expectations and compete more effectively with the competition. It has streamlined procedures that make it far simpler for the member but that also reduce both the time taken for a decisions from days (or in some cases weeks) to hours and the unit costs of administering a loan through operational efficiencies. As a result it has helped attract new and more diverse members that are younger and often with higher household incomes, expand lending portfolios both in terms of new loan products and lending levels but also enabling more informed decisions that has reduced bad debts.

However, a number of barriers remain to be addressed if this potential is to be realized. Barriers fall into three groups<sup>81</sup>:

**Regulatory barriers:** with high levels of public concern about the practices of payday and other lending targeted to low income groups, regulators are understandably subjecting new business models to greater scrutiny and have established tougher rules for financial services providers in the sector. However, there is also a need to ensure that regulation does not stifle innovation which is of benefit to consumers. There is a need for regulators to be pro-active by providing safe harbours or regulatory sandboxes to allow innovators to experiment. There is also a need to encourage the development of common infrastructure for the community finance sector, enabling the pooling of liquidity, and provide access to the payments system.

**Financial barriers.** The UK has a sophisticated investment environment with a wide variety of possible funding sources. However, there is frustration that when it comes to developing products and services targeted on the needs of lower income households, much of the investment is short-term and subject to changing priorities. The case for blended finance can be made to help 'lubricate' the sector, and the recently created Access Foundation is an important initiative.

**Organisational barriers.** While non-profits and community finance organizations have in-depth knowledge of low-income households, FinTech firms have the technical expertise. There is a natural partnering arrangement to be sought here, although differing cultures needs to be overcome.

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*Dr Christine Allison*

*Financial Inclusion Fellow, Centre for the Study of Financial Innovation*

*Specialist Advisor , Treasury Committee*

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<sup>81</sup> Taken from "Using Insight and Innovation to Benefit Low Income Households", CfRC, January 2016.

Dr Christine Allison – Written evidence (FEX0017)

*Member, Archbishop of Canterbury's Task Group on Responsible Credit and Savings*

### ***Annex: The Archbishop of Canterbury's Task Group and Credit Unions***

The Archbishop's Task Group chose to focus on credit unions as part of the response to offering more ethical and suitable financial services, including supporting the establishment of a new credit union (the churches' mutual credit union). "In response, the church acted in the one arena where it could materially affect change – strengthening the Credit Union sector. Never conceived as a total solution, there were synergies to exploit here. Churches have a culture of volunteering, some skilled members and a portfolio of buildings across the whole nation. Credit Unions often lack skills and people to lead them and need a wider network of outlets. Could these be put together? The churches' Credit Champions Network, now expanding from its pilot in two CofE dioceses, suggests that there is potential here."<sup>82</sup>

The Church Credit Champions Network was set up with the belief that local churches have resources which, if unlocked, could increase the capacity of community finance providers (particularly credit unions) to provide access to saving and responsible credit. The Network has been piloted in London and Liverpool from 2014-2016. The Network adopted a 'bottom-up' approach in its activities, seeking to help local churches to listen to local experiences of money and debt before learning about possible practical interventions that they could take. This has proven to be much more successful than simply making a 'sales pitch' to churches on the virtue of credit unions, as it has allowed local relationships to develop which are genuine partnerships based on shared interests. It is no surprise then that these partnerships generated different kinds of activities in different places.

In Hackney in East London, several churches have turned their buildings into credit union 'access points', with church volunteers trained to help local people engage with the services of the credit union or just to have a conversation about their financial situation. This has proven to be very successful where the churches have committed volunteers and where other pre-existing activities mean there is a natural 'footfall'. In the City of London, on the other hand, churches have been at the forefront of promoting payroll savings schemes between employers and credit unions. These schemes carry huge benefits for employers, employees and credit unions alike, but it can often be difficult to get the necessary decision-makers in the room to create the momentum needed to get them off the ground. In Liverpool the application of 'civic capital' and community connections has enabled new credit union branches to be opened in Netherton and St Helen's. The Credit Champions Network has also been influential in ensuring that local debt advice services are well-connected with credit union provision, ensuring that local people are able to access a holistic set of services to meet their financial needs. And finally, many churches have provided skilled volunteers and Board members to credit unions, increasing the quality of governance which can become a platform for future growth.

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<sup>82</sup> *The Revd Dr Malcolm Brown, Director of Mission and Public Affairs for the Archbishops' council of the Church of England and Member of the Archbishop's Task Group.*

However effective, local churches on their own are not able to boost the capacity of community finance to meet the huge need in the UK. But what the Church Credit Champions Network has proven is that there is a key role for civil society organisations to ensure that community finance providers can grow and innovate without losing their local roots and their relational anchors. Without these local partners, the future will be much less rosy for credit unions and other forms of ethical finance in the UK, and that's why the Church is committed to rolling out the Credit Champions Network from 2017 under the new name of the 'Just Finance Network'.

*12 September 2016*

## **Amigo Loans –Written evidence (FEX0076)**

1. This written submission addresses sections 7, 8 and 9 of the Call for Evidence. It is a short, preliminary submission to flag the forthcoming availability of in-depth research into the positive effects of guarantor lending on the credit scores of borrowers with damaged or non-existent credit files; and the potential of guarantor lending to have a 'rehabilitative' effect that moves borrowers from exclusion towards inclusion in the mainstream, from where they can access a host of cheaper products and services including utilities and mobile phone packages in addition to credit. The research is being led by Dr. John Glen of Cranfield University and will be ready for sharing in late autumn 2016. The research has been funded by Amigo Loans. Both Dr. Glen and senior managers at Amigo would welcome the opportunity of discussing it with the Committee.
2. Amigo Loans is the UK's leading guarantor lender. It offers loans of between £500 and £7,500 over terms of 1-5 years and most of its customers have been excluded from finance by banks and other prime lenders. Borrowers can use the loan for any legitimate purpose including, buying a car, raising a deposit to rent a home, consolidating other, more expensive credit, or starting a micro business. Amigo has lent over £1bn gross to over 215,000 customers – these are only a small proportion of the circa 12m consumers in the UK that are excluded from mainstream credit products.
3. Amigo requires that borrowers can easily afford the repayments. It carries out a full income and expenditure assessment and validates and verifies all data where possible. It also requires borrowers to have a family member or close friend who trusts them enough to guarantee to make the payments if they don't. In effect, guarantor loans provide a formalisation of the 'bank of mum and dad'.
4. Amigo shares the Committee's concern that better ways need to be found to help those who have had no credit or bad credit in the past. We believe the guarantor model should be strongly supported by policy makers as a means of debt rehabilitation and financial inclusion for those who are either new to the credit market or have experienced problems with borrowing in the past.
5. In particular, there are important human and social aspects that a guarantor brings to the transaction. By enabling a family member or friend to stand alongside a borrower for the duration of the loan, he or she can provide support at points when the borrower might struggle. This enables family members to help family and close friends keep their borrowing on track and default-free, and thereby improve their financial standing and bring down the cost of future borrowing and other essential services. It leads to more responsible and realistic borrowing that has a rehabilitative effect as the borrower (re)builds a positive credit record.
6. Policy makers often cite borrowing from social lenders or friends & family as their preferred borrowing options. Our contention is that guarantor lending is friends & family done to scale with proper contractual underpinnings so that

problems / defaults can be dealt with without souring personal relationships (which would be the ultimate forfeit for both borrower and lender).

7. The research being conducted by Dr. Glen at Cranfield University will seek to quantify the benefits for the economic standing and 'inclusion' of borrowers. In 2013, Dr Glen published research that found that an average UK household with a poor credit score could be paying £1,170 more across a range of products and services than households with a healthy credit score. The current research will update that research with specific reference to consumers using guarantor loans. This research is being supported by Call Credit who are providing analytical services and verification.
8. Amigo believes that guarantor loans are a part of the solution the problem the Committee has identified in Sections 7, 8 and 9 of the Call for Evidence, as they provide social underwriting where credit scores fail to correctly assess risk. We will update the Clerk to the Committee on the research's likely delivery date and discuss the most appropriate way to communicate the findings to the Committee.

Yours faithfully,

Nicholas Beal,  
Director of Legal and Compliance

*19 September 2016*

## **Dr Lindsey Appleyard, Coventry University and Dr Shaun French, University of Nottingham – Written evidence (FEX0086)**

We are currently undertaking a joint research project on the concept of financial citizenship and its potential for reinvigorating debates about financial inclusion and exclusion.

### **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?**

The term 'financial exclusion' emerged from academia in the 1990s and was equated with a lack of physical access to mainstream (banks and building societies) financial products and services. Financial exclusion was therefore seen as primarily an institutional issue with the focus being on the unbanked and those on a low-moderate income.

Since the 1990s understandings of financial exclusion have evolved to consider a more nuanced, spectrum of exclusion to include individual, institutional, and behavioural issues:

- *'geographical exclusion, e.g. resulting from branch closures;*
- *condition exclusion, e.g. the failure to qualify because of minimum deposit required, poor credit history or identity requirements;*
- *price exclusion, e.g. the relative cost of financial products and services such as unauthorised overdrafts;*
- *marketing exclusion, i.e. some less profitable groups of customers are not targeted by providers and so they are unaware of the financial services available;*
- *self-exclusion, i.e. cultural and psychological barriers – financial services as 'not for people like us'".<sup>83</sup>*

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<sup>83</sup> <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/2222-financial-exclusion-policy.pdf>



Financial inclusion policy emerged as a response to the problem of exclusion and is often viewed as securing access to appropriate, affordable products and services. However, financial inclusion is more than an access issue. Over the last decade or so emphasis has shifted in debates on financial inclusion from issues of access to a focus on improving the financial literacy and capability of individuals to make effective and responsible use of financial services, and thus better manage their own finances.

Increasingly and not least because of the deepening segmentation of retail financial services markets and the growth of risk-pricing, the exclusion/ inclusion binary fails to adequately capture the complexities of the relationship between the use (or otherwise) of banking and other retail financial services, poverty, individual life chances and socio-economic mobility. First, innovations such as 'subprime' products and the emergence of legal, high-cost lenders have made it increasingly difficult to draw a clear distinction between those who are included and those excluded. Second, there exist a sliding scale of financial inclusion which runs the gamut from the marginally included, who rely on basic bank accounts, through to the super-included who are able to access a full array of affordable financial services. Third, as various miss-selling scandals attest, as well as concerns raised over the high charges levelled on basic bank accounts, financial inclusion is no guarantee of being free of exploitative practices. Fourth, critics of financial education programmes have raised concerns about how such programmes have shifted the focus away from the structural determinants of discrimination and inequality to a focus on the individual failings, cognitive and moral, of 'irresponsible' and 'irrational' consumers. The root causes of financial exclusion around insecure income and work are thus not addressed through policy or practice that emphasises financial education and the reduction of the number of unbanked individuals and households. It is important to remember that financial exclusion is a process and can happen to anyone at any life-stage.

There will probably always be people that do not wish to be part of the financial system but there is a responsibility for mechanisms to be in place for people to access regulated, responsible, affordable, appropriate products and services, if and when they choose.

Further consideration is needed around the issues of financial precarity and those that are underbanked to explore why people may have a bank account but do not use it or the full range of financial products and service that are available to them.

Rather than the promotion of financial inclusion we would argue that debate and policy should be reoriented toward the establishment of a set of universal financial rights that citizens of a highly financialized society like the UK are entitled to irrespective of their personal or economic situation. These rights would include the<sup>84</sup>:

1. Right to participate fully in collective decision-making concerning the operations of finance and the financial system.
2. Right to a critical financial citizenship education.
3. Right to key financial services.
4. Right to collective, state insurance style guarantees against the risks of financial participation.

**2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

Levels of financial exclusion are geographically uneven, and have significant impacts on life chances and upon overall levels of economic development. For example, there are marked divides in levels of financial participation in the UK.

First, there is the 40 per cent of the population that might be considered 'super-included'; they have savings and investments and are wealthy. Second, there are those that may be considered to be less-privileged financial citizens, while they may be included within the financial system, they do not have significant savings or wealth and may be over-indebted. This group may also be or choose to be excluded in some ways, so cannot or do not use a full range of financial

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<sup>84</sup> Here we draw extensively on the work of Berry and Serra (2012) Financial Citizenship, Friends Provident Foundation, and Arthur (2012) Financial Literacy Education, Rotterdam, Sense Publications

services. Finally, there are those that are financially excluded or only partially connected to the financial system; they live in a cash economy, use doorstep financial services or mainstream but limited products such as basic bank accounts.

**3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage and deprivation? What role does problem debt play in financial exclusion?**

No response.

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

The elderly and people with physical or mental disabilities/ health problems face particular difficulties in accessing bank branches, especially if they have to rely on public transport and have to travel significant distances because of the closure of their local branch. In addition, such vulnerable groups often find the transition to other distribution channels, whether that be telephone or digital, difficult and are therefore the most reliant on face-to-face contact with their bank or building society.

**5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

Current financial education programmes are insufficient to equip citizens in highly financialised societies. In addition to the knowledge and skills about *how* to participate in the financial system, young people and adults also need to be provided with the skills to critically analyse *why* the financial system functions and is structured the way it is and the principles upon which it is based, as well as the *means* to intervene to affect change. It is only in providing such a critical

financial education that citizens will be equipped with the necessary capability to politically participate in a financialised society<sup>85</sup>.

**6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

See above.

**7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

The onus on some individuals to take financial responsibility is too great and the complexity of the financial market can be overwhelming even for those who are considered to be financially capable.

The Government needs to adopt a leading role to provide coordinated support between banks, regulators, businesses, employers, charities and so on.

**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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

Banks need to take a more proactive role in supporting those in financial difficulties. However, the recent CMA review of the retail banking market has required banks to make very few changes. This firmly put the individual at the heart of the decision making process which essentially serves to make individuals financially responsible for issues that may be out of their control.

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<sup>85</sup> See, for example, Arthur (2012) [Financial Literacy Education](#), Rotterdam, Sense Publications.

Credit Unions and Community Development Finance Institutions (CDFIs) are not geographically widespread and do not necessarily have the resources to support everyone that approaches them. Therefore banks and the Post Office could play a greater role here.

**9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans – on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

The regulation of payday lending has been important but has diverted attention from other forms of high cost, sub-prime credit. The high cost of overdrafts, credit cards, rent-to-buy, logbook loans and doorstep lending also needs more attention as these have not been captured by recent reforms.

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

The Government should play a key role in addressing financial exclusion. Recent Government policies have served to increase financial exclusion, such as the loss of the Social Fund. The Financial Inclusion Taskforce could be reintroduced to monitor and address ways of supporting financial inclusion for those that are underbanked and unbanked.

Various other changes would also be helpful including: reducing benefit delays; providing more independent and free money/debt advice; and ensuring that utility companies effectively support people who struggle to pay bills.

**11. What has been the impact of recent welfare reforms on financial exclusion?**

There is evidence for growing income insecurity for people both in and out of work as a result of cuts in state welfare provision. Benefit delays and sanctions, variable wages; insecure work (such as zero hours contracts); self-employment;

loss of employment; low levels of benefit income; have resulted in many people using (high-cost) credit as a safety net as a result of financial exclusion and unwillingness of banks to help individuals in financial difficulties.

**12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

No response.

**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? What balance should be struck between regulations and incentives for financial institutions?**

EU legislation to provide a bank account for all EU citizens has helped to address this dimension of financial inclusion. The Government should embed this in UK policy as part of a broader set of financial rights, see question 1.

Credit products need to be reviewed and regulated to ensure that these products are responsible and affordable.

Greater transparency is required for consumers understanding of products and services.

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

No response.

*21 September 2016*

Dr Lindsey Appleyard, Coventry University and Dr Shaun French, University of Nottingham – Written evidence (FEX0086)

## **Professor Thankom Arun – Written evidence (FEX0070)**

### Financial Exclusion – Global Perspective

The reasons on why a large percentage of the working age adult population are excluded from the financial system is a global policy concern, and necessitates more field level studies on gaining a better understanding of the root causes of financial exclusion. However, financial exclusion is a relative concept, and deeply interconnected with social exclusion (ESWR, 2010). The supply-side challenges have focused on the aspects of accessibility that is making financial services both available and affordable, and designing products in a reliable and flexible manner (Claessens, 2006). Cole et al. (2011) examined the theory of low demand for financial services in emerging market economies and noticed that reducing the price of financial services is a better option for financial deepening, for example, by encouraging low-cost technological solutions like mobile banking, etc. The evidences from countries such as Bangladesh (Grameen Bank<sup>86</sup>) and Kenya (MPESA) supports the need for innovative business models in addressing structural constraints of consumers such as low disposable incomes and disability.

Many of these microfinance product features have obviously reduced the information gap between the parties and to a significant extent addressed the concerns of adverse selection and moral hazard (Arun, 2016). Technology has played a key role in the evolution of microfinance, particularly on data transfer, monitoring and in assessing the creditworthiness of borrowers. Based on their field experience and client knowledge, microfinance institutions have expanded their services to insurance in partnership with insurance companies (Arun et.al. 2012). These programmes provide opportunities to mitigate risk through ex ante (based on diverse economic activities and conservative production and/or employment opportunities) and ex post strategies (for example, consumption smoothing by

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<sup>86</sup> The Grameen model popularised the concepts of group lending, regular repayment schedules, a liberal approach to collateral; more importantly, it established a long-term relationship between lender and borrower. Grameen II introduced more innovative products such as flexible loan products, self-reliance and open access savings.



borrowing, depleting and accumulating non-financial assets), hence providing social protection measures to deal with vulnerability (Arun and Murinde, 2010). Since the traditional banks have embraced global goals at the cost of local service, community finance initiatives such as Kiva and the new models of micro lending<sup>87</sup> have a big role to play in the financial access agenda. The new technologies have made it possible to develop crowd sourcing lending platforms, such as Kickstarter in the USA, or Goteo in Spain, for peer-to-peer financial services (Anca, 2013). Apparently, many of these innovative mechanisms provide social protection for the vulnerable by enabling them to access finance, create assets and prevent people from sliding back into poverty traps.

Though the supply-side developments are promising, the demand side challenges from the behavior of consumers need more scrutiny. The commonly cited factors such as the lack of knowledge/information about borrower's own capabilities and inadequacies, negative perceptions, attitudes and behaviour which are largely premised on known adverse experience with a financial institution and traditional idiosyncratic and covariate risk of poor people. Among the issues that have been explored in this strand of the literature is how self-discipline based on present bias theory (trade-off between current and future preference), and financial behaviour and attitudes, contribute to access to finance (Bauer et al. 2012 and Kostov et al. 2012). Based on the conceptualization of the concept of Discouraged borrower based on the psychological component of application cost, Kon and Storey (2003) indicate that even a good borrower may not apply for a loan to a bank because of the perception of a possible rejection. Many studies have confirmed the positive relationship between financial knowledge and financial decision-making among households (Hilgert et.al, 2003; Van Rooji et.al, 2011). Agarwal et al. (2009) showed that financial errors in investments are more dominant among the young and elderly people who have less financial knowledge and cognitive ability.

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<sup>87</sup> For instance, the JAK Members Bank in Sweden does work based on member savings, no interest payments and the principles of mutuality in loan disbursements - *you are allowed to take out a loan for yourself to the same extent that you allow other people to receive loans* (Anca, 2013).

A rise in the number of financial instruments and products has increased the need for education and financial awareness among households and consumers for their own financial security. The recent findings show that, financial knowledge should not be taken for granted, not even in countries with well developed markets (Lusardi, 2013). More severely, this study shows that the young, the old, women, those not working and those with low education levels manage with very weak levels of financial literacy across borders<sup>88</sup>. Nonetheless, education affects confidence, borrowing decisions, occupational choices, financial market participation and decision-making (Cole et al., 2012). In the case of under-banked indigenous people living in remote communities in Australia, in addition to government policies relating to enhanced consumer education and awareness, studies have shown the need for distinct industry/provider policies relating to ensuring culturally appropriate design and delivery of financial products and services (Godinho et.al, 2015). For example, as this study shows, the need for family and community based financial education connect better with the needs of remote customers. Based on the varied sets of evidences, it is not surprising to observe that the demand determinants define both the opportunities and the limitations of policy interventions, and the lack of financial knowledge lead to deceitful financial practices and financial exclusion.

*14 September 2016*

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<sup>88</sup> The countries are US, Germany, the Netherlands, Sweden, Italy, Japan and New Zealand.

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## **Association of British Credit Unions Limited (ABCUL) – Written evidence (FEX0037)**

We appreciate the opportunity to respond to this inquiry. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales. Out of the 323 credit unions which choose to be a member of a trade association, approximately 65% choose to be a member of ABCUL.

Credit unions are not-for-profit, financial co-operatives owned and controlled by their members. They provide safe savings and affordable loans. Some credit unions offer more sophisticated products such as current accounts, ISAs and mortgages.

At 31 December 2015, credit unions in Great Britain were providing financial services to 1,269,345 people, including 136,461 junior savers. The sector held more than £1.37 billion in assets with more than £769 million out on loan to members and £1.16 billion in deposits.<sup>89</sup>

Credit unions work to provide inclusive financial services has been valued by successive Governments. Credit unions' participation in the Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. Loans made under the fund saved recipients between £119 million and £135 million in interest payments that otherwise would have been made to high-cost lenders. The DWP has contracted ABCUL to lead a consortium of credit unions under the Credit Union Expansion Project, which will invest up to £38 million in the sector and aims to make significant steps towards sustainability.

### **Q1. Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion.**

1. Logically we believe that financial exclusion is the inverse of financial inclusion. They simply denote opposite sides of the same concept. That said, in both respects there are matters of extent of exclusion / inclusion and nature of exclusion / inclusion which are driven by the concept's nebulous and cross-cutting dynamic. These aspects of extent and nature come about in respect of how people become excluded – i.e. its causes – as well as who is affected and in what respect – i.e. in relation to which type of financial service and at what time of life.
2. Financial exclusion is the phenomenon of groups or individuals either being denied access, or opting not to access, financial services. In turn this places them at a disadvantage or precipitates negative financial outcomes such as: a failure to save for retirement; over-indebtedness;

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<sup>89</sup> Figures from unaudited quarterly returns provided to the Prudential Regulation Authority

not having access to discount prices; a lack of protection against unforeseen events (i.e. lack of insurance). As well as negative financial outcomes, exclusion can indirectly cause an inability to participate fully in society: diminished employability; lack of access to cash; inability to access online services, etc.

**Q2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

3. There are a range of sectors of society who are affected by financial exclusion. The most obvious groups are:
  - a. the poor and welfare-dependent – through inability to manage bank accounts without penalty charges or lack of access to affordable, low-interest credit
  - b. those living in isolated communities – through lack of physical access to financial services branches
  - c. the old – denied services such as certain insurance or credit
  - d. those with disabilities – through a lack of accessible channels
  - e. those in particular geographical locations affected by regular natural disaster (e.g. flooding) – inability to secure affordable insurance
  - f. the young – those with a limited credit history, for example.
  - g. those not native to the UK – often have difficulties opening bank accounts.
  - h. those who have gone through bankruptcy or other distressed credit history – can struggle to access transactional accounts or credit.
4. Different sectors are affected in different ways but the effects can be generalised. A lack of affordable credit increases credit costs, for example; a lack of insurance can leave one vulnerable to unforeseen events. Isolation and remoteness present particular difficulty for those on low or fixed incomes who tend to be less visible in rural communities. The lack of physical services in rural locations can exacerbate or expose vulnerabilities to other forms of exclusion. Rurality and bank branch closure also has particularly difficult effects on small business.

**Q3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage and deprivation? What role does problem debt play in financial exclusion?**

5. There is a strong correlation between poverty and deprivation and financial exclusion. Problems created by low income can create the conditions for self-exclusion since financial systems do not accommodate the needs of those with limited means. Examples of this include the unpredictable schedule for Direct Debit payments and the risk of penalties when payments are missed as against the cost benefits that utilities and others attach to this payment method or credit with fixed, inflexible repayment schedules which do not fit the need for low income people in terms of flexible payments.

6. Problem debt is a key result of financial exclusion – those without access to sources of affordable credit resort to borrowing from high-interest lenders and this can exacerbate problem debt in that high interest can cause debt to accumulate much more quickly than it would otherwise. Accessing credit from certain providers can then be used as a negative flag on a credit report, thereby further limiting access to affordable credit. Subsequently, previous problem debt can further exacerbate exclusion from affordable sources even where this is historical. Negative credit history can also exacerbate exclusion from, for instance, transactional bank accounts such as in the case of undischarged bankrupts.

**Q4. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?**

7. Those with disabilities and mental health problems have different needs which are not well accommodated by financial institutions and their standardised policies and procedures. In the case of disabilities this is most often the case with limited availability of accessible formats and channels. In relation to mental health, the work of Martin Lewis' charity, The Money and Mental Health Policy Institute, has been instrumental in highlighting the issue such as those with bi-polar and the possibility of their overspending during manic periods. Those with diminished mental capacity can also make financial decisions which don't align with financial wellbeing. Financial institutions need to be better able to respond to people with specific needs such as these.

**Q5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

8. Financial education in schools could be improved but needs to be effectively funded. Schools will always have different priorities and the provision of financial education is unlikely to be high on the agenda given that it is not assessed. This could be part of an expanded PSHE provision in schools. This education is currently provided by teachers who are not properly or appropriately trained and often do not feel confident in delivering education of this kind and so work to provide dedicated teaching resource would be welcome.
9. Many credit unions provide financial education in schools through the provision of school savings clubs. A notable example of this is the Lanarkshire Credit Union which has engaged more than 80 schools, recruited more than 7,500 junior members and has accumulated more than three quarters of a million pounds in savings. These savings clubs are provided alongside financial education classes and the credit union has developed a compelling game concept for boosting financial education and promoting good financial health. While these are hugely valuable interventions, they can only be provided if the credit union is supported to deliver it with funding. Lanarkshire has received more than £100,000 in recent years to support its work with schools.

10. Advisory services are limited and generally focus on those with problem debt. The key here is finding a sustainable source of funding. The successes in debt advice demonstrate this with funding for Citizens Advice and StepChange Debt Charity coming from creditors and the funding for Money Advice Service's debt advice coming from the financial services industry. In order to expand advisory services and education more generally a sustainable and viable source of funding needs to be found as this activity cannot be conducted without appropriate funding from some third party source. In the case of the debt advice funded by Money Advice Service, it has taken too long to provide for consumer credit firms to make a contribution to this funding and we hope that this will be done soon.

**Q6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

11. The work that the Money Advice Service has undertaken in developing its Financial Capability Strategy has uncovered and brought together a number of key insights as to how financial literacy and capability can be maintained and developed. Within this there are a number of key areas. Firstly, it is important to target adult literacy and capability interventions at key life events such as: leaving school / college / university; buying first home; having children; approaching retirement. These are times at which people are considering their financial position and are more disposed to positive interventions. MAS has also played an important role in the provision of generic information and guidance.
12. We would also point to the role of regulators and financial service providers in developing and designing services which better meet the needs of consumers and contribute to good financial outcomes. The credit union sector is a good example to follow here in relation to, for example, the work it does to provide savings and credit services via payroll deduction which has proven benefits in making services easy to access and therefore encouraging good financial outcomes. These include successful loan repayment and the accumulation of savings building on the behavioural economics literature around the benefits of default settings to tackle inertia. Another example of this in the credit union sector is the role of requiring a small amount of saving alongside repaying loans as a default. This has been shown – particularly in work by the Fairbanking Foundation – to have strong benefits in terms of helping those who have never saved before to begin a savings habit and turning an engagement with credit into an opportunity to do this. A larger role for credit unions in these areas would greatly support better financial capability.

**Q7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**



13. In general, we do not believe that personal responsibility should be a primary factor in seeking to understand financial exclusion. While of course personal responsibility is crucial and the ideal outcome would be for all consumers to take full responsibility for their financial position it is also the experience of many credit unions that in tackling exclusion we often find that consumers are not being well served by the market or find themselves excluded despite their best efforts and that, therefore, interventions to design and develop services which better meet peoples' needs is a more fruitful area to pursue. As such, it should be seen as the responsibility of policy makers, regulators and the industry to provide mechanisms which support good financial outcomes.
14. Financial exclusion is a cross-cutting phenomenon with implications for a range of social, health and other problems and therefore often falls between various stools. With public funding under pressure interventions to tackle financial exclusion can be deprioritised. Government should take a leading role and fund interventions which will support financial inclusion as long as such investment is done on the basis of sustainable solutions and will therefore have net benefits for society. An example of this is the Credit Union Expansion Project which is an investment by Government in financial provision which supports long-term sustainable provision to the otherwise excluded. Another example of this is the creditor-funded provision of debt advice already detailed above.
15. The regulatory community can also play a more active role in encouraging the financial services sector to design and support products and interventions that support financial inclusion and positive financial outcomes.

**Q8. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

16. Some appropriate financial products and services are available – such as those provided by credit unions – but these generally remain subscale and therefore require greater investment and support. ABCUL has been working closely with Big Society Capital to develop a case for social investment in credit unions which may support this growth and investment agenda. Similarly, we would encourage a very tight focus on areas which build long-term sustainability in institutions. The Credit Union Expansion Project is an example of this in that it seeks, through collaborative business models, to help credit unions to sustainably continue to serve excluded groups. The vision and foresight of the Department for Work & Pensions here is to be commended.
17. The positive services and interventions already provided by the likes of credit unions should be supported and invested in by the banking community if it is not able to emulate such services directly. Lloyds Banking Group, Citi and Barclays Bank are all examples of UK and

international banking groups that have invested and supported British credit union development and we hope that they will be encouraged to continue to do so. The sector is enormously grateful for this support which has seen a diverse range of action from direct investment in credit union capital reserves by Lloyds, to investment in training and business intelligence tools by Citi and corporate volunteering and expertise sharing by Lloyds and Barclays. This work is to be commended.

18. Longer term there is the potential for credit union services to be made available via the Post Office once the Credit Union Expansion Project and Fiserv Agiliti model that it is developing has been implemented. This is particularly powerful given the extent and reach of the Post Office network. We envisage a relationship whereby credit unions participating in the Agiliti model could offer a full cash desk and loan application service via their local Post Office. This could potentially boost footfall in Post Office branches, making them more sustainable, while supporting the reach, accessibility and sustainability of credit unions.

**Q9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans – on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

19. The effect of the introduction of FCA regulation into the consumer credit market and the cap and other requirements on payday lenders has been to disrupt the traditional payday lending model very successfully. Other less scrupulous lenders have also been forced out of business or into more responsible forms of lending which take better account of consumer needs. This is largely positive as, for example, the bullet-repayment payday loan is no longer very evident in the market. However, evidence from debt advice charities now shows an increase in arrears among priority debts such as utilities, tax and rent which is of serious concern.
20. In order to ensure that there is a sufficient availability of affordable credit, measures need to be taken to continue to support the expansion and growth of credit unions as the main source of affordable credit to excluded communities. As already outlined, it is crucial that such interventions support sustainable business models. Policy-makers can support this in the following ways:
  - a. Supporting and investing in collaborative and shared business models such as under the Credit Union Expansion Project – through collaboration, credit unions can gain scale while remaining responsive to local needs. Investment should seek to encourage more collaboration between credit unions to support sustainability.
  - b. Payroll deduction and employer partnerships are crucial. Financial exclusion, over-indebtedness and related phenomena are not limited to the unemployed or otherwise out of work and the provision of credit union services in the workplace can have significant benefits for low income workers. The new credit union for the retail sector is a good example of how the sector is innovating in this regard. Payroll partnerships also have significant

- efficiency and sustainability benefits for credit unions and productivity benefits for employers making them a win-win.
- c. Proportionate regulation is vital. While it is important that credit unions are well governed and run soundly with proper risk management and prudential oversight, the sector also needs the flexibility of a proportionate framework in order to be allowed to grow. Innovation and diversification is crucial if credit unions are to develop and proportionate regulation is critical to this.
  - d. The credit union legislative framework needs also to support innovation and provide for a credit union sector which is able to adapt to meet member needs sustainably. Current ambiguities in the legislation threaten to stifle innovation in some areas.
  - e. Measures to encourage and support inward investment in balance sheet growth are crucial. Credit unions are limited in their growth potential by their ability to accumulate capital and encouragement of external sources of support, such as subordinated debt and deferred shares would help to accelerate this. Soon to be published research from Social Finance on social investment in credit unions suggests there is a case for supporting this through providing a tax relief for investment in credit unions.
  - f. Credit unions tend to lack access to skills and expertise in key leadership and governance positions which can limit their growth and development. There have been some exciting initiatives around corporate volunteering and skill-sharing from some key supporters of the sector and extension of these schemes would be beneficial.

**Q10. How effective has Government policy been in reducing and preventing financial exclusion? Does Government have a leadership role to play in addressing exclusion?**

21. Government policy in respect of supporting credit unions has been strong in its prioritisation of capital investment in sustainability. Previous support, while welcome, did have a tendency to breed dependency and distort business models. We suggest other interventions seek the same sustainable outcomes. More generally the economic environment and the Government's response to this have put extra pressure on services which might otherwise support inclusion while the low interest rate context has had a discouraging effect upon saving. Government should take a leadership role in tackling exclusion to the extent that it supports, invests and co-ordinates sustainable solutions to the problem. These should be driven by market actors and providers but encouraged by Government.

**Q11. What has been the impact of recent welfare reforms on financial exclusion?**

22. Welfare reform has seen the incomes of some groups put under pressure and this necessarily has an impact on levels of financial inclusion. At the same time reforms have placed an emphasis on personal responsibility and though this can be beneficial, some find it challenging to effectively manage their own financial resources. Personal debt levels continue to rise while saving levels are below where they need to be.

**Q12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

23. Policies across government on financial inclusion could be better coordinated. There is no clear cross-government responsibility for tackling financial exclusion and as a cross-cutting issue which impacts a range of government policy, this can leave gaps. Local government provision is patchy and commitment to tackling financial exclusion is hampered by pressure on budgets. The Welsh Government has been the most consistent in maintaining a focus on financial inclusion with some positive results but the long-term sustainability of their interventions is not proven. A central focus on financial exclusion issues could be beneficial providing its focus was on supporting market- and provider-led sustainable interventions.

**Q13. 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? What balance should be struck between regulations and incentives for financial institutions?**

24. Regulation of consumer credit has seen a marked improvement since the introduction of FCA oversight and rigour. Under the OFT meaningful regulation was non-existent in this market. More intervention is needed – particularly in the payments systems – in order to support wider consumer benefits outside of just credit and debt issues. The advent of the Payment Systems Regulator is driving positive changes here already. The problem of financial exclusion is one of market failure and therefore regulatory intervention and incentive frameworks are critical to delivering results and improvements.

25. Regulatory interventions need to strike a balance between consumer protection and maintenance of financial stability and the need to support innovation, competition and choice for consumers. Sadly we sometimes find regulatory authorities becoming a barrier to innovation and competition in the credit union space and we hope that they will take a more flexible approach in future.

**Q14. Does the Government have a role to play in ensuring the development of financial technologies (FinTech) and data capture helps to address financial exclusion? If so, what should this role be?**

26. FinTech holds many possibilities for supporting financial inclusion such as helping people to more effectively budget or gain access to the best financial deal. It also holds the possibility of allowing the provision of services which support inclusion more cheaply and therefore making such products and services more sustainable.

27. However, it is important not to complacently assume that FinTech will solve financial exclusion on its own without higher-level regulatory and other interventions. We would suggest that Government considers incentives – either regulatory or otherwise – which are open to any firm (FinTech or not) that can demonstrate that it is tackling the problems of financial exclusion in some way.

*14 September 2016*

Association of British Credit Unions Limited, British Bankers' Association and Fair Finance – Oral evidence (QQ 150-158)

## **Association of British Credit Unions Limited, British Bankers' Association and Fair Finance – Oral evidence (QQ 150-158)**

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Members present: Baroness Tyler of Enfield (Chairman); Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Eric Leenders, Managing Director, Retail and Commercial Banking, BBA; Mark Lyonette, Chief Executive, Association of British Credit Unions Limited and Faisal Rahman OBE, Chief Executive, Fair Finance.

Q150 **The Chairman:** Thank you for coming. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the parliamentary website and you will have the opportunity to make any necessary amendments. First, for the record, I will ask you to say who you are and who you represent.

**Eric Leenders:** Thank you, Lord Chairman. My name is Eric Leenders and I am the managing director responsible for retail and commercial banking at the British Bankers' Association. I gave your secretariat my CV with a couple of interests, which I think will have been shared with you.

**Mark Lyonette:** I am Mark Lyonette, the chief executive of the Association of British Credit Unions.

**Faisal Rahman:** I am Faisal Rahman, founder and managing director of Fair Finance, which is a community finance organisation in London.

Q151 **The Chairman:** Thank you. I will kick off with the first question. The Committee in its deliberation so far has heard quite a bit of evidence about the Money Advice Service and its successor. What, in your view, should be the role of the successor to the Money Advice Service in tackling financial exclusion? In particular, what good practice would you like to see continue, and what changes in approach or practice would you like it to take on board? Eric, I address that question to you, to begin with.

**Eric Leenders:** There are three issues for me. As a preface to that, I rather supported what Martin said in the previous evidence session. I certainly subscribe to the view that the current CEO has done a very good job in developing a strategy that serves the Money Advice Service well. Therefore, first, in the forthcoming consultation, I am keen to see the best of the Money Advice Service preserved. I do not think we need to throw the baby out with the bathwater.

That brings me to my second point: holistic money guidance and advice throughout an individual's life. This takes it from financial education in schools, through student life and into a first job, through building a family and into accumulation for pension and retirement and so on. I see that as the second priority.

The third issue is to build on that Money Advice Service strategy. Martin was right on point by suggesting that focusing the financing on the priorities would be a key role for the new body.

**Mark Lyonette:** I would agree with all that. In recent years, the Money Advice Service has focused clearly on what needs to happen. I would like to see that focus still on a financial capability strategy and the co-ordination of financial education, particularly in the financial exclusion space. It is important that focus is retained on encouraging low-income savings and micro-savings.

It has not always been easy to get that across as part of the credit agenda. Small savings is a big part of how we manage the balance of funds that we have in our lives.

In recent times, there has been a big focus on evidence collection of what works. That should continue. To go back to what Martin Lewis and Polly Mackenzie said, I do not think we understand as well as we should the points at which we are ready and willing to seek and take on advice; Martin called them points of vulnerability.

**Faisal Rahman:** I agree with most of the points that have been made so far. The strength of the Money Advice Service was in co-ordinating lots of activities and work around financial capability and, for the first time, continuing the funding of debt advice to some of the most vulnerable through face-to-face models. I did not think it was particularly involved in the world of financial inclusion. I thought it was much more involved in the world of financial advice, guidance and helping people understand how they could manage their products, as opposed to building new products. So if there was any consideration about what it might do in the future, it should be more engagement to support product development and innovation to bring more services to people who are currently outside the system.

**The Chairman:** Just to clarify that point, do you think the new body should and could have a greater focus on tackling financial exclusion?

**Faisal Rahman:** I do not think that the previous body tackled financial exclusion and I do not think there has been a body focused on financial exclusion since the demise of the task force or the Financial Inclusion Commission. The new body should—or a body should, whether that is this new body or through widening the remit of an existing body such as the regulator—have a specific focus on inclusion, because currently there is none.

Q152 **Lord Haskel:** This is a question about credit unions. We have heard evidence that credit unions in Britain have a somewhat lower market share than elsewhere in Europe and significantly lower than the United States. Can you explain this discrepancy, and could you comment on the efforts of the Government on the expansion project, because they are trying to do something about it?

**Mark Lyonette:** I will try to be as brief as possible, but as you can imagine this is my subject. As I look around the world, I see credit unions that are serving anything between 15% and 50% of the population. You have to ask yourself: why are we so different? What are the key factors? After more than 15 years of working for the association, I have boiled it down to five key things. I think we need to focus on those five things to continue to see the sector flourish and grow.

First, credit unions globally never exclusively focus on serving those on serving those on the lowest incomes. That does not mean that they do not serve people on the lowest incomes, but it is not the entire membership. We got diverted on that in the 1980s and it was a red herring. Alongside that, and often going with it, credit unions globally have not grown through revenue subsidy grants from the local or central state. Grant funding has not been part of the growth of credit unions globally. Obviously those first two points go together.



Thirdly, the development model is quite different in most parts of the world. Credit unions fundamentally grew out of a focus on working with employers, large and small, and then expanded into the community when they had scale and size. It is no surprise that our largest credit unions in Britain are those that work with a range of employers.

Fourthly, and we are at the cusp now with 1.2 million members, we need to look at what we offer. On the lending side, the vast majority of credit unions—99.9%—offer only unsecured personal loans. Globally, for credit unions to be successful, they will not get past the scale that we have without having a broader lending offering, broader savings and a broader transactional product offering.

The fourth thing links to the fifth thing: successful credit union sectors globally do not try to solve it all on their own. We have 330 credit unions in Britain. Mostly we do every single part of every single process in each credit union. Globally credit unions work together. They create entities and co-operatives. That can be as small as having a joint HR function between several institutions and goes all the way up to having common branding and marketing and so on. We need to do more of that, too.

Where does the credit union expansion programme come in? That was our attempt to encourage the Government to address at least four of those five things. There was a recognition that we needed to change from ongoing revenue support from the Government; the growth fund was hugely successful between 2006 and 2010, but it did not help the economic stability and sustainability of the credit unions. It was successful because it gave several hundred thousand people small-sum credit at an affordable rate. We needed to change that. The Government have capitalised the credit union expansion programme, which is allowing us to reach a little broader market. But one of the key deliverables is a core banking platform with digital, mobile, tablet access; and straight-through processing. That means that if I apply for a loan online on my phone at 10 o'clock at night, and if it says "Yes, yes, yes" all the way, the money will be in my account 20 minutes later.

You might think that credit unions would not necessarily want to do that, or that they should not do that, but I had a conversation with one of our members a month ago who said, "Twelve months ago, members would apply for a loan at night"—in effect, that means that an email arrives in the inbox for staff to pick up the next morning, as there was no automation—"and we would get back to them, and everything was fine. By lunchtime, we would have sorted out those we could lend to. Twelve months later, now when we get back to those people the following morning, more than half of them are saying, 'Oh, don't worry, we have already sorted it with somebody else', and they are almost apologising to the credit union that they have gone somewhere else". People's expectations of convenience and speed are now huge.

One of the deliverables of the expansion programme is being able to deliver on that. We have two credit unions live, with another 35 credit unions to go through the rollout over the next 12 months. It has been a long journey getting there—it is a very big undertaking for a sector as small as ours—but we are on the home run now. We have the thing, and we now need to roll it out to the next 35.

Does that help? Is that a good start?

**Lord Haskel:** Yes, that is helpful, but our briefing tells us that only 20% of credit unions participate in that programme. Is that because they have different objectives?

**Mark Lyonette:** No, it is slightly more than 20%. One of the first deliverables of the expansion programme was a common approach to how we make loans and to automating lending decisions. Actually, 76 or 77 credit unions out of 330 already use that, and now that the project is coming to an end, many more are ready to adopt it. I think that is a huge adoption rate for something so new that at the time was potentially controversial in the sector.

The 35 perhaps refers to the number that have committed so far to the transformation to this new way of working or new operating model. It is more than digital banking and digital lending, but that is at the core of it. I would say that getting 10% of the sector to commit to something for 10 years that was not proven or available to touch is near miraculous. I do not think it is a small achievement at all. When we talk to other countries, they cannot believe that we got 10% of the sector to commit to something before it was even there.

**Lord Empey:** I have a supplementary question. Are there any lessons to be learned from the success of credit unions in Northern Ireland? I declare an interest as having a responsibility there. Is their success due to the community aspect, because a lot of them were built around churches and other religious organisations? Are there any lessons that could be extrapolated to the rest of the country?

**Mark Lyonette:** This might not be known to all your colleagues here, but in both the north and the south of Ireland about 50% of the population use credit unions. On top of the nearly 1.2 million members in Britain—England, Scotland and Wales—there are another 0.5 million credit union members in the north of Ireland.

The origins and history there are very different. When credit unions were starting all over Ireland, the banks were not serving the vast majority of people—only 3% is the figure that I have often heard quoted—so the credit unions were in a space where the banks were not already saturated. When we got started with our legislation in the late 1970s, banking was already much more evolved and saturated among the majority of the population. So there is a difference there.

One thing that we are learning from our colleagues in the north, and in the south, is that if you do not expand your range of lending and just get older with your membership, you very quickly come to a point where you are not lending enough funds and cannot make the whole thing stack up. Ireland, north and south, is the only exception to the rule globally where the credit unions achieved scale with just unsecured personal loans. Everywhere else in the world they have expanded into pretty much the full range of lending.

Q153 **Lord McKenzie of Luton:** My question is on community development financial institutions—otherwise known as responsible finance providers—which provide loans both to business and to individuals. My question is principally to Faisel. In seeking to address financial exclusion, what specific role is there for community development finance institutions such as Fair

Finance, as distinct from credit unions and other providers of credit? How could national and local policies better promote your offer?

**Faisal Rahman:** I will take that question in two or three parts. Forgive me, I lost my voice early last week, but I will try to speak up a bit.

First, as you have said, community development finance institutions—also known as responsible finance providers, which is a new name that they have started to use since last year—are a range of organisations that provide loans both to individuals and to small businesses to tackle financial exclusion. They allow entrepreneurs and individuals to access affordable credit.

Unlike credit unions, community development finance institutions often do not require savings in advance of lending—that is a key differentiator between them—and they have no price caps on the loans that they offer to individuals. That means that they are able to lend to riskier, and often more excluded, people who are unable to access finance from other sources. Their staff are generally paid and they have few volunteers. The impact of all that is that they are often much more expensive than credit unions, which have a price cap. Typically, community finance organisations working with individuals for consumer finance would offer an interest rate of between 70% and 120% APR, which is significantly more expensive than a credit union, but they would lend to different people so they are targeted in a different area.

They generally work with a range of different types of organisation, including banks, to finance their loan books, and social investors, to expand their operating footprint. They occasionally engage with local and national government and with philanthropic organisations to provide ancillary services, such as debt advice, money advice or complementary services to support individuals. There are examples of working with housing associations—I seem to remember that a previous witness talked about working with housing associations specifically on My Home Finance.

By and large, most CDFIs are independent. They are quite small, and there are not very many of them. Last year, they lent £22 million to about 45,000 people across the country. The interesting thing about their model is their flexibility to raise capital and their potential to cover their costs by having the freedom to charge what it costs to lend to the people that they wish to work with. That means that in some cases they can offer a viable alternative to high-cost, short-term credit. Often, that makes them very different from other organisations.

I launched my organisation Fair Finance in east London in 2005, after I had worked for the previous 20 years in financial exclusion around the world. We offer access to banking services—we partner with both RBS and Barclays to give people access to bank accounts in our branches. We give them access to personal finance to tackle high-cost lenders and to business finance to support entrepreneurs looking to grow. Alongside that, we give free money and debt advice to anyone that we would not lend to.

We finance the entire business by raising investment from high-net-worth individuals, from the occasional foundation as an investment and from some institutional partners. That support has allowed me to grow the business from literally three people serving 500 clients to 45 staff across London serving 20,000 people. Over the past five years, we have lent about £20 million to some of the most excluded in London. We have seen the business grow quite

quickly. We are completely financed by banks—we have no government subsidy in the organisation—and our client base is generally low-paid people, who work part-time, move in and out of employment and are predominantly female, usually with dependent children and living in social rented property.

**Viscount Brookeborough:** Very quickly, you mentioned that you worked in many other places in the world. Do you have a country which you think would be a better example of financial exclusion than us? Which offers the best example?

**Faisal Rahman:** I have worked previously at the World Bank and the Grameen Bank in Bangladesh, working on small-scale microfinance. My inspiration was to come back to the UK and provide some type of microfinance service, because I believed that the problems were still there. If you look around the world, you can see lots and lots of innovations in different aspects, such as the fantastic use of technology in some countries, fantastic government policy in other areas such as in India or in America, but also really innovative organisations working outside the system.

**Viscount Brookeborough:** Do you have somewhere that we could ask the embassy or whatever for information on a particular country?

**Faisal Rahman:** It depends on what you are trying to fix. If you are looking for legislative changes, you can see some interesting policies in India, where banks have been mandated to invest in microfinance organisations as part of their corporate social responsibility and as part of their business. You could look to America, where there is legislation such as the Community Reinvestment Act. You could look to China, which has mandated large amounts of investment into increasing financial inclusion for much bigger groups of people. The main challenge when you look at other countries is that, in countries such as Bangladesh, the issue of exclusion is obvious—it is in front of you—as most people in the country do not have access to banking services. In the UK, it is slightly more complex, and I think that the solutions, therefore, need to be much more nuanced to fit the problem.

**Lord McKenzie of Luton:** Faisal Rahman, you said that these institutions are generally quite small. Is there any reason why they cannot be scaled up? Is there anything that is endemic to their structure that prevents that?

Also, if those institutions reach the parts that other financial institutions seemingly do not, or do not want to, is that principally because of their freedom in setting charging levels? Does that have implications on a longer-term basis?

**Faisal Rahman:** Personally, I think the potential of these organisations is limitless. However, the challenge for any organisation looking to lend to low-income communities is to prove that it can do so sustainably. That applies not simply to the community development finance movement but across the board for organisations in the non-profit world. They need to try to provide services in a sustainable way that is different.

For example, it is very easy to lend to people on low incomes if you are willing to charge 1,000%, and many banks and institutions will fund you to do so. It is much harder to convince those institutions that you will be charging a 10th of that in offering to the same group of people. People have a preconceived notion of the risk. Because of that, a challenging judgment is given to

organisations that try to do these things differently, which makes it hard to raise capital.

Anyone in the community development finance world will tell you that trying to get to sustainability has been the biggest challenge in the sector—not just for CDFIs but for many community finance organisations. Fair Finance broke even last year, and one of the benefits of breaking even is that the banks that we have engaged with are now much more willing to invest more and to lend more on commercial terms. The biggest challenge for them has been that they found lots of organisations doing very worthy things for a small group of people that they could never scale up, because the more they did, the more money they would lose. What they see with us, and with some of other organisations around the country, is that they can actually fund us to grow bigger. So I think the potential is limitless.

Your question on charging links very closely into that. Previously, many organisations would have liked to focus on serving low-income communities but were unwilling to cover the costs of doing so. To give a very simple explanation of that, many of the costs in dealing with lending in general do not scale very well as you get to smaller and smaller amounts. For simple things such as running a credit score, it is the same cost whether the loan is for £300 or £300,000. For the manual process of underwriting or the data-capture process, it does not really matter whether it is a small loan or a big loan, so the economies do not scale very well as you go down, and as a proportion of each loan those costs are quite high.

On top of that, many people on low incomes who use high-cost credit do so because they offer a degree of flexibility and a connection in their community where financial exclusion may exist. That has a high cost, either in terms of opening branches or adjusting your products to reflect the variable nature of people's income. The costs of providing services to low-income people is higher, relative to the mainstream market, and very few organisations are willing to do that.

**The Chairman:** Thank you very much. I think that Eric also wanted to come in.

**Eric Leenders:** I just want to offer a case study and a forward view—

**The Chairman:** Could I ask all witnesses to speak up a little bit, because it is slightly difficult to hear?

**Eric Leenders:** By all means. I will enunciate.

As you know, I was involved with the inaugural regional growth fund, which involved £30 million of government money with finance of £15 million from the Co-operative Bank and £15 million from Unity Trust Bank. To give you an example of how successful that scheme has been, we had certain requirements in terms of job creation, wealth creation et cetera, which I thought it would be useful to share with you. To date, we think the scheme has created 1,600 jobs and preserved 6,000 jobs. In the context of value for money, the average cost of those jobs is about £3,800, as opposed to the national average of about £38,000. So we were exceptionally efficient as well. We think that that £60 million-odd that was invested has gone on to create something of the order of about £400 million in the respective local economies. Since October 2012, we have helped about 2,000 small

businesses. So as a case study, the CDFI model, where it is appropriately funded, can be proven to work very well indeed.

The forward view that I would offer is that, working with the Treasury, we have established a platform whereby loans—or applications for credit, I should say—that are declined by banks will be put on one of three platforms, where some 75 providers currently will have the opportunity to consider whether they want to underwrite the credit. In effect, that is a declined loan referral scheme, and we see opportunities there for organisations such as CDFIs.

**Q154 Lord Haskel:** Are there any lessons to be learned from the United States, where they have been active in supporting the development of credit unions and community development finance institutions? We are aware that individual states in America have laws that local businesses must try to deal with local businesses—they try to keep business within the state. Given the obligations under the Community Reinvestment Act to support CDFIs and other organisations, do you think that there is a place for a similar statutory requirement here in the UK?

**Mark Lyonette:** That is not a position that the association has ever taken. We are not in favour of a community reinvestment Act. I should say that we currently have the highest level of support from a number of banks in the UK that we have ever had in our sector, all of which are now doing really useful things to help the sector grow.

For example, Lloyds Banking Group has put £4 million into the sector but in a very different way from the way in which local and central government have invested. You may remember me saying that revenue subsidy—paying for part of the operating costs—does not help credit unions to grow. When Lloyds said that it wanted to be involved, we said that what would be really useful, instead of repeating the mistakes of the past, would be to put that money in as capital, which would allow the credit unions to grow more quickly. Because credit unions are regulated deposit takers, we must maintain minimum capital levels. For the larger credit unions, for every £1 million they grow they need to put £80,000 aside. Because we are mutuals, that can only come from the profits that we make, not from a third party. Lloyds is doing exactly that. That has completely transformed the process of investing in the sector, and I would say it is a really good example. Similarly, Citi has invested in training in the sector and in leadership development, all of which is having quite a large effect.

So we do not think there is a need to have quite a complex, involved and burdensome Act to help the banks to encourage the growth of our sector.

**The Chairman:** Faisal Rahman, if you want to add anything, could you do it very briefly please?

**Faisal Rahman:** One of the things that the Community Reinvestment Act looked to do in the States was to help capital move into underinvested communities. One of the challenges that financial exclusion has pointed out in the UK is that there is still a lack of capital in underinvested communities. I agree with Mark's point that the CRA is quite complex, but the underlying principle of trying to get money into areas where it does not exist is a good one.

To give a very small example, it is currently very difficult for banks to lend to credit unions and CDFIs. That is partly due to their view about the risk attached to these very small organisations, but some of that risk profile that they look at is a regulatory requirement. Rather than thinking simply about a CRA, if we thought more about leverage and ways in which we could allow banks to be involved in that type of investing, we might get a similar type of activity.

Q155 **Lord Northbrook:** I want to move on to bank account fees and charges. The Committee has been told that overdraft fees and charges represent a major source of problem debt for people with low or unpredictable incomes. Do you think that the proposal by the Competition and Markets Authority to require banks to set a maximum monthly charge for such fees gives adequate protection for customers and for banks? Is there a case for introducing a statutory cap on these charges? Should the FCA as the regulator play a role in setting such a cap, and what should the cap be? I think that is a question for Eric.

**Eric Leenders:** I think it probably is.

On the first point, it is important that we are clear on the manner in which an unarranged overdraft is incurred. There is something of an urban myth that profligacy can trigger an overdraft, but that is just not the case. The overwhelming majority of debit card transactions, for example, would be declined if there were not available funds in the account. The triggers for an unarranged overdraft are regular payments such as standing orders and direct debts. Typically, those would cover utility bills, council tax, rent, mortgage et cetera, which would be the priority or essential spend in an individual household budget. One of the considerations needs to be the cost of that unarranged overdraft relative to the cost of that regular payment not being met, which would be the consequence of the unpaid rent or the unpaid council tax bill.

Another consideration—and this is where we support the work that the Financial Conduct Authority is just about to commence—is making sure that, as has been done in the credit card market study, where there are persistent users of unarranged overdraft facilities, the internal policies and processes of the providers of that credit proactively look to support those customers rather than, perhaps more passively, allow the overdraft to happen. That has been tried on a number of occasions and, I have to say, to mixed reviews. Some consumers find it quite intrusive when a programme of outreach from the bank contacts them to discuss their finances. They do not necessarily see that as the positive that was intended.

But there are increasingly more discreet ways to nudge customers to think about their unarranged overdraft. A good example is text alerts. We introduced those across most personal current account providers in 2010 or 2011. One of the larger banks is on record as saying that it is saving its customers about £100 million a year in fees. It prompts people to take action when they could be going overdrawn. So I think there is a proactive dimension to this. There is plenty of scope within the statement of lending practice, formerly the lending code, and the FCA's credit regulation to ensure that careful consideration is given to managing those situations proactively.

On the specific point about a price cap, there are really just two levers in credit: one is risk appetite, and the other is price. It is a combination of those two levers that allows a credit provider to distribute into a particular market. We would need to give a lot of thought, therefore, before introducing a cap or restriction on one of those levers, to what the consequence of that might be. I think that the solution, on which we are happy to work with both the CMA and the FCA, is a combination of both the preventive and an element of the curative or restorative.

I could expand a little further, but I think I have given a good synopsis.

**The Chairman:** That is fine. If there is more that you want to add, please feel free to send a further written note.

**Lord Northbrook:** Sending a text alert seems a simple way. Could that be made obligatory on all the banks?

**Eric Leenders:** Back in 2011, we instigated a programme under which all the larger personal current account providers—the largest nine or 11, I think— included text alerts to their personal account customers. We are now seeing a number of different firms experimenting to find the best type of alert. What is the best catalyst for action, as opposed to simply the balance alert that comes through in an SMS message? We are seeing quite a lot of developments in that area, and I expect that the FCA will look at how good practice might be standardised as it picks up from where the Competition and Markets Authority left off.

Q156 **Baroness Primarolo:** I want to ask a series of questions about basic bank accounts. How successful has the implementation of basic bank accounts in recent years proved to be? Are the banks taking sufficient steps to promote basic bank accounts, particularly to the type of customer to which the basic bank account is supposed to be directed?

**Eric Leenders:** The provenance of the basic bank account was from one of the then Government's policy action teams. The first incarnation was the development of the Post Office card account, which was funded by the industry and is still with us today. Shortly thereafter, we had the first generation of the basic bank account. That account provided, by and large, the functionality of an ordinary current account, save for an overdraft facility. On the point you make, I think there have been some controversies around the extent to which it was—to use the vernacular—a below-the-counter product or whether it was part of a marketing suite.

Picking up recommendations in one of the final pieces of work by Consumer Focus, and working with the Treasury, at the start of this year we introduced a second generation of the basic bank account. It is entirely fee free but it gives all the benefits, including text alerts and online functionality, of a full current account. However, it prohibits an overdraft, will not allow you to go overdrawn and does not provide cheque-book functionality. We are very pleased with that, and we think it is a very good deal. It is designed for customers in financial difficulty who might otherwise be unable to get a full current account. On the run rate, across the industry at the moment we are opening around 50,000 of these accounts per month, so we think that they are quite successful. That is a similar pattern to the previous basic bank account.



However, I have to caveat that, I am afraid, by saying that we are still working on management information, which we will provide via the Treasury and then be put into the public domain. So I cannot give you the absolute figures as we sit here today.

**Baroness Primarolo:** Can I press you on that? It may be a good deal, but we need to be sure that it is getting to those who would most benefit from it. The Committee has received evidence that suggests that the banks are, as you alluded to, less than keen to put it on the table at the beginning. When customers go through assessments for a current account, the basic account is not offered. Are you suggesting that that behaviour is in the process of changing and that the banks will ensure that they are making basic bank accounts available to a wider customer base than was the case before?

**Eric Leenders:** As there is a substantive cost to these accounts—the estimates provided to the Parliamentary Commission on Banking Standards suggested that it was about £300 million to £350 million per year—we have agreed that the process should work such that, when someone is looking to open a personal current account, the application will be scored and the process would continue as for the standard account. There are benefits to that, as it opens access to credit and starts to create a credit history. If one is unable to get a standard personal current account, a basic account is offered. There are some exceptions to that. We recognise, for example, that if an individual is in financial difficulty and already has an overdraft with another provider, they might need to start with a clean slate and then they would be eligible for this basic account.

In terms of making sure that customers are aware of the basic account and that it is visible, all the brochureware and marketing materials were vetted by the Treasury to ensure that it was comfortable that there was a suitable level of profile for this particular type of account.

**Baroness Primarolo:** It has been suggested to us that the process itself is a systemic problem in getting people to the basic bank accounts. When you credit score them first and they fail to qualify for a current account, that is obviously bad because that is recorded. It is not unusual for that not to be followed through, so the person leaves without a bank account rather than following through to the basic bank account. Because it is a good deal and such a good product, I want to press you on this. Can you be absolutely clear with the Committee that the banks will be doing that, or should we be looking at further ways of encouraging the banks to be more proactive?

**Eric Leenders:** To come back to the point, the Treasury will be scrutinising the figures to ensure that distribution is even across the various different personal current account providers and will address some of these anecdotal criticism that you mention. We would like to be a little ahead of that, so we have been talking to Citizens Advice, which has shared with us some research that it has undertaken, which we will share in turn with the banks. We want to make sure that where there is what has been couched previously in terms of a “policy-practice gap”, it gets addressed. The intention is very much to provide these accounts in the spirit in which they were designed. To industrialise that is always going to be a challenge. Where there are issues, we are looking to address them; where we see the evidence, such as from Citizens Advice, we

will make sure that it is fed back to the providers. Hopefully, that goes some way to alleviating your concern.

**The Chairman:** If I may, I would like to clarify your point about the Treasury scrutinising the take-up figures. Do you know when those figures are likely to be in the public domain?

**Eric Leenders:** To my embarrassment, I can say only that it will be in the course of the next month or so. I will be able to give you the precise details when I am back at the office.

**The Chairman:** That would be extremely helpful. Thank you very much indeed.

Q157 **Lord Kirkwood of Kirkhope:** You helped us enormously on some of the difficulties of getting access to a basic bank account, but ID and address verification is a continuing problem—like a vein of gold, it is shot through all the evidence that we have received. One piece of evidence that we received mentioned there may be a prospect of working more closely with DWP on the rollout of universal credit. I think the Committee would want to make a positive recommendation on this. What would your collective, brief advice be about trying to get this bottomed out a little bit more comfortably?

**Eric Leenders:** Very briefly, we want to play our part in financial inclusion—hence the basic bank account—but at the same time we have responsibilities to prevent financial crime. In dealing with money laundering, one of the best, if not the best, opportunities to keep financial crime out of the system is by mitigating or reducing the prospects of distributing the proceeds of financial crime. The best point in time to do that is to prevent the accounts that would be used to disburse the funds from being opened. Therein lies the tension. I am sure you will have seen in recent evidence issues around a lack of government standard ID, such as a passport or driving licence.

We recognise that, in the distribution of universal credit by the DWP, this could be an escalating issue. What we are currently working on with the DWP—I think that this is the point that you raise—is how the eligibility letter confirming the universal credit could be used as a form of identification. However, we have identified that there is also a challenge in that—this gives an example of the depth of commitment to making this work—because a significant number of those in receipt of that letter do not retain it. It somehow gets lost. So we are looking for a way for the DWP to replicate that letter with the unique bar code that is generated with each letter, so that we have an opportunity to identify the individual and then provide them with, in all likelihood, the basic bank account that will enable them to receive their universal credit benefits.

**Lord Kirkwood of Kirkhope:** Have you been working with the Government Digital Service to try to get digital IDs?

**Eric Leenders:** Yes, we have.

**Lord Kirkwood of Kirkhope:** Will people need an expensive smartphone to get a digital ID?

**Eric Leenders:** At the moment we are finding that the picture is very mixed. Some providers have a customer base in which perhaps as many as eight in 10 customers can be identified electronically. However, the cohort that we are

discussing in terms of financial exclusion will find the same challenges in getting themselves registered on an electronic ID programme as they might do currently in trying to open a bank account. They simply do not necessarily have the sorts of typically accepted identification. We are working with government on, for example, the Verify scheme to see whether that would work, and one or two banks are also working bilaterally with government. We recognise that this is an issue. It is inefficient to rely on paper just now; as an industry, we would like to see the identification process move electronically, as we think it is more secure and more efficient. However, there are gaps, and those gaps, regrettably, are around those who are currently more financially excluded.

**Lord Kirkwood of Kirkhope:** It would be quite complicated to make that into a succinct recommendation. From a self-interested point of view for us as a Committee, when we are trying to pin government Ministers to the floor to give a commitment, do you have any shorthand way of pinning that down into a crisp recommendation that we could then take to the Government?

**Eric Leenders:** More crisply, it is about encouraging government to find ways to create third-level electronic identification for as many of the population as possible. At some point, presumably within the DWP, an identification and verification process must have taken place to confirm that an individual is eligible for the appropriate benefits, so it is developing and building on the good work that it must already have done.

**The Chairman:** Very briefly, what work are the banks doing to meet the needs of older people, who may not have passports or driving licences and may live in residential homes and therefore not have utility statements and the like?

**Eric Leenders:** Ideally, we would find through DWP that, as the different benefit types migrate to universal credit, we would hopefully pick up those who do not currently have accounts. A number of retired individuals benefit from the Post Office card account, through which they receive their pension payments, and that will run until at least until 2021, as I understand. I guess that there are the same inherent tensions in that, for financial crime purposes, we have to be very careful about who we open accounts for, but equally we have to find a balance.

Q158 **The Chairman:** I shall ask our final question to draw this session to a close. If there was one thing that you would be particularly keen for this Committee to focus on in its recommendations, what would it be? You might want to consider something that is outside your immediate area of interest or the things that you have particularly focused on today. Who would like to begin?

**Mark Lyonette:** We would be a little more self-interested, I think. I have heard some of the excellent ideas that people have given you in evidence, but I would talk a little about what credit unions need in order to move to the next level.

We need the law changing so that credit unions can provide a fuller range of financial services. That is something that we thought we largely had, but it appears now that the FCA has a slightly different view of that. For example, credit unions cannot be involved in the whole BrightHouse marketplace because we cannot do conditional sale or hire purchase. That would be very

useful. That expansion has happened all over the world for credit unions. Similarly, at some point credit unions tend to be able to provide credit cards as well. So we need a little bit of law change. That would be our recommendation.

**Faisal Rahman:** I will make three quick points. First, as we touched on earlier when we talked about the future of MAS, the reality is that there is no single body with oversight of progress towards financial inclusion. I think that would be a positive recommendation.

Secondly—this is a slightly conceptual change—the words “financial exclusion” and “financial inclusion” are often presented in a binary way, as if it was one or the other, whereas I do not think that many people whom we would define as financially excluded would define themselves as such. The reality is that they are underserved, and they are underserved because they currently receive poor products, with poor product design. So my second recommendation would be to deal with the lack of product innovation in the design of new products. There is a very good example in the US, where the Center for the Study of Financial Innovation partnered with banks and philanthropic institutions to design and sandbox interesting innovations for serving low-income communities.

My third recommendation relates to the regulatory aspect, which we touched on briefly. It is currently very difficult and expensive for banks to lend to alternative finance providers that are non-profit. Either by virtue of their legal structure or by virtue of their size, they are treated as financially excluded as much as their clients. Much of that is blamed on regulation and the provisioning and allocation requirements. Simply changing that and allowing some space with the regulator to let banks partner with these organisations in a proactive and positive way would probably bring more finance to that market.

**Eric Leenders:** If I may, I would say three things. First, my internal colleagues have produced a graphical schematic of the various different interests and issues around financial inclusion and financial exclusion and, through our vulnerability task force work with consumer advocates, regulators, government et cetera, the recommendations that we have made. From this, the lesson learned is that we need a single holistic view and we need clear leadership around that.

My second point would be that we need to be very thoughtful around price capping and consideration of unarranged overdrafts and the potential for those unintended consequences that we discussed.

My third and final point is that the Criminal Finances Bill—noting its passage through Parliament as we speak—has the potential to allow for more intelligent sharing of information on financial criminals and perhaps provides an opportunity to address some of these tensions between maintaining systemic integrity and allowing access. If careful consideration could be given to that as the law is made, that would be very helpful indeed.

**The Chairman:** Thank you. I have one final request, if I may. You spoke earlier about work that you are doing with the Treasury on how, where loans are declined by banks, they might be referred to other platforms.

**Eric Leenders:** Absolutely, that is for business loans.

**The Chairman:** I think that the Committee would welcome any further information that you are able to submit by way of a note on that.

**Eric Leenders:** We would be happy to provide that.

**The Chairman:** Thank you. And thank you very much all three of you for your evidence. It has been very helpful.

## **Association of British Insurers (ABI) – Written evidence (FEX0085)**

### **Consider financial exclusion and access to mainstream financial services**

#### **Executive summary**

1. The ABI welcomes the opportunity to contribute to the Lords Select Committee on Financial Exclusion's Call for Evidence. Insurers recognise the importance of a financially inclusive society and the industry plays a significant role in helping to provide access to insurance products and services to a wide range of customer groups.
2. The UK insurance market is the fourth largest in the world, diverse and extremely competitive. Established insurers continuously adapt in order to increase access to their products and services and utilise new technologies and data sources to offer cover to a wide range of customer groups.
3. Specialist providers and brokers also cater to those individuals who in the past may have found it difficult to find cover, which has increased competition across the industry for the benefit of consumers.
4. We believe regulators, as well as insurers, are committed to tackling the causes of financial exclusion and that the current regulatory approach supports this – for example the FCA has published two Occasional Papers on Access and Vulnerability, and is undertaking work on its Ageing Population strategy, the objectives of which we support.
5. Insurance is a product that helps to prevent financial exclusion and improve the financial resilience of individuals, through ensuring that when something goes wrong, people have the means to take control and put their lives back on track.
6. Given the Select Committee's remit is to consider access to *mainstream* financial services, we have focused this response largely on private motor insurance, which is a legal requirement for motorists, and household insurance, which is typically compulsory for mortgage holders. We have also outlined some of our long term savings work which aims to improve consumer understanding of pensions products and have briefly outlined the role of income protection insurance as a financial safety net that can help to prevent people becoming financially excluded.
7. We have not sought to answer the full suite of questions provided in the Committee's call for evidence but have instead focused our response on the following area of inquiry: Addressing financial exclusion.

## ***Addressing financial exclusion***

*Are appropriate financial services and products available for those who are experiencing financial exclusion?*

### **Product developments**

8. Insurers have led the way with a number of product developments designed to improve access to mainstream insurance products and which demonstrate industry commitment to addressing causes of financial exclusion.
9. Mainstream and larger insurers are increasing access to financial services through providing new innovative products. As an example, Aviva provide a stripped back home contents insurance for council tenants and leaseholds that costs as little as 88p for over 60s and £1.33 for all other ages per week. This group of individuals previously could not access home contents insurance, but providing a basic scheme protecting against fire, theft, flood and accidental damage to TVs, DVD players and computer equipment, as opposed to more complex cover, makes this possible.
10. Equally, travel insurers are developing their systems for data analysis to be able to assess risk at a more granular level of detail. For example, many travel insurers only screen and alter the cost of cover if the treatments for a medical condition are within a set time frame. This means that those with a history of cancer who have not undergone treatment for five years would see a reduction in their premium.
11. Technological innovation in the insurance industry is making rapid advances into the mainstream, most prominently through telematics. Telematics technology transmits information to a central point; examples in insurance include 'black boxes' for motor insurance and wearable devices for health insurance. This allows a highly individualised premium to be created and crucially allows consumers to take steps to reduce their level of risk, thus reducing their insurance premium, providing them with control over the affordability of insurance cover.
12. For motor insurance, telematics technology typically tracks speed, braking and overall safe driving as well as the time or type of road driven on. This means that if consumers drive slowly, safely and avoid rush hour it can help to lower their risk and therefore the cost of their car insurance – helping to provide more affordable premiums to traditionally higher-risk consumers, such as young drivers with limited no claims history.
13. Equally for health insurance, the use of wearable fitness trackers allows insurers to reflect customers' exercise levels – as increased exercise lowers the risk of diseases, obesity and other factors which increase risk and therefore premiums – resulting in more control for customers to lower their risk, which can help reduce premiums and increase their access to insurance cover.
14. Looking to the future, it is likely that as 'Internet of Things' technology becomes more widely adopted in the UK, insurers will be able to use these devices to transmit information and prevent minor maintenance issues turning into bigger

issues, or to track good habits such as door or window locking, to reduce risk and therefore the price of premiums for home contents insurance. These developments indicate the manner in which Fintech can empower individuals and ultimately improve access to and affordability of mainstream insurance products.

### **Industry initiatives**

15. The ABI has led the way in trying to mitigate some of the issues of a lack of access and affordability for insurance.

#### *Flood Re*

16. The national initiative Flood Re is a reinsurance scheme developed and funded by insurers, after the industry identified a market failure for home insurance cover for domestic properties in areas with a high flood risk or that had previously flooded.
17. The scheme works because Flood Re takes the flood risk element of home insurance from an insurer in return for a premium based on the property's Council Tax band. In addition, Flood Re charge the insurer an excess of £250 on the flood part of the policy. Because Flood Re's activities are subsidised by an annual levy on insurers of a total of £180m, the premium it charges insurers is below the rates insurers would normally charge on properties at the highest risk of flooding.
18. Flood Re is a world first and has helped an estimated 350,000 households to access home insurance, evidencing the ABI's commitment to improved financial inclusion for mainstream insurance products. Although the scheme was only launched in April 2016, early feedback indicates that Flood Re is leading to reductions in premiums for consumers in affected areas.

#### *Pensions Dashboard*

19. The ABI is leading the way with a new Pensions Dashboard which is designed to give customers a complete overview of their pension savings, allowing them to locate lost pension pots, inform their decisions on retirement planning tackling under-saving and support the development of automated financial advice. It is unique in that it will provide clear and holistic information about an individual's retirement savings in an accessible format – as it can be accessed on smartphone, tablets and PCs.
20. The Dashboard User Interface will allow consumers to view their pension data and carry out tasks and the Pensions Finder Service will provide a request for pension providers to search their records to match their pension data to the user, retrieve their pension information and deliver it for display on the User Interface.
21. The ABI believes the Pensions Dashboard is an important step to engaging customers and bridging the savings gap – encouraging consumers to be



capable and active with their finances. We are currently working with industry, regulators, Government and consumer organisations to deliver this initiative.

*Promoting income protection insurance*

22. Income protection insurance can be taken out by employers or individuals to provide a replacement income in the event of sickness absence. Insurers also provide rehabilitation such as CBT or physiotherapy to help people back to work, minimising the financial impact of their illness or injury and enabling them to set their life back on track.
23. Without this protection, loss of income through ill health can result in debt, deprivation and vulnerability – as the FCA found in their Occasional Paper on Consumer Vulnerability – two thirds of people fall into serious debt problems do so because of some form of income shock. We need to raise awareness, to increase take up of this protection, in order to increase the financial resilience of individuals and decrease the risk of financial vulnerability. We have worked with the Money Advice Service to promote this protection, especially to people who would be hard hit through a loss of income and where the state may not step in, and continue to scope out opportunities to ensure more people can benefit from this type of cover.

*Agreement on age and insurance*

24. The ABI agreed a non-statutory Agreement with the Government and British Insurance Brokers' Association (BIBA) in 2012, in order to promote access and transparency for older customers purchasing motor and travel insurance. As part of the Agreement, customers refused cover due to a maximum age limit are referred to an alternative provider or signposting service that can offer a quote. The ABI also publishes data annually, showing the link between age and claims costs to tackle a perception that age is used disproportionately, or unfairly, by insurers.
25. This Agreement was developed following independent research conducted by Oxera, on behalf of the Government Equalities Office, during the development of the Equality Act 2010. Since the Agreement was put in place, insurers' maximum age limits have continued to rise and a number of products specifically targeted at older customers have entered the market, increasing competition.

*Code of Good Practice for vulnerable consumers at renewal*

26. The ABI and BIBA launched a joint Code of Good Practice to help insurers and brokers recognise potentially vulnerable customers, who may need extra support when renewing their motor and home insurance policies. The Code defines a vulnerable customer as an individual who may be particularly at risk in their interaction with financial services, due to a certain set of circumstances or characteristics that may affect their ability to make an informed choice. A customer in such a situation may be significantly less able than a typical consumer to identify, protect or represent his or her interests.

27. The Code will ensure that participating insurers and brokers provide staff with tools to recognise vulnerable consumers, offer flexible options to suit the customer's needs, provide additional communication through the renewal process and review the policies that they are offering to vulnerable consumers. The Code comes into effect in January 2017 and, although not directly intended to address financial exclusion, we believe that it demonstrates insurers' commitment to treating consumers across the spectrum of society in a fair and consistent manner.

### *Pension language*

28. Financial education and capability is of critical importance and we support the proposals contained in the Treasury's recent consultation on Public Financial Guidance. The creation of a single pension guidance body, incorporating the services currently offered by Pension Wise and The Pensions Advisory Service and offering guidance at key life stages, should help to improve financial capability in advance of an individual needing to seek advice. Increasing the scope of the guidance offered by the new body will help consumers saving into a pension to take positive action ahead of retirement.

29. We coordinated, with the support of industry, Government and consumer groups, a new guide called 'Making Retirement Choices Clear' to make pension language simple, clear and consistent in order to help customers better understand their options at retirement.

30. Research found that terms such as 'flexi-access drawdown' or 'uncrystallised pension funds lump sum' are too confusing and should be avoided – yet using informal language like 'taking cash' did not convey the responsibility needed to deal with finances. The proactive work that insurers have collectively undertaken on pensions language indicates that they are able to recognise and act on issues that may create barriers, or cause difficulties, for consumers.

### **Insurance pricing**

31. The FCA's Occasional Paper: Access to Financial Services in the UK queried whether risk-based pricing for insurance could lead to financial exclusion. The use of risk pricing is crucial for a market that functions well for consumers. The basis for insurance pricing is the level of risk posed, meaning the likelihood that an individual will make a claim. Insurers assess this risk and in some cases a certain aspect, such as an illness or specific disability may be relevant, but in many cases it won't be. As an example, insurers do not charge more for car insurance on the basis of a disability, unless any resulting modifications to the vehicle affect the cover that needs to be provided.

32. Risk pricing is crucial for a well-functioning market, to prevent adverse selection. This means that in the event that insurance is provided at a 'risk neutral' premium, low risk individuals will not purchase it because it represents poor value for them, whereas high risk individuals, for whom the product will represent very good value, will buy it and significant numbers of them will make a claim. The resulting increased claims costs will drive increases

to the risk neutral premium, leading to more expensive products, lower levels of cover, and greatly restricted choice for all consumers of insurance, thereby exacerbating financial exclusion.

### **Concluding statement**

33. The measures outlined above demonstrate insurers' commitment to tackling financial exclusion, working with Government and regulators, to provide innovative solutions. The insurance industry will continue to take the issue of financial exclusion seriously and will endeavor to execute the aforementioned measures effectively, as well as to create new ways to lessen financial exclusion.

### **About the ABI**

The Association of British Insurers is the leading trade association for insurers and providers of long term savings. Our 250 members include most household names and specialist providers who contribute £12 billion in taxes and manage investments of £1.8 trillion. In addition to supporting 334,000 jobs, the industry's £29 billion contribution to UK GDP make investor confidence crucial to preserving the economic recovery.

*21 September 2016*

## **ATM Industry Association – Written evidence (FEX0041)**

### **Introduction**

The ATM Industry Association (ATMIA) welcomes the opportunity to submit evidence to the House of Lords Select Committee on Financial Exclusion.

### **About the ATMIA**

As an independent, non-profit trade association, the ATM Industry Association's mission is to promote ATM convenience, growth and usage worldwide; to protect the ATM industry's assets, interests, good name and public trust; and to provide education, best practices, political voice and networking opportunities for member organizations.

The ATM Industry Association, founded in 1997, is a global non-profit trade association with over 3,500 member contacts in 60 countries. The membership base covers the full range of this worldwide industry comprising over 3 million installed ATMs.

The ATMIA has chapters in the United States, Canada, Europe, Latin America, Asia-Pacific, Asia, Africa and the Middle East.

### **Definitions and causes of financial exclusion**

Financial exclusion is a broad concept. At its simplest, financial exclusion is the inability to access appropriate financial services, which can also lead to social exclusion. Addressing financial exclusion is a key priority for the ATM Industry Association.

Those groups particularly vulnerable to financial exclusion include young people, the elderly, the infirmed, as well as people living in geographically or technologically isolated or disadvantaged areas.

### **Financial education and capability**

ATMs play an important role in reaching the unbanked and under banked through basic bank accounts for low income groups linked to an ATM card.

Since 1967, the ATM has provided cardholders with 24 x 7 access to their safely-banked cash. In some countries, with the touch of a few buttons, they can withdraw cash, make deposits, pay bills (and even parking fines), do balance enquiries, buy tickets, top up cell phone air time, send remittances and transfer funds.

ATMs have proved a form of free technology training for the public to become more technological and financially literate in the field of financial self-services. The simplicity of ATM transactions, gives citizens confidence and experience in using important modern self-service technology.

An ATM card is typically the first kind of card issued to a young bank customer, long before he or she qualifies for a credit card, which helps build financial literacy and confidence at a relatively young age.

Cash accessed at an ATM gives users better control of their finances and spending than alternatives, such as debit and credit cards.

### **Addressing financial exclusion**

Many older, vulnerable or less well-off people rely almost completely on cash. It is a universally accepted payment method that they are comfortable using and allows them to manage their spending precisely.

The ATMIA has worked closely with the Government and LINK Network's financial inclusion program, which subsidises free-to-use ATMs in over 1,400 remote and deprived areas across the UK. The number of free-to-use ATMs is now at an all-time high – with 97% of withdrawals being made free of charge.

### **Accessing affordable credit**

The ATM Industry Association believes that affordable credit could be made available in the UK at ATMs. This function is already available at ATMs in Spain and other European countries.

### **Government policy and regulation**

Many countries around the globe have imposed restrictions on payments in cash; in some cases, the restrictions apply to certain types of transactions e.g. salary payments or real estate transactions; in other cases, transactions exceeding a certain amount cannot be settled in cash.

The ATMIA believes that restrictions on cash payments are not an efficient instrument to combat tax evasion or financial crime. They have a detrimental effect on the economy, they can contribute to the creation of a climate of suspicion towards perfectly legitimate cash transactions, and they may end up becoming *anti* financial inclusion. There is also no evidence that such measures have any impact on tax evasion or crime. They are empty gestures, inconvenience many honest citizens without having any significant impact on the dishonest.

Over a dozen countries, including Sweden and Denmark, have imposed restrictions on cash payments. But until now, no evaluation of the effectiveness of these measures has ever been undertaken.

We would caution the UK government against curtailing cash payments for fear of the potentially adverse social consequences. In terms of financial inclusion, restricting cash would disproportionately affect the most vulnerable in society, including the young, the elderly and the infirm.

The removal of choice impacts certain social groups particularly hard. Young people who don't have fully-enabled bank cards, the elderly who are more comfortable using cash, visitors to Britain and those on limited means who use cash as a method of budgeting are all effectively excluded if the choice to use cash is removed.

On the issue of tourism, most who visit the UK come from countries where cash still dominates payments. Over 80% of day-to-day payments worldwide are made using cash. It would hardly be sensible to do anything to prevent visitors to our country from conveniently using their preferred payment method.

There is a clear public interest test as to whether plurality of payment methods can, and should, be set aside. This boils down to a fundamental principle: 'freedom of choice.' Consumers should be able to pay for goods and services the way they choose to. They should not be dictated to by either commercial vested interests or government, as to what they can, and cannot do.

Sweden was in the vanguard of the efforts to make cash unviable but the social and economic consequences became so acute that the Bank of Sweden has now had to intervene. The UK should put in place rules now so that we do not find ourselves in the same situation.

The ATMIA believes that the ability to choose which payment methods people use should be enshrined in law. This will be a bulwark against those commercial organisations that have a financial interest in cards and electronic payment methods, and who have been pressing relentlessly to force the public to use their products.

### **Financial technology**

The ATMIA does not stand in the way of technological innovation. However, in the case of payments, such innovation should be focused on offering more options, not removing those already in use.

In an increasingly cashless future economy, the consequences of not holding a bank account risk becoming even more exclusionary.

ATMs have an increasingly pivotal role to play in addressing financial exclusion. The ATM network provides access to the services of basic bank accounts for people from a variety of socio-economic backgrounds. ATMs, in fact, can provide four of the eight benefits of access to a basic bank account identified in the European Parliament's ECON Study on Basic Banking Services, namely:

- Access to money transmission services
- Lower transactions costs on payments and receipts
- Quicker access to funds
- Reduced sense of financial exclusion

The reduction in access to banking service which would result from the de-installation of convenience ATMs would result in undesirable social consequences.

The ATMIA would encourage the Committee to challenge LINK on why there is so little innovation in the services that can be offered at ATMs in the UK. Other European countries have ATM networks that are capable of a vast number of transactions, from electronic cheque deposit, to bill payment and cash recycling (where the cash deposited by one customer is dispensed to another reducing transport and security costs). ATMs in many other countries are enabled to

handle up to 100 different transactions. This is of particular benefit where banks have closed their branches and there are few if any other ways people can make these transactions easily.

Going forward, there is a need for ATMs away from branches - constituting "Community Financial Hubs" - which allow the public and small and medium sized businesses to deposit and withdraw cash in both note and coin form. Such machines already exist; though they are not currently in use in the UK. They recycle the cash deposited, which is both an environmentally friendly and cost-efficient modus operandi.

With bank branches closing, such ATMs are needed now. There are no technical reasons why the UK's ATM network could not be enabled to provide these services. What is lacking is the will on the part of those financial institutions that control the LINK scheme.

The Government should consider reforming the governance of LINK so that it is aligned with the public interest or order LINK to provide an exhaustive list of transactions.

*14 September 2016*

## **Barclays – Written evidence (FEX0074)**

### **A. Call for evidence: 22 July**

#### **DEFINITIONS AND CAUSES OF FINANCIAL EXCLUSION**

##### **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?**

We do not see the two concepts as being fundamentally different – both are the product of hard and soft enablers/barriers. At the heart of the issue is whether an individual has the ability to qualify for and access the products to meet financial needs (hard enablers), as well as the capabilities to use them to their full potential without getting into difficulty (soft enablers).

Hard barriers can often be addressed through product design or specific investment, for example through the provision of Basic Bank Accounts or access to specific infrastructure (e.g. broadband; a permanent address). Soft barriers require longer term changes in attitudes and abilities, for example, by fostering money management skills.

There is no denying we're in the midst of a digital revolution which will arguably have an even more profound effect on our lives than the industrial revolution. Digital inclusion is a particularly important soft enabler in modern society, and its inclusion benefits extend beyond finance. As digital innovation continues to evolve, (for example through the advent of open banking), there is a risk that people who are not digitally included are at increased risk of financial exclusion, as they will not be able to utilise new online products and services. This is a particular risk for older customers, among whom we know there is lower uptake and usage of digital platforms. Digital inclusion needs to be tackled in parallel with financial inclusion to ensure it doesn't exacerbate or become a cause of partial financial exclusion.

At Barclays we are helping customers and non-customers to embrace the new digital revolution through our Digital Eagles programme. Launched in April 2013 with 18 employees, this offers personal support and education for customers and non-customers. Barclays has now rolled out over 15,000 (15,782) Digital Eagles across the UK.

Digital Eagles are specially trained members of staff on hand in all Barclays' branches to provide free technology advice to both customers and non-customers. Our branches also run 'tea and teach' sessions hosted by Digital Eagles. These are free and an opportunity for people to build confidence in digital skills – not just around banking and managing finances but staying in touch with people or catching up on TV online.

##### **2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and**



### **how, does financial exclusion affect those living in isolated or remote communities?**

Financial exclusion is mainly linked to wider social and economic exclusion rather than geographic location. For example, research<sup>90 91</sup> has shown that people with particularly difficult home lives resulting from addiction or domestic abuse might struggle to access the relevant documents needed to meet identity requirements to open a financial product. They may also be struggling with debt, which could impact their credit rating and limit their ability to access and/or afford financial services beyond basic transactional banking (eg. credit, savings, insurance). Their wider social and economic exclusion can also mean they are more likely to struggle with the 'soft' barriers to inclusion that we set out above in response to Question 1.

It may also be the case that some individuals, perhaps because they have got into difficulty with financial products in the past, now choose to manage their money in other ways for fear of encountering those problems again. Others (generally an older demographic) have chosen to opt out of mainstream banking because they have felt their Post Office Card Account (POCA) meets their needs. New basic bank accounts which the main current account providers offer as part of their Memorandum of Understanding (MoU) with HM Treasury are intended to provide greater choice to these customers by providing an alternative to POCAs. These accounts are deliberately designed to support vulnerable customers - they do not offer any credit and do not charge fees for unpaid transactions. As such, customers are able to manage their money without worrying about indebtedness.

The Financial Conduct Authority are increasingly interested in understanding how older customers engage with financial products and whether there are risks of financial exclusion. In addition to this very wide group of customers, we note that there can also be very specific challenges that particular communities may face – for example, the armed forces can struggle to gain access to the financial services they need owing to being regularly posted overseas.

To help overcome these challenges, Barclays has a number of interventions, ranging from the general to the specific. For example:

- We recently launched 'Financial Wings' – a new gamified learning platform to boost financial capability (see our answer to Question 5). This sits alongside a range of other financial capability initiatives.
- We provide escalation routes and specialist KYC help desk to help identify what paperwork a potential customer does have that would be acceptable for ID&V purposes, and have a partnership with NOMS to open bank accounts for pre-release prisoners.

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<sup>90</sup> <http://www.refuge.org.uk/files/Money-Matters.pdf>

<sup>91</sup> [http://www.refuge.org.uk/cms\\_content\\_refuge/attachments/What%27s%20yours%20is%20mine%20exec%20summary%20%28Web%29.pdf](http://www.refuge.org.uk/cms_content_refuge/attachments/What%27s%20yours%20is%20mine%20exec%20summary%20%28Web%29.pdf)

- We recently extended our age limit for home insurance cover from age 70 to age 80, appreciating that older people make more journeys than any other age group and require access to suitable protection for their travels.
- We have an Armed Forces hub which makes it easy for service men and women see the products that are available to them. We also offer bespoke loan and mortgage services to these individuals.
- Our services for individuals with disabilities are listed in response to Question 4.

We would note specifically that historically, bankrupts have often been acutely impacted by financial exclusion. For nearly a decade Barclays was the only major high street bank to provide a bank account to undischarged bankrupts. A recent amendment to the Insolvency Act combined with the Basic Bank Account MoU should now have addressed this challenge. We would encourage the committee and government to continue to scrutinise whether all main current account providers are serving undischarged bankrupts. We believe that the requirement to offer a basic bank account should extend to all providers – not just the nine largest. Unless this is achieved, the effective consequence is a structural stigmatisation of financial inclusion customers (such that if they try to open accounts outside of the nine largest providers they will be turned away – “sorry we don’t bank customers like you”).

Regarding geographical barriers to inclusion, transactional banking is possible via the Post Office network, telephone, smart phone and internet, as well as through the physical bank branch which means that 99% of the population is within 3 miles of banking facilities. The number of channels to access banking is now so broad that it is hard to imagine a circumstance in which a customer had no means to accessing financial services. As noted in Question 1, ensuring that society is equipped with the relevant digital skills to make the most of omnichannel service provision is a vital part of financial inclusion in the 21<sup>st</sup> Century.

In order to better understand the needs of customers most likely to be at risk of financial exclusion, Barclays has analysed the behaviours of customers on our basic bank account. Our research shows that these customers are highly engaged in managing their money. They have a higher than average use of all channels, including telephony and digital banking. They are transacting at their limit more frequently, watching their transactions and balances more closely, and are more likely to contact us than other customers. Building on the success of our text alerts, we aim to increase proactive contact with these customers to ensure we help them remain in control of their finances as much as possible.

**3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

As noted in our response to Question 2, financial exclusion can be closely linked to wider social and economic exclusion. This is supported by the Money Advice Service 2015 Financial Capability survey which found that younger people, recipients of benefits being replaced by Universal Credit, people who were unemployed, and people living in social housing had lower scores for key financial capability behaviours (for example, having a savings buffer, or the ability to keep up with commitments and keeping track of spending). Problem debt is a significant part of this story – both as a cause and an effect. For individuals subject to soft barriers to financial inclusion (i.e. the ability to effectively manage their finances), there is a risk they find themselves falling into increasing debt. At its most serious, it can impact their credit rating or even lead to bankruptcy. This in turn creates a 'hard' barrier to accessing products and services to meet their needs in the future.

To help customers avoid or recover from problem debt, Barclays offers a range of support:

- **SMS alerts and proactive contact:** In 2014 we auto-enrolled our customers on a range of free SMS alerts that notify customers when they are about to move into a higher tier of overdraft borrowing, and warn them before they incur charges so that they can take action. We send out over 250,000 alerts per day, and our recent research into customer alerts (January 2016) shows that customers increasingly rely on the alerts they receive and around half take action to avoid charges. This reflects the FCA's recent research which finds that timely, relevant alerts with a clear call to action are particularly effective in helping customers proactively manage their money. Future use of proactive notifications will undoubtedly adapt to new technology as it evolves (for example, use of in-app notifications).
- **Early intervention:** Often customers only come to us when they are in real trouble. However, we have started proactively monitoring customer accounts for evidence of differing behaviour which may indicate changing circumstances (for example, high numbers of unpaid items or very persistent use of an overdraft). Where we see signals that a customer may be starting to struggle we reach out to them early to help them before they find themselves in problem debt.
- **Barclaycard Money Worries Hub**<sup>92</sup>: Our website includes a range of different customer scenarios to show how we can help make things better, not worse.
- **Debt advice sector:** We offer funding and warm referrals to free debt advice including StepChange (we have a 'hot key' from our Collections operation).

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

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<sup>92</sup> <https://www.barclaycard.co.uk/personal/customer/money-worries>

People with disabilities face particular challenges accessing and using services, however, through inclusive design, Barclays is working to remove these barriers.

For example, we provide accessible paperwork and brochures, as well as accessible PINsentry devices and tools such as signature stamps, bank note gauges and cheque and credit book templates to help customers with disabilities carry out day to day banking. At the end of 2012 we became the first major UK bank to launch talking ATMs in response to the Royal National Institute of Blind People's Make Money Talk campaign and in February 2013 we launched a range of high-visibility debit cards, which were updated in 2014 to include a tactile notch to use their cards.

Since June 2015 Barclays has been working with SignVideo to give Deaf customers instant access to British Sign Language interpreters in branch. Customers have been able to use SignVideo on their own computer or tablet since August 2013. We have also rolled out secure chat within our online banking platform, prioritising those customers who we knew were deaf, providing them with secure and instant communication with Barclays colleagues.

We are also working to improve colleague understanding and awareness of accessibility issues, through the use of our Community Wings gamified training tool. Community Wings is a modular training tool focusing on issues such as mental health, disabilities and older customers. It enables colleagues to better recognise a customer's situation, so we can then consider what we can do to help and make their life easier. It also empowers and encourages colleagues to engage in "embedding activities" to build and strengthen relationships within their local community with other organisations that can help our customers.

Finally, customers with mental health needs are at particular risk of financial exclusion. We know customers with mental health needs may experience crisis spending and may be at greater risk of problem debt. Within our collections and recoveries teams, frontline colleagues are trained to identify vulnerabilities such as mental health concerns and hand-off customers to a specialist vulnerability team, who will case manage customers and have greater discretion in managing their case. Barclays is also engaging fully with the work of the Money and Mental Health Policy Institute around managing crisis spending for people with mental health needs.

## **FINANCIAL EDUCATION AND CAPABILITY**

### **5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

Research carried out by Barclays showed that only 44% of customers felt knowledgeable about financial issues, with as many as 20% said they found finding the topic overwhelming and confusing.

The Money Advice Service has identified that financial habits are set by the age of 7 and that financial education interventions can have long term impacts. These include, but are not limited to, improved resilience from financial shocks, planning for life events and securing better value financial products. Propensity to manage money and to save is not dictated by income - it's attitudinal; it's what you learn when you're young – but also reinforced all the way through life.

At present there is a patchwork of different support services and information points to help all individuals improve their financial understanding. These are predominantly funded by the private sector, with significant contributions made by organisations such as the Big Lottery Fund. For young people, financial education is embedded in the secondary school curricula across the four UK nations, but different approaches are taken at primary level.

The role of the Money Advice Service, and the Financial Capability Strategy for the UK are crucial in co-ordinating provision, highlighting success and reducing unhelpful duplication. They have responsibility for making recommendations on how best to scale improvements and address unmet need.

Barclays support the delivery of financial education to young people and adults in a number of significant ways. LifeSkills<sup>93</sup> is our flagship employability programme which includes financial education content as a core component. Aimed at 11-24 year olds, materials are available for young people, teachers, educators (for example youth group leaders) and parents. Since launch in Spring 2013, more than 2.8 million young people have participated in the programme, with over 80 % of UK secondary schools and 30,000 educators registered.

Barclays also supports the delivery of financial capability skills throughout life. Barclays 'Financial Wings'<sup>94</sup> is a fully interactive, 'gamified' website designed to give individuals the knowledge and confidence to take control of their money and build the skills required to bolster their financial health. We have worked with industry experts including the Money Advice Service, National DebtLine and StepChange Debt Charity to create bite-sized modules made up of engaging video, infographic and text content, with quizzes and interactive follow-on activities designed to help users build positive habits leading to long-term

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<sup>93</sup> [www.barclayslifeskills.com](http://www.barclayslifeskills.com)

<sup>94</sup> <https://financial.wings.uk.barclays/>

financial resilience. New modules are in the process of being created so that the tool remains fresh and relevant.

Financial Wings is available, for free, for everyone – regardless of whether you bank with Barclays or not and it now forms part of core, everyday conversations between our frontline staff and customers. Since its launch in July 2016, over 5,710 colleagues and customers have used the platform, with 25-34 year olds currently the age group using it the most.

Finally, Barclays has financial education resources created in partnership with well-respected national charities such as pfege, Action for Children and the National Youth Agency. Whilst these resources are also focused on financial skills, they are tailored to different groups, some of which may require additional support. These include primary school children, young people in the justice system, young people with learning difficulties and young people from acutely disadvantaged areas. These are free resources available to all to download and use.

However there are a number of ways in which financial education provision – particularly in schools – can be improved. These include:

- Introducing financial education as a statutory element in the primary curriculum.
- Introducing financial education and employability skills awareness to teacher training curricula, delivered through both the academic and practical elements of study.
- Providing greater support to schools and teachers to enable them to embed best practice, learn from others and attend CPD sessions.
- Encouraging a positive social and cultural shift to the discussion of money management within families. This is something the Money Advice Service has started to consider. Given how early in life financial habits are set then it is crucial for parents and carers to be empowered to support their children and to have information on what they need to be sharing.
- Ensuring programmes and resources are tailored for the needs of specific groups. This personalisation – for example, face-to-face session and high quality training for the individuals leading the session – increases the positive outcomes such services deliver, however it also creates a challenge in how best to scale and replicate success.

## **6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

There have been significant changes to the ways in which money is managed and transacted in recent years. Contactless payments, mobile payments, money management apps, online intermediaries and the growth of new forms of currency all present new ways of managing finances which now need to be reflected in the teaching of financial education.

With regularity there will be new financial products, government and regulatory changes impacting personal finance. Specific recent examples include changes to pensions and university fee and loan structures. The way which people work in

the future is also likely to fluctuate, with self-employment and holding multiple part-time roles on the rise leading to more complex financial situations.

For financial education, this means that learning outcomes will need to include an awareness of the pace of continuous change and an understanding of the available sources of guidance to keep up-to-date (LifeSkills delivers this). Education content needs to be regularly updated to reflect these developments, and everyone needs to have access to information on how to understand and weigh up the benefits and disadvantages of new channels and policy changes new technologies and services.

In addition to the above, service providers also need to be providing customers with relevant and timely information to make it easy to stay on top of their finances in a changing world (see above for the potential for text alerts to make a difference to customer's lives).

Finally, it is also important that customers are able to 'ladder up' financial products in order to develop their capabilities over time. We see this as a particularly important element of basic bank account provision. Whilst it is vital that these accounts are made available to those that need them, customers should not become trapped on the product as their financial needs and capabilities develop. Where we see that a customer is managing their finances well it is in their interest to – where appropriate – move them to a standard account so they can start building a credit file and gain access to a wider range of products and services.

## **ADDRESSING FINANCIAL EXCLUSION**

### **7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

Personal responsibility is closely linked to financial capability which is why financial education is so important (see above). The UK's strong ecosystem of financial and voluntary sector organisations also plays a critical role in delivering financial capability messages. To build on this, we believe there is a key role here for Government and its agencies in developing messaging and content which can be used by organisations working on financial capability to reach customers with the right messages at the right times. This should be the central financial capability role of the successor body to the Money Advice Service. Closer coordination between charities providing advice and a single point of entry could also ensure greater impact from funding and also have significant benefits for people seeking advice.

For our part, Barclays is investing in a range of initiatives to boost capability, as noted in response to previous questions (SMS alerts, Financial Wings, LifeSkills in schools). We also see digital enablement as a vital piece of the puzzle, which

is why we have rolled out over 15,000 (15,782) Digital Eagles across the UK to provide free technology advice to both customers and non-customers.

**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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

As noted in response to previous questions, the Basic Bank Account MoU was an important step towards ensuring appropriate financial services are available widely for those who need them. We believe that all providers should be required to offer these products as a basic responsibility when operating in the current account market.

We also believe that the Simple Products agenda should be revived, as this was important work with the potential to deliver a much wider range of simple, transparent and accessible financial services products to boost inclusion (more detail provided in Q10).

The Post Office continues to play an important role in offering access to financial services nationwide – across the UK. The role the Post Office plays should be seen alongside the growing number of channels through which banks are providing their services. In combination, this should mean that no community should ever be without the ability to transact. For example, there are 22 million Barclays Mobile Banking and Pingit logins every week and 3.2 million per day (2015) which illustrates the growing popularity of digital channels in managing finances.

As highlighted above, ensuring the society is equipped with the relevant digital skills to benefit from these channels will be key to maintaining financial inclusion.

**ACCESSING AFFORDABLE CREDIT**

**9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

Analysis of our current account book at the time of the payday lending market's peak (late 2013) showed that 90% of our customers that had taken out a payday loan would not have met our own responsible lending criteria – i.e. we could see their expenditure exceeded their income or that they were already over-indebted elsewhere.



This led us to conclude that for the majority that took out a payday loan, more credit was not the solution to their problems. Instead of fuelling an unsustainable situation and increasing overall levels of debt, the right outcome for these customers would be access free debt advice and help to take action to get on top of their existing debt situation.

We work closely with the free debt advice sector to help as many people as possible access the help they need. We have a system of warm handovers for customers we see are getting into trouble, as well as a wealth of information and links on our website. We believe this remains the best approach to supporting customers that might be looking towards payday loan companies as a result of problem debt.

We also recognise that the community finance sector has an important role to play in supporting consumers that may not be able to access mainstream credit. Barclays has been a strong supporter of credit unions for well over a decade, with over £5m donated since 2004 to help it expand and grow.

## **GOVERNMENT POLICY AND REGULATION**

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

The previous Labour Government's Financial Inclusion Taskforce, which was disbanded in 2011, was very effective at working in partnership with the third sector and the financial services industry to reduce the number of unbanked. We support the recent Financial Inclusion Commission's recommendation that all relevant Government departments have a minister with responsibility for financial inclusion in their portfolio, with HM Treasury as the lead department.

In terms of products and services, 2014 Basic Bank Accounts MoU was an important intervention, and appropriate in this case because the products are loss-making - government and regulatory encouragement is helpful in ensuring providers offer these accounts. We would encourage the Government to consider extending the requirement beyond just the largest nine banks, as provision of these accounts should be a basic responsibility of operating in the current account market. Barclays has long been a provider of a high functionality basic account, and until recently, was the only bank that would provide services to undischarged bankrupts.

We also recognise the Government's work to date on Simple Products – supported by the Sergeant Review – however are disappointed at the lack of progress on this agenda in recent years. The Sergeant Review concluded that lack of transparency, complexity of products and difficulties making comparisons undermine confidence and trust in retail financial services.

In response, the industry and government began work to develop a simple products accreditation standard, and in August 2014, Barclays launched our

simple fixed-term life insurance product. The product was independently assessed to ensure it was aligned to the review's principles and product features, that we had in place effective procedures and training to enable colleagues to clearly explain the product to a customer, and that we were able to evidence through a post-purchase survey that customers see the product as straightforward. Following a robust process, our Simple life product received accreditation from the British Standards Institution. Since launch, we have seen a positive response with a significant increase in conversations between our branch colleagues and our customers regarding Life Insurance. We believe this is due to a combination of factors - consumers find the product easy to understand; independent accreditation instils consumer trust; and the simplicity of the product and strong internal communications gives colleagues confidence talking to customers about life insurance.

Our product remains the only simple product on the market, and the issue appears to have lost momentum. We would welcome revival of this work in order to see more simple and transparent products brought to market for consumers.

Looking to the future, the role of MAS and the future of debt advice coordination is currently under review. It is important that much of the good work MAS has pursued to date is not lost in this process (e.g. research, need mapping and strategizing to inform the Financial Capability Strategy), and that the successor body builds on this, rather than starting afresh. Government has a key role to play in ensuring consistency and momentum moving forward, despite this period of uncertainty.

#### **11. What has been the impact of recent welfare reforms on financial exclusion?**

To date, only new benefit recipients have so far been enrolled on Universal Credit. We may see increased demand for basic bank accounts across the industry once existing claimants start to be migrated to universal credit in 2017.

We anticipate that the change will increase financial inclusion given that more people will need to have a transactional account. However financial capability is going to be key – many people will have to manage a monthly income for the first time. As previously, our Financial Wings and SMS alerts will all help to build this capability among customers.

#### **12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

As noted above, we support the recent Financial Inclusion Commission's recommendation that all relevant Government departments have a minister with

responsibility for financial inclusion in their portfolio, with HM Treasury as the lead department.

**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? What balance should be struck between regulations and incentives for financial institutions?**

As noted in response to Question 10, we believe that the MoU to deliver consistent provision of basic bank accounts was a valuable government intervention. We would also reiterate our desire to see the Government's work on Simple Products revived, as this is another area of product development that is unlikely to move forward without external pressure.

Regarding more challenging regulatory requirements, we would call out Anti Money Laundering (AML) and Know Your Customer (KYC) requirements as something that can feel like a barrier to access for some customers. The provision of certain identity and proof of address documents can be difficult in some circumstances, although we recognise the absolute importance and need for this regulation to protect all customers from fraud, scams, and the flow of finance for other criminal activities (including terrorism). We welcome ongoing progress to deliver digital identities (eID) so that a customer need only be identified once in order to have secure and trusted access to a range of services. We include more detail on this technology in Question 3 in the follow up questions below.

**FINANCIAL TECHNOLOGY (FINTECH)**

**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?**

We see the Open Banking agenda as offering great opportunities to address financial exclusion, and we are very pleased to see both the Government and Competition and Markets Authority strongly promoting this work. Increased availability of customer data could lead to the development of tailored money management tools, personalised prompts for insurance and investment needs, and bespoke presentation of info e.g. larger font. All of this supports increased competition, financial capability and improved customer outcomes.

Whilst this new world is full of possibilities, it must be delivered in a way which is safe for consumers and businesses. The Government and regulators have a vital role to play in ensuring that suitable customer protections are built in from the start so that the UK gets open banking 'right first time'. Research<sup>95</sup> shows that suitably appealing customer benefits can trigger unquestioning adoption of new services – if consumers are willing to share their financial data this readily, then

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<sup>95</sup> <https://www.ipsos-mori.com/Assets/Docs/Publications/marketing-open-api-barclays-2015.pdf>

we need to ensure their trust is not misplaced. There must be appropriate protections in place to ensure the security and integrity of the customer data, and clarity on liability and redress in case of need. It would only take one significant data breach by any firm – large or small – to significantly undermine consumer trust (three quarters of consumers say that if they experienced a bad outcome, they would be less likely to give permission again). We look forward to working with the Government to ensure the right safeguards and governance are in place ahead of implementation.

Finally, whilst there are exciting opportunities on the horizon, digital exclusion needs to be addressed in parallel so it does not become a new cause of financial exclusion. As previously noted, the Barclays Digital Eagles, Digital Driving Licence and Code Playground are our contribution to this work, but it is imperative that all sectors and industries are similarly engaged in this agenda.

## **B. Follow up questions to oral evidence: 19 July**

### **1. At Board level, is anyone's remuneration linked to the bank's performance on financial inclusion?**

There is no one at Board level whose remuneration is linked to the bank's performance on financial inclusion specifically, because the definition of inclusion is very broad and means different things for different customers. We see the provision of inclusive products as a core part of operating in the personal finance market, and is not something that can be split out as a separate line of work.

However we do report business performance against a balanced scorecard which sets out eight specific commitments across our 5Cs (Customers & Clients, Colleague, Citizenship, Conduct and Company) against which people can monitor how we are doing. Inclusion is an element of customer support. The 2015 Citizenship metrics that fed into the Balanced Scorecard included SME lending and start-up support as well as financial and money skills for youth as part of the wider skills-building target. The remuneration of Tushar Morzaria (our Group CFO) is linked to the Balanced Scorecard.

### **2. What would be required for the UK to reconstitute the Payment Accounts Directive post-Brexit?**

HM Treasury's implementation of the Payment Accounts Directive requirements merged two different policy objectives: financial inclusion for the financially vulnerable, and cross-border access to banking services.

The Directive requires that all EU citizens are able to open an account 'with basic features' anywhere in Europe. HM Treasury interpreted this as requiring banks to make their most basic account available to EU citizens. For signatories of the Memorandum of Understanding on Basic Bank Accounts 2014 (MoU), this meant the inclusion account. The consequence is that the nine MoU signatories have to offer fee-free financial inclusion accounts to (UK-unbanked) European customers that are not in financial difficulty.

It remains our belief that where an inclusion product such as the basic bank account is brought to market they should be protected for use only by the customers that need them: the financially vulnerable. Cross-border access to banking services for all EU citizens could have been met by providing a standard account with basic functionality.

### **3. What work is underway in regard to the ID requirements for bank accounts?**

The industry is currently working with the BBA to bring greater consistency and clarity across the banks to the ID&V documents acceptable for basic bank accounts. This work is aimed at expanding the list of commonly acceptable

documents for ID and AV purposes, focusing on consumer segments typically excluded due to a lack of more mainstream documentation. 'Typically excluded' groups are drawn from examples named in discussions with the Financial Inclusion Commission, the BBA's Consumer Panel, and the more recent FCA paper: Access to Financial Services in the UK.

As part of the financial inclusion agenda, banks will seek to crystallise some of the discussion outputs in guidance/tools for advice case workers in order to help bridge policy/practice gaps. The extent to which any extended list of commonly accepted documents can be published e.g. on websites will be considered against fraud concerns around publicly available material. Industry is also open to exploring with DWP alternative benefits and Universal Credit related documentation that may be used for ID purposes.

However we see other significant opportunities for financial inclusion coming with the development of electronic identities (eID). On 2nd March 2016 Barclays launched our Digital Identity Service to provide an identity proofing and verification service to UK citizens who need to access a range of government services such as viewing a driving license, completing a self-assessment tax return online or claiming a rural payment. We are one of 9 providers to the UK government as part of the GOV.UK Verify program.

The service is free to consumers and requires a quick and simple online registration journey, which complies with government requirements. Once completed, the customers can use the same credentials to log-on to any government service that uses GOV.UK Verify.

We have also become a board member of the Open Identity Exchange (OIX), which is a technology agnostic, not-for-profit, members based organisation that explores through projects how to create trusted online transactions through the use of digital identity. Through our active involvement in OIX we have participated in several identity projects, including using a digital identity to find and access your pension, opening a bank account in the UK with a digital identity and using a European digital identity to open a bank account in the UK for a new to country customer.

The potential long-term benefit of e-identification in addressing financial exclusion challenges is that the customer need only confirm their identity and credentials once in order to access a wide range of products and services across a range of providers. This could make for both a more seamless experience at initial product opening, and when changing providers or shopping around later – particularly useful in an open banking world.

**4. How might the concept of flexibility work in regard to direct debits, and what is the relationship with variable income (for example minimum hours contracts)?**

Research<sup>96</sup> commissioned by Barclays which looked – amongst other things – at the top payments innovations individual consumers sought found that the two most favourable were “Having all payments clear immediately and shown in my balance straightaway” and “Having more control and visibility over when direct debts are taken out of my account.” We consider that this demand is particularly strong among those on lower, irregular or uneven incomes – something that is supported by Payments Council and Toynbee Hall research<sup>97</sup>.

The Payments Strategy Forum has recognised this and supports the creation of a “request to pay” service. As with our existing SMS notifications, a ‘request to pay’ offering would give consumers greater transparency and control over their payments, and help them stay on top of their finance – especially in cases of variable income. We support this work and are working with the Forum to understand the options available to make it a reality (these include building on the open banking agenda - mentioned in other answers – or using existing collaborative payments infrastructure).

### **5. Should not bank overdraft fees (authorised or unauthorised) be made clearer and in writing as customers are often in the dark about the scale of these?**

Overdraft pricing and financial management are important consumer concerns and Barclays has taken significant steps over the past few years to provide greater transparency, simplicity and control for customers. In June 2014, we implemented significant changes to our personal banking overdraft structure and charges to introduce a simple daily fee structure that replaced the previous APR model. This was based on detailed customer research which told us that they find daily fees simpler and easier to understand, and the changes were welcomed by *Citizen’s Advice* when announced. These are made clearly available to customers at account opening, in pre-contract information (provided by in hard copy) when an overdraft is taken out, and during the lifecycle of the product through statements, annual summaries, and notifications (e.g. SMS alerts). They are also available on our website<sup>98</sup>.

Further to the introduction of daily fees, we also introduced a suite of other changes to improve transparency and support customers in managing their finances:

- Extended daily ‘grace period’: This gives customers more time on the day a payment is due to make funds available. Customers are proactively alerted via SMS to the level of funds in their account and have until 3pm to pay money into their account to avoid unpaid transaction fees, and until 6.30pm to avoid overdraft and Emergency Borrowing fees. The earlier timing reflects the sequence of payment processing cycles.

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<sup>96</sup> <http://www.tooleystreetresearch.co.uk/wp-content/uploads/2015/06/Towards-world-class-report-by-Tooley-Street-Research-for-Barclays-FINAL-web-version.pdf>

<sup>97</sup> [http://www.toynbeehall.org.uk/data/files/Services/Financial\\_Inclusion/Access\\_to\\_cash\\_-\\_Qualitative\\_research.pdf](http://www.toynbeehall.org.uk/data/files/Services/Financial_Inclusion/Access_to_cash_-_Qualitative_research.pdf)

<sup>98</sup>

<http://www.barclays.co.uk/CurrentAccounts/Changestooverdraftsandwaystoavoidfees/P1242663274269>

- Introduced £15 'buffer zones': In response to feedback from consumer groups, this was introduced to help customers who accidentally go overdrawn by a small amount. This means that a payment that takes a customer to -£15 would be processed with no charge applied. The buffer applies at every 'tier' (overdraft, Emergency Borrowing and unpaid transaction).
- Introduced a range of free SMS alerts with triggers: These alert customers when they are about to move into a higher tier of overdraft borrowing, and warn them before they incur charges so that they can take action (see Appendix for the full list).

We have found the SMS alerts to be a particularly powerful tool in helping customers to manage their finances. We took the proactive decision to auto-register customers into certain alerts and have been pleased to see almost half of customers taking action in response to these alerts. We send out over 250,000 alerts per day, and our recent research into customer alerts (January 2016) shows that customers appreciate the alerts they receive. We believe this service offers real transparency and control for customers, and supports recent research from the FCA which finds that providing timely, relevant, 'bite size' information is most effective in helping customers manage their finances.

It is important to note that Barclays has deliberately chosen not to offer unauthorised borrowing. Unarranged or unauthorised overdrafts are 'shadow limits' that customers do not know they have, are variable in amount, and are not agreed upfront. Barclays only offers authorised borrowing that is clearly agreed upfront with customers.

## **6. Should there be a cap on punitive unarranged bank overdraft charges, which are higher than the cap on payday loans?**

Barclays does not offer unauthorised borrowing. We offer an 'emergency borrowing' facility which is a final tier of arranged overdraft. It is a pre-arranged amount for which customers pay £5 per day to use and is capped at a maximum of £35 per month. Emergency Borrowing bears no resemblance to unarranged overdrafts which are 'shadow limits' that customers do not know they have, are variable in amount, and are not agreed upfront. The Competition and Markets Authority remedies will introduce a publishable 'monthly maximum charge' so customers will know the total amount they can incur in any given month. The intention is to enhance customer understanding and ability to compare between providers.

## **7. How successful has the Access to Banking Protocol been, and what are your aspirations for the independent review of the Protocol that is currently underway?**

We remain committed to ensuring communities always have the ability to transact, but traditional bricks and mortar bank branches are becoming less integral to enabling this, and less relevant to our customers. Counter transactions in our branches are falling by around 20% year on year as customers move to channels where they can access a Barclays colleague 24/7.



In this context, we are keen to ensure that the local community has the support they need to transition to a new way of banking when a physical branch closes. The Protocol has helped to codify best practice in this respect, and deliver a more consistent approach across the industry. For Barclays, whilst we have not reversed a closure decision under the Protocol, we have altered our 'leave behind' services as a result of community feedback, and amended timelines for exiting a community based on feedback. All of our impact assessments are made publically available.

However we are always looking for ways to improve our approach, and are keen to hear the outcome of Professor Russel Griggs' review. We hope that Professor Griggs will be able to offer recommendations for what more we could do to engage and support communities where we take the difficult decision to close a branch.

**8. How does your company identify customers who are in, or at risk of financial difficulty? What support would you offer to such customers and do you employ 'warm handovers' to introduce customers to organisations that might offer assistance?**

Customers often don't always come to us during early signs of difficulty, which means the problem can worsen. To address this, we look at customer accounts for signs of financial pressure which may indicate changing circumstances. For example, high numbers of unpaid items or very persistent use of an overdraft can all be signals that a customer may be starting to struggle. Where we observe changes such as these, we write to the customer offering support, and we are conducting a pilot of proactive telephone calls. We continue to keep our criteria for contact under review to ensure they are the most appropriate and effective.

To help customers remain in control of their finances we provide a range of support and tools to customers in all stages of financial health – be that good health, at risk of financial difficulty or in financial difficulty. These have been detailed in response to previous questions, but include:

- **Good financial health:** Balance alerts, Financial Wings
- **At risk of financial difficulty:** Near-limit alerts; avoid fee alerts; Barclaycard Money Worries Hub; in-branch debt awareness activity; proactive contact (letter, SMS, outbound call) to customers displaying early warning signs of financial difficulty (identified by data analytics)
- **In financial difficulty:** Dedicated collections and recoveries area with staff trained to help customers reach a manageable way forward with their debt; specialist vulnerability training for colleagues in this area; hot key for warm transfers to StepChange Debt Charity for free independent debt advice.

**9. The Financial Services Consumer Panel has suggested that banks should have a statutory duty of care to their customers. What is your view of this suggestion?**

We are familiar with the Consumer Panel's proposal, and share their desire to deliver fair and positive consumer outcomes. However our own analysis suggests that the vast majority of these protections are already enshrined in legislation, case law, regulatory requirements and principles in the UK, accompanied by the necessary supervision and enforcement powers.

**10. What role do banks have in improving the financial literacy and education to children, young people and adults?**

Please see our responses to Question 5 and 6, above.

**11. Are there new technologies or innovative projects that are being used to tackle financial exclusion in developing markets that could be used to tackle financial exclusion in the UK?**

The UK is currently focused on delivering Open Banking, which has the potential to significantly increase competition and innovation in financial services. However whilst this new world is full of possibilities, it must be delivered in a way which is safe for consumers and businesses. The Government and regulators have a vital role to play in ensuring that suitable customer protections are built in from the start so that the UK gets open banking 'right first time' (see response to Question 14, above).

*15 September 2016*

## **Barclays and Co-operative Bank – Oral evidence (QQ 38-49)**

Evidence Session No. 4

Heard in Public

Questions 38 – 49

Tuesday 19 July 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (Chairman; Lord Empey; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Baroness Primarolo; Lord Shinkwin

## Examination of Witnesses

Catherine McGrath, Managing Director, Transactions, Insurance and Mass Market, Barclays, and Matthew Carter, Director of Products and Marketing, The Co-operative Bank

**Q38 The Chairman:** This is a very hot day, so if witnesses and Members wish to remove their jackets, that is absolutely fine by me. I do not want anyone to overheat. This is our fourth evidence session, so thank you very much indeed for attending. For the record, our two witnesses today are Catherine McGrath, who is managing director, transactions, insurance and mass market, at Barclays Bank, and Matthew Carter, director of products and marketing at the Co-operative Bank. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. This meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the committee website, and you will have the opportunity to make any necessary corrections to it. If you are ready, may I just kick off with the first question, which is a very general one? How does your organisation define financial exclusion? What is the incentive, or the business case, for banks to address financial exclusion?

**Catherine McGrath:** First, the definition of financial exclusion, or inclusion, is quite difficult, because it can manifest itself in a number of different ways. On one level, we would describe it as a customer being unable to access the products or services that they should have. The reasons for that could be incredibly different, though. It could be to do with financial vulnerability. They might be a member of the Armed Forces, and standard banking does not work that well if you are one of those. It could be to do with disability. The reasons are quite broad. We think it is important, because we see part of our broader role in society as ensuring that everybody can participate fully, and we are very aware that access to banking products and services is a cornerstone of that.

**Matthew Carter:** I think that our view is quite similar. It is difficult to define in one phrase or sentence, but we see it as part of our broader focus on customer vulnerability more generally. Financial exclusion is often a key consequence of wider vulnerability, so we look at it in that context. From a business strategy perspective, the Co-operative Bank has always been committed to financial inclusion and banking for customers whatever their circumstances, so it is fundamentally embedded into the heart of our business strategy.

**Lord Haskel:** You say that your purpose is a broader role in society or financial inclusion. To what extent does your organisation's work fall within the social agenda that you have just described, and to what extent does it form part of your business development agenda?

**Catherine McGrath:** The fact that neither of our job titles here says "corporate social responsibility" indicates that it is quite intrinsic to the organisation's structure. My job is not corporate social responsibility, but do I have a significant obligation to ensure that we are inclusive in providing banking services to customers? Absolutely.

Another key way in which Barclays looks at this is that we think that digital enablement is a big part of financial inclusion, so our decisions about providing things like Digital Eagles, working with BT to find black spots in digital capability and ensuring that it can be provided, and putting in digital services are key. All those things are part of our key business strategy and not something that we necessarily look at under the banner of corporate social responsibility. We would see it as a key part of our business strategy.

**The Chairman:** Could I follow up on that point? Are you saying that your digital enablement strategy is primarily to help financial inclusion—to get more people having accounts? How much does it come from an understandable desire to cut costs?

**Catherine McGrath:** The way we look at digital enablement is broad. A Digital Eagle will help a customer get access not just to their banking services but to Skype and video banking, to Facebook and anything else that they want to have. A digital revolution is happening, and that is part of our role. We have the capacity and ability to help people to be part of that revolution rather than be left behind. It is aimed at all our customers. It is interesting for us that our basic bank account customers are twice as likely to use our digital platforms as those who are not on that account. Our view is that everything that we do to get customers digitally engaged very much supports the financial inclusion agenda, but it is a far broader plank of our strategy than just financial inclusion.

**The Chairman:** Thank you. We will return to the digital issue a bit later.

**Q39 Lord McKenzie of Luton:** Who leads your companies' work on financial exclusion? To what extent is the board involved? Is it routinely an item on the agenda for the main board meeting? What reporting measures are used? How is the activity covered in your annual report?

**Matthew Carter:** For us, it is embedded in our ethical policy, which is defined by what our customers think is the most important thing—what they believe is fair and right in the way we conduct business. Therefore, it is a reflection of that, and vulnerability and inclusion are core pieces of it. But I would describe it as being both top down and bottom up. At board level, we have a values and ethics committee that looks at how we apply the ethical policy in its broadest context, particularly how we include all our customer groups. From a fundamental point of view, that is critical. The director for the retail bank has specific empowerment for the execution of financial inclusion and in relation to vulnerability throughout the business. However, that has to be embedded from top to bottom. For us, it is very often the training and support that we give to colleagues on the front line that is fundamental to identifying areas of customer vulnerability where we need to apply certain policies or practices to support customers in financial difficulty. That is obviously then monitored not in one particular way but by using a plethora of metrics: everything from fraud analytics to analysing customer behaviour, complaints and customer feedback. We look at a whole series of measures to try to identify how well we are dealing with financial inclusion.

**Lord McKenzie of Luton:** Are these measures routinely on the board agenda?

**Matthew Carter:** Yes. They are certainly reported on every two months when the Values and Ethics Committee meets. There is a regular standing agenda item on customer vulnerability, including financial exclusion.

**Lord McKenzie of Luton:** Do you know what that data has shown in recent months and what the trend is?

**Matthew Carter:** The reporting tends to be about how we are progressing on the activities that we have identified and are trying to put in place, such as working with third-party institutions to support debt advice. Equally, it is about how we are progressing on the identification of customer vulnerability and financial vulnerability through, for example, the development of our data and systems. It is the tracking against those core pieces of work that is, we hope, moving the organisation forward in the right way.

**Catherine McGrath:** What is complicated about this, referencing the remark I made at the beginning, is that it is difficult to define a customer who is either vulnerable or going through moments of inclusion and exclusion. It will happen for very different reasons for different groups of customers. We look at it by asking, "If we are making changes to our business, how is it likely to impact different groups of customers?" If I am making a change to overdrafts or to digital policies, I think about a group of customers who are digitally not engaged. If I am doing something that benefits those who are digitally engaged, how do I think about supporting those who are not? You could argue that they are being financially excluded because of some things that are happening in the digital space. It is very multifaceted. I have one definition of financial vulnerability, which is customers on the basic bank account. It is very easy to see them, what is working for them and what is different for them versus customers who are on our standard accounts. It is more difficult if I am trying to understand whether somebody is financially included or excluded because of dementia or because of being in the Armed Forces. We look at it across the board. We try to look at it cohort by cohort of customers, and we look at it issue by issue. Financial inclusion or exclusion will change depending on the issue, or on the banking service that people are trying to access at the time.

**Lord McKenzie of Luton:** I can see the challenges. Just to be clear, does the "we" in all this include the main board?

**Catherine McGrath:** Yes it does, irrespective of whether it is Jes talking about the shared growth agenda and saying, "Investing in the UK overall must be good for the banks, so supporting all segments of society as part of that is critical". Ashok Vaswani runs Barclays UK, the UK part of the bank, and it is very high on his agenda. Across the board and part of everyone's role is the question, "How are you supporting all segments of society?" However, if you tried to find one page on a report somewhere, it would be quite hard to summarise it because of the complexity of the issue. The specific issue will vary from customer group to customer group and banking service to banking service.

**The Chairman:** I will bring in Lord Haskel in a second, but could I first follow that up? At board level, does anyone's remuneration include consideration of what they have achieved on greater financial inclusion?

**Catherine McGrath:** Sorry, I do not know the answer to that question.

**Lord Haskel:** In your reporting process, do you also report on the cost of all this socially oriented work? Presumably that is included in your overheads structure. How do you take all that into account?

**Matthew Carter:** Not on a specific case-by-case basis. Over the last few years, we as an organisation have had to make some balanced and commercially based judgments about that. As Catherine said earlier, the growth of the digital agenda in particular means that we as an organisation need to re-orientate where we invest. For us, there has been a very clear strategy. We have said, “We must invest massively in our digital agenda, because that is consumer demand. That is what customers expect”, and those expectations are rising significantly. At the same time, we are seeing far fewer transactions in traditional branches. Last year alone, we experienced a 30% reduction in branch transactions. That means that you end up with branches that become economically unsustainable. Yet those decisions, such as decisions to close branches, and our commercial decisions were very clearly driven by customer data. Are customers actually using the branches? There is a series of considerations. How do we decide whether it is commercially sustainable to close the branches? You have to decide how you embed financial inclusion and broader customer vulnerability when you execute any of those policies, and you have to decide on a case by case basis. However, I reiterate the point that the ethical policy for us as an organisation is in effect consideration of these things as part of any decision, change or development that you make. If you do not consider them, you are out of line with the policy itself, which is quite clear about embedding financial inclusion and how the organisation will then take decisions, which we hope will be in a balanced way.

**Lord Haskel:** So if you were on a cost-cutting exercise you would not say, “We’re going to cut out this socially oriented work and cut our overheads”?

**Matthew Carter:** Absolutely not. For example, we have been in the basic bank accounts market since 2000, and we have been the market leader in the provision of such bank accounts. Our market share is around 2%, but our provision of basic bank accounts is significantly in advance of that: it is 20% of our entire customer base. That has always been an incredibly important element of our approach, strategy and broader contribution to society. We are massively supportive of the new access to banking protocol, which came in at the end of last year, but we have also been encouraging the remainder of the industry to share some of the burden and the cost. For us, there is quite a significant cost in running the basic banking book to support financial inclusion in the way we are. That is not to say at all that we would want to remove our commitments from that. Absolutely not—it is enshrined in our strategy as a business—but we would want that cost to be shared proportionately across the industry.

**Catherine McGrath:** Can I build on that point? You would not find a number for us that indicated the commitment that we are making on financial inclusion. But, to touch on Matthew’s point, the basic bank account is a key component of financial inclusion. That is a loss-making product but part of our investment in society. A couple of things are worth mentioning. Ensuring that all banking participants are party to that, not just the subset that is currently signed up to it, is important; otherwise you have people going into the branch of a bank that they think would be great for them and they are told, “Sorry,

you're not someone we want to bank. Can you go down the road and be supported by someone else?" That is not a good outcome.

The second opportunity is the payment accounts directive, which is quite interesting. It requires that people who are unbanked can open what has been defined in the UK as a basic bank account. This presents the issue that if my accent were not New Zealand but French, for example, and I earned what I earn today, I would still be entitled to open that basic bank account in the UK, because in UK circumstances, as currently defined, I am unbanked. I think that is completely wrong; the basic bank account is there to support financial inclusion and should absolutely be there for people who require that sort of account. Someone who is not part of financial inclusion should have no entitlement to go into that basic bank account. That is an interesting thing that we need to think about: how we implement the Payment Accounts Directive in the UK to make sure that it is targeted on those who need it, not on a more general audience because they are unbanked.

**Q40 Baroness Primarolo:** Catherine, could you explain to us how many people you think try to get access to basic bank accounts who are not entitled to them, in the sense that we already heard from Matthew and you about the growth in demand from customers who want to be able to do things on more sophisticated digital platforms?

**Catherine McGrath:** It is a new requirement, but the UK Government still have the opportunity to determine how they interpret that. Can people who are not financial inclusion customers get into the basic bank account? The current thinking behind the interpretation is that if I am unbanked in the UK—in other words, I am coming in from an EU country—I could have access and must be offered the basic bank account.

**Baroness Primarolo:** Why do you think that is wrong?

**Catherine McGrath:** Because if I am earning, if I am not a financial inclusion customer, I should be offered a bank account but not the basic bank account, and I should not be entitled to the basic bank account.

**Baroness Primarolo:** What would the benefits be to somebody deciding that they wanted a basic bank account and nothing else? What would be the advantage to them?

**Catherine McGrath:** Absolutely no fees are associated with it.

**Baroness Primarolo:** But they can do nothing on it.

**Catherine McGrath:** They can. A basic bank account is a full service account that lets you do what you need to do; it just does not have overdraft lending on it. With the basic bank account, you are not charged the fees that you are charged for similar behaviour with a standard account. That is absolutely right for financial exclusion customers. It is not right that somebody from outside the UK is offered an account with a different price structure than somebody inside the UK can get.

**Q41 Lord Empey:** To some extent you have touched on one or two of the things that I was going to raise. What has been the level of take-up of the basic bank account product that you respectively offer? You have referred to it already, Matthew, in some of your comments. Since the launch of the new



basic bank account, has there been a corresponding decline in the number of customers who are rejected for bank accounts?

**Matthew Carter:** I gave the number for us earlier. We have 300,000 accounts. The number of people applying for accounts has dipped but only very slightly. The number of declines is absolutely stable. Other organisations might see this differently, but because it was such an embedded part of business anyway we have seen that continue. We have probably seen slightly fewer applications, but only by a couple of percentage points down this year. Some customers who would have come to us before have probably gone somewhere else.

**Catherine McGrath:** From our perspective, when HMT publishes its data I would expect to see that our share of new flow has also declined. The reason for that is that we were one of the few banks that were offering a full-service basic bank account before, so we were doing significantly more than our natural market share.

**Lord Empey:** You are saying that you had already captured some of that market.

**Catherine McGrath:** Yes, similarly to Matthew's organisation, Barclays would have been one of the organisations that was overperforming on the basic bank account since the previous version of basic bank accounts. The flow has reduced because other major banks are now required to offer basic bank accounts. That has now been measured, which is good because it means that there is a breadth of supply and competition in that market.

Another thing that we will discuss with HMT is that if we can see from the turnover in someone's account that they no longer require a basic bank account, we will proactively engage the customer about moving them into a standard account. We believe that that is the right thing to do, because they can start to build up a credit file and a credit footprint, which means that they can get access to broader financial services, which we think it is a critical part of financial inclusion.

**Lord Empey:** That leads me neatly on to a supplementary question. What is the process for customers moving from the basic bank account to a regular current account? How is this move instigated, and what accompanying support are customers provided with in that regard? In other words, what is the trigger point for somebody moving from the basic bank account to the regular bank account, and what is available?

**Matthew Carter:** Catherine is absolutely right. In our book, too, some customers start to behave in a way that suggests that a broader banking product could be made available to them. However, you cannot automatically assume that people wish to do that. A lot of research will tell you that customers often like the controls that a basic banking product gives them—for example, you cannot get overdrawn and it puts quite clear rules and boundaries in place. We do not automatically upgrade people, but we do go through a contact programme that says in effect, "You seem to be displaying the behaviours of an upgrade", and we encourage people either to come into a branch or to have a conversation with one of our telephony advisers about moving to a more mass-market product.

**Lord Empey:** I suppose some people prefer pre-payment meters for exactly the same reason.

**Matthew Carter:** Absolutely.

**Lord Empey:** You have a product that is free of service fees. The thing that would trigger a change is behaviour; perhaps a customer wants to borrow.

**Matthew Carter:** Yes, possibly. There are also payment differences and the availability of a chequebook—those sorts of things—which will make a difference. You are absolutely right, but even if a customer wants to take those other facilities they do not have to take an overdraft as part of that broader range of services. That is why we are keen that if people want to avail themselves of an overdraft, for example, we will have two quite distinct and separate conversations with them.

**Catherine McGrath:** We are still working through exactly what that will look like. On our standard account, customers can have all the same controls as there are on a basic bank account. You can choose the ability never to get overdrawn if that is what you want. We would absolutely encourage customers to have a standard account if their account conduct indicated that they if they applied again today they would be offered one. The credit turnover of the account is one of two things that we tend to look at. If it is £2,000 or £3,000 a month, they are less likely to be financially vulnerable. But we would also look at the conduct of their account. If a customer is constantly bouncing up against zero, that indicates that they are probably still in a financially vulnerable state. If they have a reasonable amount of credit left in their account at the end of every month, that indicates that they are probably in a good place to be able to move on. You would generally want a standard account because it starts to give you access to all those other things that you can get. Having customers with the ability to get lending at bank rates as opposed to payday lender rates is a critical part of financial exclusion, which is why that conversation will happen with a customer.

**The Chairman:** Can I pursue the point about the annual number of declines and whether that has gone down since the introduction of the basic bank account?

**Catherine McGrath:** My answer is similar to Matthew's: it has not gone down at all. The reason why it has not is the only reason why we would decline a customer for an account before: because of fraud. Barclays has consistently offered accounts to undischarged bankrupts, for example, in a way in which the rest of the industry has not, so there was no reason to expect our rejection rates to change. Fraud is the only reason why you will not get an account with us.

**Q42 Lord McKenzie of Luton:** I would like to move us on to Brexit, if I may. These are early days, I know, but the Payment Accounts Regulations are the UK Government's way of implementing the European directive. I have two questions. The first is a narrow, technical one. When we eventually depart the EU, does anything need to be done to reconstitute those regulations in UK law, or are they still embedded sufficiently so that they continue?

More importantly—Catherine has answered this at least in part—if there is no requirement to follow the EU directive, what changes would you like to see in the regulations?

**Catherine McGrath:** I do not think that I can give you the technical answer to the question of what would be required to reconstitute the regulations.

**Lord McKenzie of Luton:** Forgive me, but could somebody perhaps write to us on this?

**Catherine McGrath:** Yes, we can definitely pick that up. From a basic bank account perspective and a UK perspective, that has been put in by a memorandum of understanding between the banks and HMT. It is not a regulation or anything else, it is just an undertaking that we have given, so nothing further needs to be done because it is an undertaking that a subset of the industry has given.

If there are no requirements to follow the EU, irrespective of Brexit, the Government have a choice about how they implement some of the payment services regulation. We have a slight concern that someone who is not a financially vulnerable customer coming from Europe could get the very basic bank account in the UK, but that the same thing would not happen the other way around. Irrespective of Brexit, there is plenty of room for the Government to choose to interpret the most appropriate response. Our view is that having an account that works and is completely free for the financially vulnerable is important. Irrespective of memorandums of understanding, we believe that we would offer such an account as part of our broader commitments to the UK. So I see nothing changing. It is important that the account is there for the financial vulnerable and that it is not there for an audience that is broader than that. If it is loss-making, it is cross-subsidised by other parts of the bank. It is really important for the financially vulnerable, and it should not be available for people who are not financially vulnerable.

**Matthew Carter:** I would reiterate those points, particularly with regard to the EU payments directive. The FCA and the BBA, and the industry as a whole, are engaged on the best way to implement certain elements of that. There are some slightly contradictory regulations. For example, it is difficult for us to comply with our AML regulations at the same time as honouring the principles of banking foreign customers in the UK that Catherine was talking about. That is an industry challenge which the BBA and FCA are engaged in.

**Lord McKenzie of Luton:** You say that it is an existing industry challenge.

**Matthew Carter:** It is one of our concerns about the implementation of the EU PAD regulations, which have started to come into effect. I would reiterate my point about whether, given the change in the broader environment in the post-Brexit world, that interpretation is still the most appropriate. We clearly have to continue to honour EU regulation until such time as we do not. In the meantime, we need to find the most pragmatic ways of working through that.

**Lord Haskel:** Can we come back to the basic bank account? Do you see it as a sort of loss leader, a public service hopefully leading to a regular account? Is that how you market it?

**Matthew Carter:** We have a very simple range of products. We really have only two. We have either a broadly standard bank account or a basic account. We market them both equally and present them in exactly the same way

through all distribution channels, whether you walk into a branch, access them through the internet or via phone or contact centres. The prominence of the accounts is absolutely equal in that regard. Clearly, we go through a process where generally we want people to take the standard product if that is right for their circumstances. A customer can actively take a basic bank account if they do not want anything that is a slightly more comprehensive proposition. If customers apply for a standard account and unfortunately are declined for that product, they will obviously be offered the basic bank account as an alternative. We offer these things in a very open and transparent way.

**Lord Haskel:** So you make it absolutely clear that the basic bank account is available.

**Matthew Carter:** Absolutely, and the basic banking protocol that we are committed to with HMT makes it really clear that the product has to be available in exactly the same way and through the same distribution channels as our other products.

**Catherine McGrath:** Equally, for us, the basic bank account sits alongside. If you opened a brochure, you would see the range of products offered by Barclays, and the basic bank account is there alongside the other accounts that we offer. If a customer came in and was not specific about what they wanted, we would take them through the standard account-opening process first. If they were not accepted into that, we would specifically talk to them about the basic bank account. Looking at our marketing approach you would not see press ads that said, "Come to us and talk about basic bank accounts", because we tend to market our standard products. But if a customer comes in, it sits with equal prominence in what they will see.

**Lord Haskel:** So it is made absolutely clear that the basic account is available?

**Catherine McGrath:** Yes.

**Q43 Lord Shinkwin:** I have two questions for each of you. First, could you tell me whether your company envisages expanding the basic bank account concept so that it includes savings or insurance products that tackle financial exclusion—you used the term "financially vulnerable"? Secondly, if so, would this be something that the market could support, or would it need to be mandated by government so there was a level playing field?

**Catherine McGrath:** From our perspective, we have a broader range of products that we think meets the requirements. A few years ago, the Sergeant Review looked at simple financial products, particularly in savings and insurance. We have chosen to launch—and I think we are the only organisation to have launched—a simple life insurance product. That has taught us that customers are very positive about it and about a kite mark that says that something is stamped as a simple financial product. It would be fair to say that overall within the industry there has not been a lot of traction in that space. Simplicity and transparency are cornerstones to financial inclusion. Do I think it is relevant that there are broader products that have that stamp? Absolutely. That is why we launched our life insurance product. Financial education is a key part of it, because you only really get balance in society

when people are educated enough to be able to make a sensible choice. Kite-marking helps, but the level of education is important.

On the question of making it mandatory across the industry, again, if a thing is loss-making, the answer is probably. With basic bank accounts, we found a couple of providers that were still choosing to offer a full-service basic bank account and therefore getting significantly more than their natural share, because others were stepping away from it. Life insurance products can be made so that they are not loss-making. If part of our role is being a bank that supports all segments of society, there will naturally be products in that space. The risk in the UK is that as new competitors come in, they quite understandably say that they want to serve only segments of customers. Either by choosing where they put their branch footprint, or by choosing to be a digital only proposition, by definition they are choosing not to serve large segments of society. If we want the breadth of suppliers in a financially vulnerable or financially inclusive space, a degree of undertaking or mandatory behaviour will be important.

**Matthew Carter:** I think that some co-ordination would be helpful. There are often a load of initiatives. The Sergeant review was very insightful and said in effect that the simpler you can make things, the more you can remove from more vulnerable customers the nervousness or uncertainty about accessing financial service products. It is interesting that there is now a separate initiative—I am trying to recollect whether it is HMT's—that is looking at simple products for financially vulnerable customers to encourage savings.

Going back to Catherine's point, the challenge is that if you do not almost mandate this, a number of people will simply step back from it. The burden will then be taken by too few, who perhaps have some of those things more embedded in their principles. Having said that, on a broader point, our underlining ethos, particularly since the bank's transformation and rebuilding since 2013, has been relentlessly to simplify the business. We fundamentally think that the simpler you can make things, the greater access that gives to all. For us, there is a general principle of making things really, really simple. We are relentlessly reviewing everything, from putting terms and conditions into plain English so that people understand exactly what they do to having very simple, basic offerings in the market, which means hopefully that more consumers can become engaged. The one thing that all research, and certainly the Sergeant review, said was that people are fundamentally put off and block things. They know there is a need, but they are too confused by the complexity of some of the products on offer.

The point about how the industry moves forward together on this is an absolute point of principle. As an example, we are, and remain, the foremost banker for prisoners in the UK. We made that an explicit part of our policy and it is an intrinsic part of the rehabilitation of prisoners. Clearly there is a correlation between committing further crime and financial exclusion. We used to bank for the vast majority of prisoners in the UK. We are now taking the rest of the industry with us. Again, we want to support this with what we believe is a proportionate amount for what is a relatively small banking organisation relative to others, spreading that burden and cost across a range of other institutions. That is now being done across the UK. We will absolutely continue to do what we are doing, but we want to make sure that we are not disproportionately taking the load from others.

**Lord Empey:** What you are really saying is that you do not want your competitors to cherry pick. You want everybody to have a responsibility, whereas some can pick and choose so that you, who already operate in that market, will bear the burden of the cost. Other people get away with the premier customers. Is that what you are saying?

**Matthew Carter:** I would suggest that the market will change dramatically over the next two years. We can talk about PSD2, the payment services directive, and how that will dramatically change the landscape of the banking industry. Equally, as Catherine alluded to, we have a lot of new entrants. More competition in the market is absolutely the right thing to have, but, equally, a number of the stated commercial objectives of those organisations is to be very specific about the types of segments that they wish to attract. For example, a number of digital-only banking providers will specifically target mass affluent males aged 30 to 45 within the M25. I suggest that one question that needs to be asked is how we all share responsibility for financial inclusion. That is something that we take very seriously, but it should not be disproportionate. That is the broader consideration.

**Q44 Baroness Primarolo:** I want to ask a question about the identification that needs to be provided by those seeking to open a basic bank account. It was interesting, Catherine, to hear about Barclays' slightly different route into the standard account first and, only when they failed that, then into the basic bank account. There are clearly issues to do with proof of identity. I understand that it is complex, because it also links in with money-laundering, but if we are to accept that having a basic bank account is also, as we heard, a way of being included, being work ready and managing money, we have also heard complaints that the ID can be very difficult for particular groups to comply with. There are migrant workers and asylum workers, and Catherine touched on people with dementia understanding a utility. Through the banks' experience in dealing with basic bank accounts, do you have any comments to make on how identification of an individual could be assisted in opening a basic bank account?

**Catherine McGrath:** Let me just clarify one point. If a customer came in and asked for a basic bank account, that is what would be discussed. If they did not ask for anything in particular, we would start with the standard account. Identity is quite difficult, for the reasons that you suggested. It is also difficult for the reasons of fraud. It is an interesting process for a bank to be in, because if you are the most open with identity in the market, you are more likely to get a higher proportion of fraudulent accounts being opened. It was well known across the industry in the UK for a period of time that bank accounts opened with certain forms of identity from other countries in the EU had a very high likelihood of being fraudulent accounts. A real balance has to be struck. I do not get the impression when I look at our complaints about basic bank accounts that the ID requirements in particular caused the problem. I think we are pretty broad about the sort of identity that we accept. Do I think that it could be made easier? It would be great to identify customers as being okay to be in the UK through a government source, for example. Banks could rely on that for a whole lot of other things. That would be fantastic, not just for financial inclusion customers but across the board. That is the far broader issue. "Identify me once. Then everything follows", would be a great thing to achieve and focus on.

**Matthew Carter:** I do not have a lot to add to that. There are some challenges with documentation. It is an industry-wide issue, and the BBA's work with the FCA on this is important. It explores issues such as how we can access centralised government data electronically to try to help that ID&V process, rather than somebody physically having to bring paper into a branch. The more that can be streamlined, the easier it will make it for everyone involved in the process.

**Baroness Primarolo:** It has been suggested to us in previous evidence that the banks are not particularly flexible when it comes to ID and that there is no benefit of the doubt. The person opening the account might say, "This proves my identity", but when it goes into the system it is rejected. Obviously the individual working in the bank will be under pressure if they give a bit more latitude each time. If, as you suggest, there is work on a gateway that would trigger it, rather than bits of paper—utility bills or whatever—which puts people off, can you direct us to where we could get more of that work? Is it being done on universal credit, for example?

**Matthew Carter:** It is being done by the BBA. We can certainly give you the details on that.

**The Chairman:** Could you provide the Committee with a short note?

**Matthew Carter:** Yes, we can do that.

**The Chairman:** Thank you. That would be very helpful.

**Q45 Lord Kirkwood of Kirkhope:** Could I ask a question, first off, about the access to banking protocol that was concluded in March 2015? How many branches of your respective banks have since closed? How many of them have been salvaged after the local engagement process that you are obliged to go through in relation to the consultation that is currently in place?

**Matthew Carter:** In the past year, we have closed 54 branches. As a bit of context, the Co-operative Bank and Britannia merged in 2009, and the process left us with duplicate branches, often two in the same town. You had Co-operative Bank branches that were predominantly current account and transactional, and Britannia branches that were predominantly savers. The branches that unfortunately we have needed to close over the last year were all Britannia-based. That has been driven by the fact that the transaction levels in those branches had declined significantly and were down to fewer than 50 to 100 transactions a week in some locations. That puts the viability into context, and those are the decisions that we clearly had to make in relation to that. The size of our estate is still bigger than it was pre the merger in 2009, if that makes sense. We at the Co-op have a bigger footprint now than we did then. Equally, over the last 18 months, we have invested in excess of £20 million<sup>99</sup> in refurbishing the remaining network to demonstrate our commitment to community banking. That is quite an important piece.

On the branch access protocol, it is also important to say that while we have always engaged with a range of local stakeholders in relation to any branch that is selected for closure, the decision to close is already based on a whole range of reasons. The focus for us in relation to the branch protocol is how we manage the impact of that in a way that ensures continuity of service,

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<sup>99</sup> Note by witness: the correct figure is £12 million

financial inclusion and customer education. A lot of things that we would do go above and beyond the protocol, such as one-to-one engagement with customers in branch and specific strategies for customers whom we define as vulnerable or requiring financial inclusion. That might include hand-holding those customers to register for online banking or to use the local post office, or reallocating them to the nearest branch where available. In answer to your specific question, the branch access protocol has not changed those decisions, but it never set out to do that; rather, it set a series of standards on how we might best minimise the impact and work in a way that is entirely customer-centric.

**Lord Kirkwood of Kirkhope:** You describe this as a consultation, but the decision is taken. It is a way of transitioning to a new situation.

**Matthew Carter:** It absolutely is.

**Lord Kirkwood of Kirkhope:** So you are talking only to your account holders. You are not talking to the local authority or the local CAB.

**Matthew Carter:** We engage local government and local MPs—a whole load of people— because we know that these things are very sensitive. We will then go through a whole series of steps to ensure that those customers end up with an absolute continuity of service.

**Lord Kirkwood of Kirkhope:** And you guarantee as part of the transitional process that you will not leave anybody not only without a local branch but without any account at all.

**Matthew Carter:** No, we do not close accounts, but we will also go through an upgrade process that gives people better access to things like post offices and digital banking. We will walk them through those processes as we close a branch.

**Lord Kirkwood of Kirkhope:** Presumably that applies roughly to Barclays as well.

**Catherine McGrath:** Yes. The story for us is that, at the end of 2015, we had more than 1,300 branches, which is the largest single-branded network in the UK. Since the protocol came into effect, we have closed 120 branches, and opened one branch in Newcastle. We take the engagement process very seriously, and we were mentioned in Parliament by Chris Evans MP for the standard that we are setting in the way we engage with the community. Stakeholder engagement has never reversed a decision about whether a branch should stay open, but that is because we do a lot of quite hard work even to get the point of deciding whether to close a branch. However, what such engagement has done is change what we have left behind or how we have done it. The engagement is broad; it is with community groups, MPs and local councils. As an example of some of the things that have changed as a consequence, customers are often most concerned about ATMs, so leaving those behind to enable people to access cash is very important. We have also postponed closures. Where significant roadworks have meant that getting to the nearest branch was taking twice as long as it should have, we have postponed the closure or changed opening hours for some of the nearest branches. That, for us, felt like quite a good way of doing it.

We talked before about digital engagement. Although we have Digital Eagles across our branch network in the UK, if a branch is going to close we will



concentrate effort in that environment so that individual customers can come in and have sessions with the digital eagles to get them more digitally engaged. That also helps to manage the transition.

**Lord Kirkwood of Kirkhope:** Would it be a natural consequence of such local engagement with your account holders that those who were engaged could be handed over to perhaps more appropriate CDFIs or credit unions? I understand that there is some consideration of how this protocol is to be operated in the longer term; I am just thinking about whether there are other things you could do—warm handovers—not just to keep hold of an account but to get better service, such as insurance. Do you have any ideas or resources in gestation to improve the protocol?

**Catherine McGrath:** Customers are primarily saying that they want access to transactions and the ongoing ease of that. The relationship with the post office network for that purpose is really important. In the New Zealand market, what was the old post office bank has become a more fully fledged bank in its own right, and it is starting to play an important role in propping up—to be honest—post offices in the local community, because it means that there is another source of income for that environment. That support for post offices to have transactions made through them is important both for customers and for having that hub of the community. Working out how that transactional service can be supported, possibly even more than we are doing today, is key.

**Matthew Carter:** Yes, the post office is crucial. What we have learnt to do as we have gone along is really understand the detail and the cohorts of customers that we have. We have put bespoke approaches in place for customers who we have identified as being potentially at risk of some financial exclusion. We have a programme, for example, where once a branch has actually shut we phone its customers to hand-hold them through the transition to the new arrangements. We have found that the number of customers who have ultimately left the organisation is minimal as a consequence of such changes. The number of complaints that we have had as a proportion of total customers is less than 0.25%. If you can manage it in the right way, with the right degree of sensitivity and humanity, and with real precision about the different groups of customers, hopefully some of those things will come back from the review of the protocol and be embedded more broadly.

**Q46 Lord Kirkwood of Kirkhope:** Catherine has just put the idea in my head, which I might take up with the Chair, that we visit New Zealand to study the post office there. It sounds like a worthwhile thing to do.

On trying to fill the gaps in data, we are trying to make positive, constructive suggestions to the Government. On an individual account basis across the United Kingdom, you will have at your disposal as an industry a huge amount of detail. I just wanted to tax you both on this. Obviously there is commercial confidentiality in this, which everybody understands, but is there some way of making your data available so that policymakers at our level could fill in some of the gaps? Do you track accounts that are closed, for example? If an account was closed, would you know that it was probably because of high interest charges, for example? When you require accounts to be closed—I noticed a bit of a flurry in the press about telling some account holders, “You

have to close that account”, as an instruction. I think there are rules for doing that. Do you have figures available that you could share in some way with the Government so that we might get a clearer picture of where the hotspots and the gaps in the policy are? We could then perhaps talk sensibly to you about making changes that would assist the excluded part of community which the Committee is particularly concerned about.

**Catherine McGrath:** My top-of-the-head response to that is that if we try to define a set of data that we would like consistently from across the industry, I do not know whether that would give you what you want. I am just trying to think through the bits of data that would be particularly—

**Lord Kirkwood of Kirkhope:** Not even trends over time?

**Catherine McGrath:** I was going to make an alternative suggestion, which is not a good, consistent thing but it is an insight thing. It would be very sensible for you to ask us to give you our thoughts, based on the data that we have, about where we think the issues and the hotspots are, from what we can see—a broader thought process—and therefore why we think that your being bothered about these particular things in this particular order is a good idea. While it would not get you that consistency, it would probably get you a broad view of some of the things that you might want to think about. The reason for saying that relates to one of the things we are quite thoughtful about. I look at our customers on basic bank accounts and I see where they are different. I know that they are heavier transactors and heavier users of all our services than someone with a standard account. We believe that happens because they are managing finances on the absolute edge. They will call to ask whether a transaction has gone through yet, or whether it will go through tomorrow, and what they should do with their money. One reason for doing that is because they do not like direct debits, which feel very uncomfortable because they are hard to control. It would be great to have a more flexible direct debit so that you could call up and delay it for two or three days. If you asked us for generic data, some of those issues might not come out, but if you asked me for my thoughts on what is important in the supporting data and why, you would get a more insightful view.

**Matthew Carter:** The only other thing is that we are about to see anonymised data through the BBA—I do not think we have had it yet—on basic bank account openings. There may be some way to do both those things and perhaps use the BBA as a way of trying to get data collectively, at an industry level, that does not compromise any competitiveness or commerciality issues.

**The Chairman:** We are slightly up against time now, so I will ask for the remaining questions and their answers to be as succinct as possible.

**Q47 Lord McKenzie of Luton:** I was struck by some data in our briefing that said that, in 2014, the UK had 170 branches per million inhabitants, compared to 410 in France, 500 in Italy, 430 in Germany and 690 in Spain. I am sure that there are myriad reasons why that is, but could you give us a brief comment on it?

**Catherine McGrath:** I do not have good insight into why the branch density in other European countries is different. I think that digital take-up and usage in the UK has been at a pace. As Matthew was saying, we are certainly seeing

a 20% decline in transactions in branches year on year. My working assumption is that density of population may also have an impact on this, but I cannot comment more broadly than that.

**Matthew Carter:** I would say the same. I think that it is quite often about urban versus rural.

**Baroness Primarolo:** I wanted to follow up on something that Catherine said just now about how, by looking at basic bank accounts and seeing the transactions, you can distil some themes. You mentioned direct debits, which have been mentioned to us before as an issue. This relates to a question about being able to track and understand your customers who may be vulnerable to sudden changes in their income. Rather than take time now, might both of you be able to give an answer in writing to the specific point about direct debits? We know that people are reluctant and that this is about when money is going in and out of their accounts. They are trying to juggle, a bit like with jars of money, to meet different bills. Could you give us something a bit more substantial on how the perennial problem of direct debits might be improved?

Secondly, is this also linked to the fact that their income into the account can vary? For example, they might be on zero-hour contracts and end up with no second income, or a much reduced one, going into the account. The money going out—the question of direct debits—is one thing, but that is dependent on what is coming in, possibly from a multitude of sources, and whether income is reliable every month. Could you give us that sort of information?

**Catherine McGrath:** We could certainly look to see what we have that would be useful. I think that the objective of your question is: help us to understand why direct debits are an issue and what could be done to improve this.

**Baroness Primarolo:** Yes. That leads me on to wanting to understand how you can assist your customers who might hit a crisis—a car that needs repairing or whatever—so they need access to something else in order to maintain their income. That is what I am trying to drill down to.

**Matthew Carter:** Would you like that as part of that submission? From our perspective, we can articulate exactly what we do to identify the pinch points where customers might be getting vulnerable and the entirety of the activity that we then undertake, whether that is internal or referral to debt referral agencies. We can do that.

**Baroness Primarolo:** Yes, absolutely. You have touched on that several times. I do not need you to repeat it, but it would help enormously if you could draw it into a focused piece so that we can understand the vulnerabilities for different cohorts of customers.

**The Chairman:** Thank you very much. Just before I move on to Lord Shinkwin, Lord Northbrook, who was not able to be here today, has asked if I could send you very two very specific questions about bank overdraft fees. If I do so, could you give a written response?

**Matthew Carter:** Of course.

**Q48 Lord Shinkwin:** My question is about financial capability, including education. I would be very interested to hear from both of you, but perhaps we could start with Matthew. In answer to my previous question, you made a

point about co-ordination being helpful. With regard to financial capability, do you think that there would be any benefit in some form of co-ordination or oversight of the various financial capability projects undertaken by banks? If so, what form might this take?

**Matthew Carter:** With all these things, co-ordination is very powerful. I emphasise that a number of retail banks are involved in very impressive, wide-scale programmes on financial education and capability. For us specifically, we tend to have a very focused colleague volunteering programme. Part of that is a minimum of two paid days per year on which we allow people to go out and do community-based activity. Financial education and inclusion are, among other things, key areas of focus of our broader community strategy. We have a long history of other things that we have been involved in from that perspective. I do not know the answer, but there is certainly a broader debate about this and the education curriculum. At their most basic, financial services are far simpler than most people probably perceive, but the lack of understanding is the root cause of a lot of people's later misconceptions and the reason why consumers do not necessarily wish to engage. I would encourage co-ordination. Equally, the broader point about financial education through the curriculum is critical.

**Lord Shinkwin:** Further to that, Catherine, what appetite do you think there is for co-ordination across the sector?

**Catherine McGrath:** I would broaden the co-ordination point beyond simply the banking industry to across the debt advice sector, government and everybody else. I think there has been violent agreement in this room that financial education and capability are a key foundation. It would be good to ensure that that is broad and is not just targeted at children but is important for adults too. In the UK, pockets of this have been done in different ways. I do not think you would want to erode any of that enthusiasm because it has been done off its own bat. Mapping it out and saying, "Where are the gaps, and how should we take best practice in one area and roll it out more broadly?" would be very important.

**Baroness Primarolo:** I am sorry to ask for lots of notes, but again you might want to develop your strategy here. You both touched a number of times on the importance of new technologies and using innovative projects to support those who are financially excluded. A niggle in my mind is people who live in rural areas and cannot get access to a digital platform, or those who are reluctant to deal with or do not want the digital platform—they might be vulnerable. Could you either briefly explain now, or offer us a note on, how you deal with that? People like us being offered IT is fine, but if you live in a rural area—I live in a rural area—you get kicked off the site when your speed drops and after a number of attempts your bank account is locked. As somebody who is also vulnerable, that becomes impossible to deal with if, as Catherine said, people are watching their accounts much more closely and need to be reassured all the time because of worry about not having enough money. Where are the innovative projects, and how do you cross-reference that with understanding that some people just do not have access to that digital platform in any shape or form?

**Catherine McGrath:** There are ways to ensure that you deliver innovation, even if you are not fully digital. One thing that we have done is roll out more

than 14 different types of SMS alerts. The vast majority of the UK population has a mobile phone, even if it is not a smartphone. We can see that over 40% of customers respond to alerts. The likelihood of response is higher if they are also digitally engaged, but it is equally easy if you get an SMS alert just to call the bank and say, "This is something I want to do with my money". We have been very proactive about getting customers into those programmes, and we deliberately chose to move customers into them without asking them to opt in. We did that because we know it works. It takes some of that stress away. I have SMS alerts coming from my account that say, "You are starting to run out of money. Move stuff across". What is great about that is that it means I do not have to keep checking all the time, because I know that the bank will do that for me. That is a very straightforward innovation that uses platforms that most of the population has and makes it far easier for me to keep on top of my finances. The issue for some parts of the sector is that every time I do that, frankly, it costs the bank money, but it is the right thing to do, so we choose to do that anyway. Getting the industry to do some of those things more holistically would be a very good way forward.

**Matthew Carter:** Proactivity is incredibly important. The point is that access to multiple channels is utterly critical. Interestingly, if we look at digital adoption, for example, we know that the biggest growth area has been the over-60s over the last 18 months. We have seen a 200% or 250% increase in the number of over-60s who have adopted digital banking. Having said that, each of those customers could equally phone us up. We are not discriminating by distribution channel. We are not saying, "You have to use that," or, "You have to use this". If customers want to use the branch or to transact with the local post office, they can. Mobile and digital banking are crucial but as part of multi-banking. We see the examples of this all the time now; someone may well be online, but they will still phone up because they want confirmation that something has happened. They want that reassurance. For us, it is about providing that in a holistic way, which does not discriminate in any way and gives customers the choices that they want. We find that the more choice they have, the more choice they exercise in the sense that they become better and more engaged customers. You could look at that as a long-term investment in our customers and making sure that we are having the right conversations with them on an ongoing basis.

**The Chairman:** Lord Empey has the final question.

**Q49 Lord Empey:** Yes, you will be glad about this. We just commented that direct debits are part of our worry about the poverty premium. I can imagine the bedlam if you have 50, 100 or 250 customers who want to move to that in two days. You might have to find a technological solution or a new product. I am just asking you for a bit of advice for us. In considering financial exclusion, where do you think we should focus our attention?

**Catherine McGrath:** There are several areas, which we have already touched on. Digital inclusion is important. The way that technology is evolving, it is important to get more people comfortable in the digital space, irrespective of whether that is in banking or anything else. Secondly, there are things that improve customers' engagement with products. Simple, transparent products are important, as are kitemarks so that I do not need to engage my own brain to work out whether it is good for me, as somebody

else has done that process. A lot of work has already been done on that through the Sergeant Review. Another part of that is SMS alerts and making sure that customers get the information at the right time and have an easy way of accessing it. Thirdly, there is education throughout life, so I would focus primarily on digital, simplicity and transparency, and education.

The only other point I would make is the one I made earlier about actually understanding the specific issues. If I am living on the edge, direct debits do not really work for me, so how can we get direct debits to work better? If I am in the Armed Forces, the issue is not having a consistent address. You tackle that problem in a different way. I would try to get to the specific issues as opposed to the big issues, because we could make a lot of progress tackling pain-point by pain-point, rather than just the big banner of financial inclusion or exclusion.

**Matthew Carter:** I would absolutely say that the devil is in the detail, as Catherine says. We have recently looked at the number of direct debits for customers who make small payments to charities. You find that some customers end up paying 20 or 30 direct debits of £2 a month to various charities. Is that what they wanted or intended? Is that the right thing to happen? Are they getting stopped in the street all the time and being asked to sign up for X and Y, and being good citizens they do so? That in itself might be a form of financial exclusion. While that is one specific example, understanding that and the nuances of exactly how direct debits work is an incredibly important issue. Those are the small issues.

The big issue is a question you asked me earlier: how do we make sure as an industry, and as the industry changes, that we all move together in the right way and in a way that shares the burden and responsibility across new entrants and existing players, big or small? That is the only way in which you get consistent application. We have an absolute commitment to support this and to drive this forward as one of our key social goals, but at the same time we do not have bottomless pockets. For us, it is just that broader point of making sure that everyone understands the responsibility across the industry and supports it equally.

**Lord Empey:** I presume, Chair, that if anything further occurs they could add that to any written comments?

**The Chairman:** Absolutely, yes. That would be very helpful. Thank you very much indeed. It has been a very important session. I am grateful to you for your time, and that bit of extra time that you have given us. You very kindly offered to send us notes on various issues, and the secretariat will be in contact with you. Indeed, if we jointly think of any further things that we would like to ask, I hope it would be in order for us to contact you again. It is so important that we really understand the banks' perspectives.

## **Birmingham Financial Inclusion Partnership – Written evidence (FEX0049)**

### **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?**

1.1 Whilst there is a direct relationship between the two concepts, financial exclusion and inclusion do differ. To include is to “comprise or contain as part of a whole or make part of”. With this in mind, financial inclusion seeks to ensure that there is access to financial products, services, information, advice and education.

1.3 Whilst some elements of exclusion are indeed the inverse to inclusion, that is, to deny access or privilege, the concepts are different. To exclude is to “remove from consideration” –So even where financial services are made accessible, if marginalised groups or individuals have not been considered in the design of the product and it is not suitable to their needs the individual will be financially excluded no matter how ‘accessible’ the product or service is.

1.4 Where the concepts are correlative is that they can both exist without equity. Equity must be at the forefront of efforts to eradicate financial exclusion for a truly financially inclusive society. This notion translates well to all inequality issues across health, education and criminal justice.

1.5 The causes of financial exclusion are interrelated to poverty and the aforementioned inequalities. Inequity in education underpins this, with educational attainment being a cross cutting feature in many inequality issues. Inequity along with the following cause financial exclusion:

- Inadequate financial services/products (in the provision of day to day banking, savings, loans/credit and insurance/pension products) that meet a person’s changing needs across a lifetime
- Inadequate or lack of appropriate Education, Information & Advice
- Digital exclusion
- Culture, that is, individual motivations and attitudes towards money
- Policy

### **2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

2.1 Birmingham is a richly diverse city and is one of the most deprived with 5% of its districts being the most deprived in the region and ranking highest of all districts on deprivation scales relating to income and employment. Financial Vulnerability is more pronounced in the inner city wards.

2.2 Household Income levels are significantly below average, 30% of household in the city have an income of less than £15,000 per year. Many people who have access to financial products and bank accounts can still be financially excluded as they are not provided with the appropriate financial products. 31% of people

surveyed in Birmingham's monthly tracker survey indicate they have problems making ends meet on a monthly basis. Through low incomes and high debt levels this can mean there is financial exclusion

2.3 After housing costs are considered there are an estimated 37% Children living in Poverty in Birmingham, these children are subject to varying levels of exclusion.

2.4 The two largest groups in Birmingham who are financially vulnerable are residents of urban communities with a strong sense of identity and Families with limited resources who have to budget to make ends meet. In terms of household types, the types with the most significant proportion of the most financially vulnerable are families with needs and Asian Heritage

### **3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

3.1 Financial exclusion is both a symptom and cause of other forms of exclusion and has a significant impact on long-term health and wellbeing. People who have complex needs have to focus on day to day survival rather than enjoying the activities and services which the financially included access with ease. They struggle to understand the options open to them or cannot navigate services themselves. Continuous low income is a key driver of long-term poor health and wellbeing.

3.2 Their problems are linked to

- health issues including substance misuse and long term conditions
- lack of education meaning a lack of literacy and work ready skills
- homelessness meaning unstable lives
- digital exclusion through lack of skills or access
- low income from people both in-work, out of work and those unable to work
- lack of access to easy and affordable travel
- lack of access to social and community activities

3.3 37% of children in Birmingham are living in poverty, there is little opportunity for their parents and families to break the cycle of deprivation. These children are subject to varying levels of exclusion, mainly dependent on their parents capacity to provide financial support for day to day necessities (food, fuel, school uniforms and clubs etc) as well as involvement in many day to day activities (social, community and digital)

3.4 Problem debt is an area of concern for advice and support agencies in Birmingham. Increasingly people are now struggling to make payments for their rent, council tax and other essentials. This includes people on benefits that have been reduced under the 'bedroom tax', the benefit cap and sanctions as well as people in work who are experiencing the challenges of trying to manage on low pay and zero hour contracts or agency work.

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



4.1 People with physical disabilities or mental ill health are, in general, more vulnerable and more prone to financial abuse as well as financial exclusion. They are more likely to be out of work or in unstable lifestyles, often beyond their control meaning they face multiple hardships due to lack of access to mainstream services including financial services.

4.2 A large number of individuals depend on benefits as they are not able to work; they are often unable to acquire low rate loans, so tend to rely on pay day lenders and higher rate loan providers. This can lead to indebtedness and as a result create an adverse credit rating maintaining the cycle of exclusion from everyday banking or insurance.

4.3 Birmingham City Council Homelessness Strategy 2012 stated that the second highest priority need group was people with physical or mental ill-health or disabilities. Homelessness is a key symptom and cause of financial exclusion.

## **5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

5.1 Birmingham has the youngest population of any European city, nearly 40% of the population is under 25.

5.2 It would appear that most schools will have a family support worker whose role it is to provide a link between the parent/child and the school. As part of this the family support worker will be faced with a large variety of social problems some which may be complex in nature. To resolve the issues the workers will need an overview of what services are available to refer for more appropriate help. At best a lot of support services are disjointed with no one having a responsibility to pull services together to ensure they are well publicised and contactable. To have one organisation responsible for managing would aid this, perhaps in conjunction with the local authority as they may be funding some of the services. There also could be closer work around public consultation as to what services are needed and any gaps being identified with a view to resolving these gaps.

5.3 A survey of social housing tenants in Birmingham (2012) revealed that an average 70-80% of young tenants were experiencing rent arrears. It also revealed that amongst young people:-

- There is a lack of practical skills – young people do not experience budgeting as a reality, either as word or a concept.
- There is an awareness that they can get into financial difficulties, but don't feel it necessarily applies to them.
- Talk about other young people; those on benefits with no incentive to work; those engaged in illegal activities and; those getting into debt/trouble by lending from friends.

5.4 Despite financial education being introduced to the National Curriculum in 2014, young people of today face more financial concerns than their predecessors. With growing evidence base to support this it's important that

youth financial capability (not just financial education) remains at the forefront of policy making decisions.

5.5 Interestingly, Mosaic Statistical Data for Birmingham (2013) revealed a strong overlap between multiple deprivation, low income and illegal money lending activity, especially for young people.

5.6 Research undertaken in 2009 revealed that 31% of all illegal money lending victims was between 16-24 years old. In addition we were informed that financial exclusion can be exacerbated by certain vulnerabilities e.g. as care leavers, carers, ex-offenders and families and other areas of potential disadvantage that Providers are regularly seeking to address.

5.7 In 2013, ahead of the Welfare Reform Act gaining assent, the Big Lottery funded a project in Birmingham, The PASA (Pay Ahead Stay Ahead) project. The aim was to increase financial confidence, efficacy, capability and wellbeing and bring about a sense of security so that young people can go on to spend wisely, manage credit, save money, plan for the future and not fall foul of illegal money lenders

5.8 Currently (2016), as a housing sector we are experiencing financial austerity where public spending is placed under scrutiny and funding is being severely cut, It was extremely timely, therefore that PASA could start to address some of the financial vulnerabilities that some of our most disenfranchised young people in Birmingham.

5.9 There is no standardised, shared framework for providers to use when identifying, engaging and supporting young tenants. This currently means that every young person needing guidance will experience different levels of guidance and information

## **6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

6.1 The financial circumstances of individuals change throughout their lifetime based on their own specific life journey.

6.2 Through a DWP Universal Credit Pilot for social housing tenants, Birmingham tested a Gateways of Influence model, which we are currently adapting for financial inclusion. This will highlight the touch points through a life cycle and specific elements of financial literacy that people need to have at particular points throughout their life using a digital by default approach to learning.

6.3 Birmingham City Council Financial Inclusion Partnership and Digital Birmingham responsible for the Digital Strategy and Digital Inclusion for the City are well versed in how to develop this and if funding was available could work with other external partners such as financial institutions such as Barclays to develop or re-purpose financial modules and content to ensure that it meets the different user needs.

## **7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What**

## **role should Government, the charitable sector and business play in tackling financial exclusion?**

7.1 Personal responsibility is difficult to exercise in the context of low pay, zero hour's contracts and welfare reforms. The experiences of debt advice agencies is that individuals do not have credit cards and bank loans, but experience huge difficulty in paying rents, mortgages, council tax and utility bills. People with complex problems or chaotic lives lack the capacity to take personal responsibility without ongoing support.

7.2 People need support to overcome their initial crisis then stabilise their situation in order to have the breathing space to plan. Being financially stable enables individuals to focus on broader life improvement opportunities, such as increasing income from work, developing new skills, training and smarter purchasing of basics, such as utilities.

7.3 Cuts to services and higher thresholds for statutory support mean many charitable organisations have to ration services to meet funders' requirements.

7.4 Government should recognise the cost benefit of services for the most vulnerable in society which supports them to take control over their lives. This will reap benefits in reducing the high cost of late interventions when crisis has deepened. Government should also examine all changes to legislation and policies to ensure they do not increase or inadvertently increase financial exclusion.

7.5 Charitable organisations should work closely together to build collaborative partnerships and seamless services to ensure people do not fall between the cracks. This may require focused and targeted activities to meet the specific areas of deprivation in the locality. In Birmingham, targeting support to the families of the 100K children living in poverty will reap huge rewards from a reduced reliance on services and enable the children of the city to fulfil their potential.

7.6 Businesses should focus on providing opportunities to individuals regardless of background to enable individuals to develop their true potential and prosper.

## **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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

8.1 To exclude is to remove from consideration or deny access. Financial exclusion by its very nature within the financial sector means that groups (particularly of low income) are not provided with appropriate financial services/products. Financial institutions deem low income households to be unprofitable and therefore products are not designed with such households in mind, nor are products and services marketed to such groups. This issue, along

with the diminishing presence of financial institutions on local high streets both encourages and exacerbates self-exclusion.

8.2 The government successfully negotiated the provision of 'fee free' bank accounts with the main high street banks to plug this gap. However, our own research has found that these accounts are not well promoted or accessible with the qualifying criteria varying greatly between the providers. Most will only qualify where they have failed to be eligible for a standard or upgraded product as some form of credit scoring is used.

8.3 In our experience of providing Personal Budgeting Support the most common forms of debt within low income households is rent, council tax and utility bills; costs associated with basic day to day living. As rent and council tax debt do not feature in credit scoring data, it is quite possible for an individual to be at high risk of imprisonment and homelessness yet not qualify for a fee free bank account.

8.4 Some suggestions as to how the deficit could be addressed include:

- 8.4.1 Long term unemployed/those moving on to Universal Credit to be offered fee free bank accounts to aid the transition to monthly income and direct payment to landlord (reviewed after 12 months).
- 8.4.2 Providers accept referral/recommendation for a fee free bank account from money advice service providers for customers engaging with support (reviewed after 12 months)
- 8.4.3 New products are developed that consider diversity. Birmingham is a super diverse city where opportunity exists to take on an asset based approach in developing more culturally diverse products. For example Sharia compliant accounts and the use of Partners – a popular savings method used by many Black and Asian British households.
- 8.4.4 Better and ethical use of financial data. The Financial Inclusion Commission estimates that there are 2 million unbanked adults in the UK – but what does this mean at a local level? More effective local solutions could be found if more detail is available as to the extent of issues at a local level as opposed to the national context. This might better aid local partnerships to focus resources within their area. It is imperative that the financial sector forges links and engages with such partnerships.
- 8.4.5 Savings - A savings culture is imperative in increasing financial resilience and tackling financial exclusion. This is a major gap across the entire sector. Those wishing or only able to save very small amounts are not serviced by the main high street banks or by credit unions. Whilst many credit unions have a mandatory savings clause attached to any loan, these funds can (and often are) immediately withdrawn. Incentives to save must be developed where interest earned is negligible. Discount schemes that support larger purchases and bonuses for longer term savings should be considered. Partnerships with schools should be established to embed the savings culture with creative use of pupil premium enabling lower income households to participate.
- 8.4.6 The role of central government and the wider industry (utilities and transport for example) in tackling the poverty premium – which is presently estimated to be £1,300 each year (FIC 2015) for financially excluded households.

8.5 The Post Office is a trusted brand and still has a presence in local communities that has been lost with high street banks. The Post Office, therefore, has massive potential in providing financial services to low income or currently excluded customers. Greater collaboration between the Post Office, High Street Banks and Credit Unions would be beneficial in achieving this.

8.6 The Post Office is a for-profit organisation and provides banking services through a number of larger banks. Due to this, many of the limitations of high street banking products exist within the Post Office product range. Partnership with Credit Unions (who have limited outlets) would allow for improved accessibility and product range. However, support of government and the financial industry (both financial and developmental) would be required to achieve financially inclusive products and services.

**9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

9.1 Whilst the capping was welcomed it has had the impact of some providers exiting the market. Affordability checks have also meant that those who would have been accepted before the changes would see themselves being refused credit. Ultimately when someone's credit options are restricted they are forced to look elsewhere and this may include the use of loan sharks. The changes came into force in January 2015 so it is too early to say if there has been an increase in the use of loan sharks. Certainly this type of borrowing is well hidden and usually only surfaces when the borrower starts running into repayment difficulties.

9.2 Within Birmingham we have worked with the England Illegal Money Lending Team (IMLT) , City save and Advance credit unions and Money line to try and offer residents low cost loans and access to savings. We have worked with the Council's Markets team and provided the organisations with a small shop to offer their products from. This has been promoted by Birmingham's Financial Inclusion partnership and will enable small loans to be taken out. In the past we have also worked with the credit union and promoted incentivisation schemes. This would see someone joining the credit union and after saving for a short period the IMLT would give a savings bonus (£10-£15). This helped encourage the use of the credit union and also helped promote it. The savings bonus was money which had been taken from convicted loan sharks through the proceeds of crime act. It is essential that credit unions are promoted to ensure awareness and also that small loans are available as high street lenders will typically see £1,000 as their minimum loan product. Once joined a credit union can encourage savings and the payment of benefits into their accounts so that there is something there to fall back on and the need for high cost credit is significantly reduced.

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

10.1 Government policy has been fragmented the Labour Government in the 1990's introduced a host of initiatives to look at banking, affordable credit and face to face debt advice, they also introduced the Growth fund and the Now let's talk money campaign. Since the coalition Government there has been little in the way of financial inclusion work that has had a local impact. The credit union expansion fund has been introduced in 2014. After that the impact of cuts on local authority has seen residents directly impacted. Welfare reform has increased exacerbated financial exclusion.

The Government has a role to play in addressing exclusion, rather than it being fragmented and spread across a number of departments a Minister for Financial Health should be appointed. Mandatory inclusion of financial capability in the national curriculum would also go some way in addressing exclusion.

## **11. What has been the impact of recent welfare reforms on financial exclusion?**

11.1 Already financially excluded groups have been further marginalised through policy changes such as under occupancy (14-20% reduction in housing costs support), Localisation of Council Tax (20% reduction in support in Birmingham), Universal Credit, localisation of social fund (Local Welfare Provision) and the Benefit Cap. Meaning that already stretched budgets and stagnant benefit income must now go much further. Significant increases in homelessness, rent and council tax arrears have been seen in Birmingham which may be directly or indirectly attributed to the aforementioned reforms.

11.2 Welfare reform requires low income household to be more financially astute and savvy, yet it appears that full consideration may not have been afforded to the capability of individuals/households nor to the additional support and advice required to facilitate this transition.

11.3 Personal Budgeting Support (PBS) provided to Universal Credit claimants in Birmingham has highlighted low levels of financial capability, with many claimants being at crisis point, unable to meet their basic day to day living costs. Often debt is associated with meeting such living costs and any additional credit sought being used to cover existing debt or day to day living, rather than, one off purchases or luxuries.

11.4 The long waiting period for new Universal Credit Claims (up to 45 days) has impacted rent arrears and claimants ability to meet their immediate short term needs. It was initially believed that those making fresh UC claims would be coming out of paid employment and has sufficient savings or final salary payment to see them through this waiting period. However, PBS has highlighted that a large number of those supported do not have this buffer as they had previously been in receipt of Jobseekers Allowance, Employment and Support Allowance or 'zero' hour contract type employment.

11.5 Localisation of the Social Fund or Local Welfare Provision (as it is known as in Birmingham), initially allowed the authority to respond to local need. The ample budget was soon decimated, nevertheless the need has not reduced – with the charitable sector (that is Food banks) now bearing the brunt of this demand.

11.6 Responding to welfare reform has proved to be extremely labour intensive – increasing administration costs and demand for both local authority and third sector services. Yet, substantial cuts to these sectors have coincided with welfare reforms. The drive towards digital service (in part to modernise but also to offset such funding cuts) in many instances further excludes those most marginalised i.e. low income households.

11.7 The benefit cap will have massive ramifications in Birmingham, impacting thousands of households; many of which will be lone parent households – This and future reforms (limiting benefits to 2 children, Local Housing Allowance rate in Social Housing Sector and 'pay to stay') risk exacerbating child poverty in the region further.

**12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

12.1 The recent announcement in relation to a levy on financial institutions to provide sustainable funding for the illegal money lending teams in England, Scotland and Wales is a great example of central and local government working well together.

12.3 This proposal for the levy to provide a sustainable funding stream has been developed through close central government working across BIS, the Treasury and with the Financial Conduct Authority working in partnership with local authorities and the industry itself. This form of partnership working and positive collaboration is to be commended and provides a positive template for problem solving.

12.3 The Illegal Money Lending services are hosted within local authorities. For example, the England team is hosted by Birmingham City Council and the Wales team by Cardiff Council / Vale of Glamorgan, operating nationally. This national policy making linked to defined local delivery is an excellent example of how we can work together to tackle challenging issues.

12.4 This model of looking at the challenge through a whole system lens focusing on outcomes and engineering the appropriate systems approach, which in this case required extensive collaboration across central and local government alongside the sector is exactly the approach that should be taken for other policy developments to maximise our collective impact.

**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? What balance should be struck between regulations and incentives for financial institutions?**

13.1 We do not see current regulation tackling financial exclusion, but equally we do not see regulation as the only answer. *Interventions* which seek to **educate** and provide **ease of access** to simple savings and payment products would, we believe, have greater value.

13.2 We believe there is more scope for Government intervention into educating benefit claimants and low income families on the imperative to save regularly ( however small) to ensure emergency cash calls can be covered by saved cash and not recourse to debt. Such education could be delivered by local credit unions (or other local agencies) and it would be helpful to have a nationally agreed narrative and some funding support for this.

13.3 Ease of access can be facilitated by greater employer engagement with save as you earn schemes (SAYE) which are very simple to set up but need employer co-operation. The UK credit unions are experienced in handling SAYE schemes and offer very simple savings and payment products. We believe employers could be incentivised through Government initiatives to support SAYE schemes with credit unions and that such an initiative would also resonate strongly with local community agenda's.

**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?**

14.1 Financial Agencies know their customers, know their profile, know where they live, know their household income and spending habits and through their partners/credit reference agencies know a great deal about an individual and their bill payment history.

14.2 Banks, therefore, have ample data available to them to identify when their customers are in financial difficulty or struggling to budget effectively. Overdraft charges and unpaid transaction fees place increased financial pressure upon those already experiencing financial hardship. Financial institutions are well placed to offer/provide financial education training to improve the financial capability of customers.

14.3 There is opportunity to increase engagement in such services by incentivising participation by waiving the bank charges - similar to that offered by police forces for speed awareness courses, where if you attend you do not get your penalty points on your licence. Could the banks enable people to do some training online within a timeframe and waive the charge? This would also help banks to promote services that are on offer that help customers manage their accounts and finances such a budgeting tools or text reminders.

14.4 There are a number of banks who have developed resources specifically around financial exclusion e.g. Barclay Digital Wings / Financial Wings / Community Wings. This should be made available and tailored to specific targeted groups. It should be linked to the Gateways of Influence Model for Financial Inclusion specified in Q6.

14.5 Many financial institutions that offer financial services should be made to offer support as part of their corporate social responsibility.



*14 September 2016*

## **Bournemouth Churches Housing Association (BCHA) – Written evidence (FEX0058)**

### **1.0 Summary of Key Points:**

- 1.1 Anyone can find themselves financially excluded at different times and for different reasons in their life.
- 1.2 BCHA's customers are not only living on low incomes, but also have a range of complex needs including mental health, substance misuse and anti-social behaviour.
- 1.3 There are various services and products available for people who need financial support; however, funding cuts, increasing demand and more complex needs mean they cannot support everyone who needs help.
- 1.4 BCHA's approach to addressing financial inclusion is by engaging with people in their own homes through a dedicated Financial Inclusion Officer, key workers for supported housing and in Bournemouth a general floating support service.
- 1.5 Depending on people's situations, Government's policies have been both successful and unsuccessful in reducing and preventing financial exclusion.

### **2.0 About BCHA**

- 2.1 BCHA is a specialist housing provider, helping homeless individuals and families, young and vulnerable people access the right housing, health, learning and work opportunities. Founded in 1968, BCHA supports over 10,000 people every year to take control of their lives and equips them to find a way forward.
- 2.2 BCHA has a diverse range of approximately 2,000 homes across the South and South West. Over 800 of these are supported homes for people who find themselves homeless after facing relationship breakdowns, addictions, unemployment, domestic violence and deteriorating mental and physical health.
- 2.3 BCHA's vision is to 'create lasting solutions to homelessness, unemployment and social exclusion in our local communities'.

### **3.0 Introduction**

- 3.1 As a social landlord and support provider, BCHA sees around 10,000 people a year who face varying degrees of financial exclusion. Some people come to us without any income or bank accounts; others manage to pay bills, but have difficulties accessing mainstream financial services because of their income, employment status or credit score.

#### **4.0 Definitions and Causes of Financial Exclusion**

- 4.1 Financial exclusion happens when people do not have the access to mainstream financial services or the capability to manage their money independently.
- 4.2 Anyone can find themselves financially excluded at different times and for different reasons in their life. In our experience, the main reasons for this state are personal changes like relationship breakdown, disabilities, bereavement, mental health issues, learning difficulties, and economical changes like having children, starting a new business or losing employment.
- 4.3 Generally speaking, people with health issues (physical and mental health) and some Black and Minority Ethnic (BME) communities with little social connections, low incomes, cultural barriers or with little or no qualifications seem to be hit hardest.
- 4.4 Debt is a key issue in financial exclusion, as it not only affects people's income, credit score and access to mainstream finances, but also people's health, confidence and social networks.

Jane (not her real name) lives in one of our homes. Up until a couple of months ago she was working with a stable income. Jane had a couple of loans but managed to pay her rent and access services, until her daughter moved away to university and Jane started to feel increasingly lonely and struggled with low moods which developed into a severe depression. She often struggles to get out of the door or even open her post. Recently, this has meant that Jane hasn't kept up with rent and bill payments. She's now in around £6k of debt in council tax, utility bills, rent and other loans. BCHA's Financial Inclusion Officer is supporting and educating Jane on priorities, budgeting and applying for the debt relief order Jane has requested.

- 4.5 The current system means that it is very difficult for some people to become financially included. For example, banks often require two forms of ID and utility bills to open a bank account. Homeless people do not normally carry around ID (or have funds to pay for an ID) and do not have utility bills to prove their address. Not everyone has a bank account because the bank might have closed it or some people have never had to open one.
- 4.6 For those living on low incomes in social housing, a significant number use pre-paid meters to manage and pay for their electricity and gas. This form of payment is often costlier than normal meters and if people do not have money to put on the card one week, it means they will go without electricity or gas. A number of people take out loans (often with high interest rates) to pay for these bills, meaning they get themselves in costly debts without the capability to repay them.

- 4.7 Another issue is that most people in social housing do not have a home content insurance, so if their phone or washing machine breaks down, they will often be using their income on replacing these instead of rent.
- 4.8 Financial exclusion does not only impact on people's individual finances, but also has as a knock on effect on other sectors like health, crime and housing. For example, cold homes of those who cannot afford electricity and gas can cause damp issues, but also pneumonia and other health issues, and the desperation of not having money or access to it can drive people into committing crimes - excluding them even further.

## **5.0 Financial Education and Capability**

- 5.1 Across the country there are a variety of support and advice services available for people who need some temporary support in managing their money. However, in the last couple of years these services have increasingly seen their funding cut whilst working with a growing number of people who need help.
- 5.2 Around 90% of BCHA's customers are in receipt of benefits. Some of these manage their money well and pay their essentials in a reasonable time, but a large number struggle to prioritise their spending. Our customers are not only on low incomes, but also have a range of complex needs including mental health, substance misuse, anti-social behaviour and (digital) illiteracy.
- 5.3 We have noticed that financial support and advice services - partly because of being overstretched - do not or are not able to support our complex needs customers. BCHA's Financial Inclusion Officer and key workers understand our customers' chaotic lives and take a different approach than these services by engaging with people in their own homes.
- 5.4 People need to be educated on budgeting, saving, employment and financial impacts of life events from an early age. For children, this should be included in their school curriculum; for students this should be offered as part of their apprenticeship or courses, and some targeted services should be available for new parents, those going through family breakdowns or those nearing retirement.

## **6.0 Addressing Financial Exclusion**

- 6.1 Taking ownership and personal responsibility are key in overcoming financial exclusion. We work with some people who are in severe debts, but do not want to accept help or do not want to increase their financial literacy and capability. We also work with people, especially in supported housing, who do want to take ownership but have severe difficulties accessing services because of their credit history, learning difficulties, (digital) illiteracy or chaotic behaviours. They cannot just go to job centres to sort out their benefits because they need individual support in filling out forms and someone to advocate for their

needs and difficulties to ensure the right benefits and financial access are made available.

6.2 Digital inclusion and improving literacy skills are essential to addressing financial exclusion. As public services are increasingly moving online, people need access to internet and the skills to read, write and work on computers.

6.3 BCHA's Financial Inclusion Strategy for general needs tenants is in its early stages, but the long term aim is to offer residents in need a two-year support programme to achieve the following:

- Address people's wellbeing to ensure they have a decent quality of life
- People to take ownership of their financial affairs and manage independently
- Develop people's knowledge and skills in dealing with public services, like job centres and housing benefit
- People to set a growth or success goal which will see them secure, retain and develop their (self-)employment, education and training opportunities.

Our Financial Inclusion Strategy will aim specifically to increase the number of people progressing into self-employment, which we expect will benefit some people who have had difficulty sustaining other forms of employment

6.4 For those living in supported accommodation, each tenant has a dedicated key worker who supports them to sustain their tenancy, address health needs and improve life skills (including budgeting). These key workers need training on enabling people to become more financial included.

In Bournemouth, BCHA provides a floating outreach support for people out in the community who have difficulties maintaining their tenancy. Around 650 people have accessed the service during 2015/16; many of them avoided eviction and further debt issues because of the support. One homeless application costs the local authority £2,724: if only 300 people were helped to remain in their homes through our support, then we might have saved the local authority £817,200 in non-cashable costs.

## 7.0 **Government Policy and Regulation**

7.1 Depending on people's situations, Government's policies have been both successful and unsuccessful in reducing and preventing financial exclusion. For our customers in supported housing, policies related to benefit sanctions, caps and the new Universal Credit (UC) system are causing increasing difficulties as their chaotic state means people often struggle to attend appointments, lack the skills to appeal caps and cuts, and to manage their lump sum benefit payment on a monthly basis.

7.2 For our customers in general needs housing, the policies might be more effective.

An example is the monthly payment of benefits through UC, which is more like receiving a salary. People need to budget and prioritise their spending to manage throughout the month, as they would if they were working. However, one of the main issues is that the Government changed the system without giving people the extra help they needed to transition. The increasing pressure on charities means that they cannot provide this service either.

The idea of the policy could work well on a national level, but is difficult to implement on a local level where the same (Job Centre/charity) staff need to do more without extra resources. We have seen this at the Job Centre, where Work Coaches now assess people's eligibility for benefits and direct rent payments whilst still undertaking their other duties. They simply do not have the time to help one of our customers to fill out forms on the computer.

- 7.3 In our supported housing services, Housing Benefit currently pays the rent directly to the landlord, and tenants receive their ESA or JSA benefits themselves. From this benefit, tenants need to pay a small service charge to the landlord. Currently this is very difficult for chaotic tenants, especially for those who are using substances or those vulnerable to financial abuse. In the future, the complete rent and potentially even the support cost are expected to go to the tenant directly via UC. We are very concerned about the impact this will have on our tenants' finances and their ability to manage their tenancies. We expect that many will use the money on non-essential items and become victims of expensive loans to pay utility bills and rents. By the time we can apply for direct payments at eight weeks, we will normally already be starting our eviction procedures. If the landlord and the tenant agree, then rent (and support costs) should be paid directly to the landlord so that the tenant can focus on managing behaviours, vulnerabilities and their health.
- 7.4 There is also a real financial issue around benefit caps and sanctions for this group. People living in our supported services are known to be unstable and chaotic. Missing an appointment with the Job Centre or support services is not uncommon due to drinking, mental health or learning disabilities. Currently, people are sanctioned for this – meaning they cannot pay for their essentials and causing severe financial exclusion and eviction.
- 7.5 BCHA has also seen the impact of the Bedroom Tax on families living in our homes. We understand and agree that properties should be used for the right (amount of) people, but some people do fall through the gaps, especially those with carers or children over 18 years old who are claiming JSA or ESA. We have a tenant whose son is over 18 years old, so according to the Government he needs to start paying rent to make up for the Bedroom Tax (£46). The Bedroom Tax is causing a lot of friction in families, as children have never paid rent and parents do not want them to as they see it as their duty to provide for their children. The son in this

family finds it hard to pay rent as he only receives basic JSA (£57.90) per week, leaving him with little money after paying for his housing.

7.6 For those people living in social housing, the changes mean that housing associations are increasingly seeing financial inclusion as essential to their organisation. Since July 2016, our Financial Inclusion Officer has already recovered over £14,000 in unpaid rent or suspended benefits for nine customers. Housing associations, support providers and other relevant statutory bodies need a financial inclusion strategy that is monitored and reported on.

## **8.0 Summary**

8.1 The people living in our homes are often not only financially excluded because of their low incomes and health issues, but even more because of their chaotic lifestyles which include substance misuse, anti-social behaviour and (digital) illiteracy.

8.3 Changes in Government policies mean that people need to take more responsibility over their finances and find work quicker. For many people this is a good development; however, some need support transitioning.

8.4 Existing financial inclusion services are not always able to reach out to these groups because of their complex needs, ongoing funding cuts and increased demand.

8.5 In summary we urge the Government to:

- Develop a financial inclusion curriculum for people throughout their lives, starting from childhood, continuing at college or university and with targeted support at stages of significant personal change.
- Ensure financial inclusion resources are available for those transitioning into Universal Credit and other changed benefits.
- Put ongoing resources in place at the Job Centre, Housing Benefit and other public services for people who need advocacy and support filling out forms. Some vulnerable people will never be able to manage financially on their own.
- Make developing and monitoring financial inclusion initiatives and measurable outcomes mandatory for housing associations, support providers and statutory bodies.
- Allow regulated landlords to receive direct payments at sign up if both the tenant and landlord agree to avoid future debts and evictions.

*14 September 2016*

BrightHouse, Consumer Credit Association and Consumer Finance Association – Oral evidence (QQ 132-141)

## **BrightHouse, Consumer Credit Association and Consumer Finance Association – Oral evidence (QQ 132-141)**

Evidence Session No. 13

Heard in Public

Questions 132 - 141

Tuesday 1 November 2016

[Watch the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); The Bishop of Birmingham; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Baroness Primarolo; Lord Shinkwin.



## Examination of witnesses

Russell Hamblin-Boone, Chief Executive, Consumer Finance Association, Hamish Paton, Chief Executive, BrightHouse and David Rees, Chairman, Law Committee, Consumer Credit Association.

Q132 **The Chairman:** Good morning. I thank all three of our witnesses for coming in today. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website. You will have the opportunity to make any necessary corrections to the transcript. We have quite a lot of business to get through and there are three of you. If questions are asked and there is nothing you particularly want to say, please do not feel obliged to say something in response to all the questions.

What is your sense of the nature of the customer base? Who is using your products? Written evidence that the Committee has received reports an increase in problem debt and certainly that, in recent years, many borrowers have had difficulties with repayment. I would be interested to know if that has happened in your sector, too. What sort of information do you have about what your loans are used for? Would you like to introduce yourselves, please, as you answer?

**Russell Hamblin-Boone:** I am Russell Hamblin-Boone, chief executive of the Consumer Finance Association, representing short to medium-term lenders, operating both online and through high street stores.

The first point was about customers and the customer demographic as we understand it. There has been a shift up the income bracket as a result of regulation specifically but, in parts, price as well. There has always been some misunderstanding about the customer demographic that uses short-term loans, particularly as the market has moved increasingly online. The split now is that about 80% of the market is online and 20% is through stores.

The customer income bracket is similar to the average income. The average customer of the member businesses that I represent is earning £25,500, compared with the UK average income of about £26,000. The customers are more likely to be working full time than the population as a whole. They are predominantly aged between 18 and 34 years old; they are 60% of the market. They come from all walks of life, from people in senior positions in industry through to people on zero-hours contracts doing catering and cleaning work—the full spectrum of people.

On what has happened to the market as a result of regulation, price control regulation came into place in April 2014, and price control took effect on 1 January 2015. Before that, 240 firms were registered as offering high-cost, short-term credit. There are no specifics; you have to do a manual trawl of the financial services register. We estimate that there are now about 60 firms, so there has been a significant reduction in the number of firms authorised. There has been a reduction in the number of loans that are issued. Back in 2012, it was about 10 million loans; there are now 1.8 million loans per year.

That is based on 2015 figures, so there will be a slight variation. Overall, lending in high-cost short-term credit, offering a payday loan, has reduced by about 70%. The market has shifted from a payday single-payment loan, which has all but disappeared, to an instalment loan product of three, six, nine or 12 months. That is still captured by the high-cost short-term credit regulatory framework and the price control. The cost of loans has fallen on average as well, by about £30. We provided some data to the Social Market Foundation so that it could analyse the market. Later this month, it will produce its report, which will give a lot more detail. Perhaps it will be useful for the Committee to have that. I will ask the foundation to ensure that you have a copy.

**The Chairman:** That would be extremely helpful. Thank you.

**Hamish Paton:** First, thank you for giving me the opportunity to talk to you this morning. Financial exclusion is an important subject for me personally and for BrightHouse as a business. I will start by telling you a bit about what we do at BrightHouse. We are the UK's leading rent-to-own business. I want to give you a sense of what that means, because it is different from some of the financial products that are talked about in this space. If a low-income family needs a new washing machine, and they are not fortunate enough to have a pot of savings to pay for the product outright in cash, and if they have been turned down for credit, be that for a loan or for some form of store credit, for example, they might well consider BrightHouse. The family would consider us because we are welcoming, affordable and supportive of our customers. We give our customers the opportunity to get things that they might not be able to get from other people—normal, everyday things.

To answer your specific question about customers, estimates in this market vary significantly, but our view is that there are probably between 10 million and 12 million people in this space who cannot get access to everyday financial products. For every customer we take on, we go through a detailed income and expenses process. The average income for one of our customers is £277 per week, which works out at about £14,000 per year—certainly towards the low end of the spectrum. Our customers are slightly skewed towards females—two-thirds are female—and they are relatively young; the majority of our customers are in the 25 to 45 year-old bracket. They are families. The vast majority have children. Many have three or more children.

The thing to understand about our customers is their options. They do not have many. People normally look at our customers by their scorecard—their credit scores—which would normally tell a lender not to lend to one of our customers. They might have what we would call a thin credit file, so there is not much information about the customer. They might not have a mainstream bank account. If there is information about them, it is not much at all, and not enough to take a view about the person's credit history. That works out to be about 20% of our customers.

Alternatively, our customers might have some form of impairment in their credit history. The majority of our customers have had a default at some point in recent history. As a business, we believe strongly in giving our customers a second chance. They might have been turned down by other providers of mainstream credit. They might even have been turned down by other providers of alternative credit. We try to work with our customers to find a

rent-to-own solution that really works for them and gets them to a place where they can afford the cost of essential household products.

**David Rees:** My Lord Chairman, I apologise for being slightly late.

**The Chairman:** Do not worry about it.

**David Rees:** In brief, home-collected credit, or home credit as it is more commonly called, is a different system from the systems that both my colleagues described. It involves small cash loans, repayable weekly. The mechanism for contact with the customer is an agent. We think that there are about 16,000 agents in the sector, probably serving around 2.4 million customers—that kind of magnitude. The loan terms are very short: between 26 and 52 weeks is likely to be the range of loan term. The customer is visited at home each week by the agent.

The key feature of home credit is that there are no extra charges. The customer pays a fixed all-in charge. It might be £40 on £100, for instance, over 26 weeks. That is a hypothetical figure, but that is the kind of range. That £40 includes everything. It includes having an agent calling 26 times at their home—or more, if required. There are no extra costs if the customer misses a payment. They could extend that 26-week loan, if they had a problem with their finances, to, say, 50 weeks, and it would still be only £40 on £100. With most credit products, if the customer hits difficulties, they end up paying more by way of default charges and extra interest. Technically, with home credit, the cost of the credit is falling. That is an important distinction, which has been recognised by the regulator.

The system is very transparent, as I have explained. It is very flexible. If you have a problem as a customer, all you have to do is tell the agent when she calls. She may say, “Look, if you cannot pay this week, pay me next week”. What often happens in that situation is that the whole set of payments then ratchets on one week. Rather than the loan taking 26 weeks to repay, it takes 27, so the customer can miss one. Some customers like to catch up. That might happen, for instance, if they have been away on holiday. They might say, “Look, I have been away. I would like to catch up and put my account back in order”.

It is very simple. It is very transparent. It is very flexible. As we mentioned in our written submission, that offers control for the customer, and if they are on a low income that is extremely important. If they are working on a tight budget, things can happen in their household that would not necessarily derail the budget of a middle-income household, but it can derail their budget. Therefore, they need systems that can help them through that. That is home credit.

On the specific question about what we have seen regarding the impact on arrears for our sector, I have some interesting data. It is the latest set of figures from Citizens Advice, called *Advice trends*, which it does not produce any more. It is a breakdown, which started for the first time seven or eight years ago, of exactly what Citizens Advice was looking at in its debt cases. We have something like 30 different categories of debt, and only six of them are consumer credit debt. There are arrears of income tax, overpayment of universal credit, rent arrears and telephone and broadband debts. A lot of those debt items are not in fact consumer credit items.

I will send the document to the Committee. What is interesting about it, as I have heard people from Citizens Advice say in recent presentations, is that they are seeing a reduction in the number of consumer credit problem debts and an increase in the number of utility debts. There is an inversion of the normal expectation. I believe that is still valid.

**The Chairman:** Thank you very much. We have already had written and oral evidence from Citizens Advice. I do not know whether we have that particular paper, so, if you are able to forward it, that would be very helpful.

**David Rees:** Sorry, but you did ask.

**The Chairman:** That is very helpful.

**David Rees:** We had a Competition Commission inquiry into our sector. The Competition Commission asked the advice sector how much interface it had with our sector, and it said it was very little. I have made some calls to members of our association. We are perhaps looking at 0.5% of its customer base, so it is pretty minimal. That is probably in line with most lenders, or with most types of lender.

**The Chairman:** Thanks. That is a very helpful overview. We will be picking up a number of the points that you raised as we go through the questioning.

Q133 **Lord Haskel:** We have had drawn to our attention the divergence between the interest rates charged by subprime lending companies and those charged by organisations such as credit unions or other third sector lenders. Those people lend to a similar cohort of customers. What are the reasons for that? Also, does it partly explain the decline in payday loans that Russell told us about?

**Russell Hamblin-Boone:** I cannot speak for home credit, but there is a price control in place in our market, which was designed by the Financial Conduct Authority after rigorous analysis of the market, modelling the impact on consumers and looking to ensure that there could still be a viable market for people who would continue to benefit from short-term lending.

The cost of the loan is made up of the components of each part: the cost of acquisition, the cost of getting a customer, the cost of administering the loan and any cost to do with collecting outstanding debt. Margins are very small now. We have seen a reduction in the market as a consequence of regulation and price control, which will be reviewed in 2017. The cost is reflected by the risk that the lender has to take in lending to people with thin and impaired credit records, and in competing with other markets.

**Lord Haskel:** Presumably people have similar costs. Why are the charges different?

**Russell Hamblin-Boone:** The costs reflect the charges. There are no additional charges over and above 0.8% per day interest. Lenders are entitled to charge £15 in total as a penalty fee over the length of the loan, whether it be a loan for three months or for 12 months. They cannot charge more than £15 in penalties, and the loan cannot escalate in interest beyond 100%. If somebody borrows £100, the loan can never exceed £200.

**Hamish Paton:** The interest rates facing our customers vary significantly. There is payday, which operates in the thousands per cent; there is home-

collected credit, which operates in the hundreds per cent; towards the lower end, there are credit unions, which have a cap of 42.6%. Our representative APR is 69.9%.

Your point is well made: how do the costs reflect the charges? On the one hand, you have risk. You are pricing for risk. If we look at our customer base and the choices they have, our customers tend to come from a similar cohort to credit union customers. Some of our customers would not get a loan from a credit union. We take on a broader range of risk. Some of the things that we do with our customers the credit unions would not be able to do.

At the same time, it is important to have in mind the cost infrastructure behind the business. We have a business that is designed around our customers to make sure that there are sufficient safeguards in place such that we can lend appropriately to customers in this space. To give you a sense of the costs, we have 312 stores located up and down the country, often in locations that are convenient for our customers to get to. We have a face-to-face relationship with our customers. We give our customers the opportunity to pay in store every single week in cash. We do not rely on digital platforms for our customers to engage online. You do not need to be an online user to be a BrightHouse customer. In fact, you do not need a bank account if you want to be a BrightHouse customer; 17% of our customers do not have what we would describe as mainstream bank accounts.

We are unusual because we give customers access in a way that many other options do not. We also have a strong sense of support for our customers. That is something we will come back to. What do we do with our customers when they find themselves with problems around paying? Our proposition is designed to give forbearance to those customers in a way that is appropriate, and that comes with a cost. Although our interest rate of 69.9% is higher than that of credit unions, it is not a million miles away, and it reflects the special service that we give our customers.

**Lord Haskel:** Your customers get something extra and pay for it.

**Hamish Paton:** They do.

**Russell Hamblin-Boone:** We are talking about interest rates as an annualised percentage rate. For a short-term loan, for example, it is not a relevant measure. What you would be looking at is the pounds and pence, and it is £24 for every £100 borrowed per 30 days. We can apply annualised percentage rates only to loans that are beyond 12 months. The figure, regardless of the interest rate, is still £24.

**David Rees:** I cannot speak for the two sectors that have just given answers. For our sector, the correct response is that it is not exactly the same cohort as you described. Our internal data suggest that only about 3% of our customers are using credit union loans, which is one of the types of lender that you described.

With home credit specifically, we have a weekly collection system at the home. That modifies risk. It is not just us experiencing that; it used to be experienced by local authorities when they collected their rents. When local authorities moved away from fortnightly rent collection, as it usually was, I remember having a conversation with a rent officer in Birmingham, who said, "Our arrears went through the roof". A home collection service, which costs

money to provide—probably one of the reasons why local authorities moved away from it—modifies the risk. An interesting piece of research was done by Liverpool John Moores University, where credit unions used loan guarantee funds; in other words, it was money that they did not have to account to their members for. They lent it remotely to home credit customers—very good home credit customers—and what actually happened was that those accounts went into serious arrears. There is obviously a linkage with the regular discipline of the weekly call. It is a routine and a discipline; it is not about enforcement; it is about routine and discipline, which customers welcome. The answer to your question is that it is not necessarily the same cohort.

I will quickly go through the things that affect price in credit, some of which are often missed. Loan size, which we covered in our response, is important. If you are making small loans, you cannot charge the same percentage rate that applies to, say, a £6,000 or £7,000 car loan, because the economics do not allow that. Risk is clearly important.

One sector that perhaps ought to have been represented here today is what used to be called the agency mail order sector, which is one of our main competitors serving the lower income groups in the UK—socioeconomic groups C, D and E, which are our customer base. In the past, mail order people have often said to me, “We serve the same customers as you”. It is a very big sector. Our sector is 2.4 million; we think theirs is probably 5 million. What used to happen was that, if you had a catalogue, your family would buy from your catalogue, so there was a hinterland of customers.

If you supply goods on credit, the Monopolies and Mergers Commission, now the Competition and Markets Authority, calls that an implicit credit charge; in other words, the credit cost is built into the price of the goods. In effect, the credit charge becomes invisible, to all intents and purposes. There is nothing unusual about that. It happens across the world, and it has happened throughout history, but it is an important point when you are looking at pricing. Retail or cash is an important point. Whether or not default charges are charged is an important point. We do not make default charges, so we have to build into our pricing the cost of our customers missing payments, which we allow them to do.

Finally, there is the method of delivery. We use a home-collected system, which the customers like because it modifies risk. They pay a charge for that. As we mentioned in our response, there is an important piece of work by Consumer Focus, which talked about the customer’s need for control. Customers are making conscious decisions to buy that control. They know it costs them more, but they would rather have that than a product that appears to be cheaper but is more difficult to control.

Q134 **Lord Harrison:** Gentlemen, what has been the effect of the cap on payday loan interest rates, introduced in 2013, on the use of products offered by different companies in the sector? David, I turn to you first. Your mention of mail order catalogues sends me back 50 years to my mum, who used to have one. The only person who ever seemed to order from it was her. Other members of the family did not necessarily contribute. That brings me to another world that I inhabit, which is microbusiness and small businesses. Starting with you, David, could you answer the question that I have put regarding the effects, but could you say what percentage? You talked about a

different cohort of people. Perhaps some of them are microbusinesses.

**David Rees:** It is possible that some of them are microbusinesses. In the 1990s, we went into South Africa to see if our product could work there. To our complete astonishment, we found that we were lending to microbusinesses. We knew we were doing that. I think we won an award for it. We withdrew from that market for commercial reasons, but we won an award for lending to microbusinesses. For sure, some people will do that, but that is not our proposition, and it certainly does not come out in our internal figures. There is a small business facet to our industry, in that probably 300 or so members of our association are small businesses, and probably about 200 of those are sole traders.

The payday rate cap—the high-cost, short-term credit cap—does not apply to home-collected credit, probably because we do not put default charges on our product. That seems to be the rationale that was applied. It was based on a political directive to put a price cap on payday lending specifically, rather than other product formats. I do not think that we can really comment on that.

**Hamish Paton:** I cannot speak for what has happened in payday, but where there has been any spillover into rent to own, it has been very limited indeed. With the tightening of the availability of credit within payday, do customers then go to different forms? Our product is very different from payday. Payday is used to bridge short-term affordability. People use our product to get ownership of products through a medium-term proposition.

Hearing you talk about catalogues reminds me that it is worth thinking a bit about the heritage of rent-to-own. Back in the day, rental used to be big business across the UK; Granada Rentals and Radio Rentals had more than 2 million customers in their heyday. Interestingly, BrightHouse came into being from Radio Rentals—that is where we originated. The reason why we became rent-to-own was that people renting a TV and making their payments felt they had nothing to show for it at the end. We tailored that proposition and made it rent-to-own. We wanted to give customers ownership, recognising that they liked all the benefits of rental, they liked the flexibility that it gave and they liked the service wrap, but they wanted ownership, too. That is why our rent-to-own proposition is what it is today.

**Russell Hamblin-Boone:** I can say what happened in the market in that sense. I talked about some of the impact on consumers and about the decline in the size of the market. The average loan size now is about £256, and 80% of customers pay back their loans on time. Only 7.5% of people incur additional penalty fees for missed payments and very few loans are rolled over. That says that the payday sector, as previously defined, is almost non-existent, and we are now talking about a short-term lending sector that gives people loans over a slightly longer period. It gives people the flexibility to pay back those loans in a shorter time than the contractual period. It does not require people to make a single payment in 30 days and then charge them for missed payments. As you can see from the figures, the number of people being charged for missed payments has reduced dramatically.

All of that is very positive, because it shows that the credit market has moved. It has identified that the demand still exists, but it has a better way to provide that demand—a way that is not based on profiting from people missing payments, perhaps in the same way as the credit card industry is, for

example. It is much more focused on providing an affordable form of credit. Remember that, in a market for people with thin or impaired credit files, affordable is not necessarily cheap; it is just more affordable.

We asked recently about what has happened to people, and of those who had been turned down because of the new affordability criteria, which meant that lenders had tighter criteria to lend against, around 36% of them said that they borrowed from friends or family instead. Another third said that they went without whatever essential thing they needed, while 12% said they would cut back on some of their expenditure, and 10% said that they would not have bought what they had originally wanted the loan for or would not have paid bills. Associated with that are the costs that they might have incurred for missing payments.

Other consumers reported that they would turn to alternative sources of credit; 9% said that they would consider pawnbroking and 7% said that they would consider the home credit market. There is no close correlation between our customers, other than store-based customers, and the majority of people using short-term instalment loans. Six per cent of people said that they would use an unplanned overdraft, and 8% would have used a credit card if they had been able to access one. There are alternatives available for some people, but the majority of people who use short-term loans are using them rather than those products, because they do not fit their needs, whether it is the convenience, speed or flexibility of the product.

Q135 **Lord Fellowes:** This is primarily for Russell. We have been told that there is wide disparity among credit providers in how clearly customers are told about interest rates, insurances, warranties, fees and penalties. That disparity can add significantly to the overall amount paid. Is that the case? If so, why is it the case?

**Russell Hamblin-Boone:** It is absolutely not the case in our market, partly because the price control means that there is a limit to how much can be charged. The price control also makes things very explicit. Lenders can charge up to 0.8% a day, which equates to £24 per £100 for every 30 days. They cannot charge more than £15 in penalty fees, regardless of the length of the loan. The loan cannot increase by more than 100% of the original size of the loan borrowed.

It is important for customers to know, in pounds and pence, how much they need to pay back. That point is very clear when people are taking out a short-term loan. Because of the simplicity of the product, lenders can state very clearly exactly how much people will pay at the end of their loan term, whether it is three, six, nine or 12 months.

**Lord Fellowes:** You are really saying that this disparity does not exist.

**Russell Hamblin-Boone:** There are more complicated credit products.

**Lord Fellowes:** And some providers would have different or higher standards than others, inevitably.

**Russell Hamblin-Boone:** The regulation exists, and lenders need to meet the price control.

**Hamish Paton:** Ours is not a simple financial product. We do not lend money. We offer access to the use of a product. Therefore, for us, the



structure of charging is perhaps slightly more complicated. It is really important for us to make sure that we are completely transparent with our customers as to what they are being charged. The breakdown of those charges and the total payable is displayed on our tickets, in large, across every single product. It is explained online and in our catalogues.

Before any of our customers takes up an agreement with BrightHouse, we spend between 20 and 25 minutes talking through what we call our agreement guide presenter, which goes through each element of the proposition in turn: what it means, what it means for them and how the process works afterwards. We make sure that we invest the time up front, educating the customer as to what it is, what they are getting themselves into and how much it costs.

Q136 **Lord Holmes of Richmond:** It has been suggested to us that consideration should be given to the establishment of a simple regulatory structure that would limit the amount of income that could be earned from non-lending services by credit firms, pro rata to their direct lending income via interest. What is your view on that?

**Russell Hamblin-Boone:** As I understand it, that would restrict the profits or restrict the size or amount of loans that lenders can offer.

**Lord Holmes of Richmond:** It would tie income from non-lending products pro rata to income from direct lending.

**Russell Hamblin-Boone:** Right. David, do you want to—

**David Rees:** Sorry, my Lord Chairman, just to clarify, this is where you sell an extra product, as well as the credit. Is that right?

**Lord Holmes of Richmond:** I am asking about all additional services that credit firms get involved in that are not interest from direct lending services.

**David Rees:** I can answer that briefly for home credit. A long time ago, we used a form of payment protection insurance, run by the association. It worked very differently from the product that is out there now, but we stopped it many years ago—probably 20 years ago. We do not offer any product. It is purely the loan and the fixed charge on it. It is not an issue for us.

**Lord Holmes of Richmond:** To answer the question, would you see the introduction of such a structure as a good thing?

**David Rees:** My personal view is that, if you intervene in a market, things often happen that you do not expect. That is how I would answer that question.

**Hamish Paton:** It is possibly more relevant to our business. We offer services alongside the straight credit product, but it is important to understand that we offer something in addition to just credit. We offer the opportunity to get access to a product, and to make sure that it is well looked after and insured for the duration of the contract.

One of the interesting things in the market is that there is exposure for customers where the product is not protected. We know from talking to our customers, in store or through a number of the surveys that we do, that customers feel exposed to one-off costs. You might have heard from Fair for

You, for example, about manufacturers' warranties. We try to go beyond that for our customers, because our customers struggle to sustain affordability shocks. What I mean by that is that it is difficult for our customers to pay for a washing machine repair for a machine that is outside its warranty. I was looking at this yesterday. Should the washing machine break down outside its basic manufacturer's warranty, a labour charge will typically be somewhere in the order of £90 to £110. After that, the customer also has to pay for the repair of any parts. We are talking about a significant amount of money for our customers. We seek to offer our customers peace of mind. We know that our customers cannot afford a £200 repair bill, so we try to make sure that the product is protected for the duration of the agreement that our customers have with us. That gives them peace of mind. A lot of the situations that our customers find themselves in are stressful and based on anxiety. The feedback that we have had about our proposition is that they really value the peace of mind that it gives, alongside the basic access to products.

Q137 **Bishop of Birmingham:** I will move on to another area of that. We have mentioned APR—annual percentage rate. Some of the evidence that we have received from the CCA and the CFA says that it is a flawed indicator. Do you have any proposals for the improvement of that kind of indicator?

**Russell Hamblin-Boone:** We need to look at simple interest and pounds and pence. People who have cash-flow problems or who need to smooth the peaks and troughs of their household finances need to know what it looks like in money. That is why it is a very simple product. To answer Lord Holmes's point, there are no additional products associated with the short-term loan. It is a very simple and increasingly flexible product. There is no need for anything that makes it more complex.

**David Rees:** In our response, it was not actually us making the statement about APR; it was the Competition Commission, which said that APR was "a poor measure of the cost of a home credit loan ... We do not consider that the APR is a useful comparator for customers". It was not us saying that; it was the Competition Commission.

**Bishop of Birmingham:** I understand that.

**David Rees:** The real problem with APR, or indeed with any measure, is the question of retail credit. What do you do with retail credit? If you try to modify it, you still have the problem that the credit charge can be included in the cost of the goods. APR has a value in certain circumstances. That is clear. The most important improvement that could be made is to make people aware that it has limitations.

**Russell Hamblin-Boone:** The regulator is the one who set the price cap for our market at 0.8% a day, in full acknowledgement that that is 1,200%-odd in APR. Even the regulator felt that that was irrelevant, because it is about the simple interest.

**Bishop of Birmingham:** How confident are you that people have the ability to navigate those different categories?

**Russell Hamblin-Boone:** It becomes difficult. We are looking at working with the price comparison websites to find ways for people to be able to compare loan products. That is counterintuitive when there is a price cap in place, but there is some evidence of variation within the market. Essentially,

people ignore the APR, because they are interested in the monthly payment they need to make.

**Q138 Lord Shinkwin:** Hamish, you spoke specifically about support for customers and the importance that you attach to that in what you offer them on behalf of BrightHouse. I invite all three of you to focus on the issue of support, particularly for those at risk of financial exclusion. My question is in two parts. As we know, many customers use the subprime credit sector because they have been refused credit by other providers on account of a poor credit rating, for example. The Committee has been told that a poor credit rating can be a cause of financial exclusion, so could you share with us what alternative checks you might carry out to ensure that people are not forced into arrears? Separately, but linked to that, what precautions do you and your members take to prevent customers falling into financial exclusion, especially in your dealings with customers who fall into arrears?

**Hamish Paton:** It is important to bear in mind that there are two sides to that. One is affordability, and the second thing is what we do when customers experience financial difficulties. It is worth explaining that BrightHouse has one of the most stringent affordability checks that exists in the market today. We have already talked a bit about credit scorecards and some of the inherent weaknesses in those when dealing with this group of customers. We use credit scoring, but it is just one part of the information dataset that we use with our customers. We have our own bespoke scoring mechanics, which we use, with 20 years' experience in the market, to try to understand the demographics of the customer and what it is about the customer that means they can afford a loan with us.

The affordability piece is most important. You will hear in certain places that it is easy to get a loan; a few clicks of the mouse and the money is in your bank account in five minutes. People do not sign up to a BrightHouse agreement on a whim. They need to prove to us their income and they need to prove to us their expenditure. They bring those two things into the store, and we sit down with them. We try to assess affordability after taking into account all the things that they spend their money on. We validate and verify their income, either through payslips or through bank statements. We then sit down with them and work through their bank statements, identifying each of the different elements of expenditure.

We want to get to a place where at the end of the month they have money left over, money to spend on BrightHouse, but also what we call a buffer, which enables the customer to get through any unexpected surprises in that month. In our world, that buffer is £100. We want to make sure about income, expenditure and a buffer, and only then can you borrow money from BrightHouse. It is a lengthy process. It takes time; it typically takes anywhere between 90 and 120 minutes to go through that with a customer. It is a thorough, robust check. We do that because we understand that our customers have been excluded from other places, but we try to say yes to our customers, and we can say yes because we invest time in going through their individual circumstances.

Up front, you might say, yes, great, the customer can demonstrate affordability, but what happens if their circumstances change? The one thing that we know about this customer group is that their circumstances are more

susceptible to change, so we think through what happens when that occurs. It is worth thinking about the short-term and medium-term problems that a customer may have. In the short term, it might be that they are out of work because they have had a hospital appointment, they have not been paid that week or they have had an unexpected bill of some sort; the boiler has broken down and they have a short-term shortage in affordability. We work closely with the customer to get them back on track. We give them breathing space. Often we reschedule, say, three weeks of missed payments and put them at the end of the agreement. The customer has breathing space, and we can get them through a short-term challenge around payment difficulties.

It is important for us to distinguish a short-term affordability challenge and a medium to long-term affordability challenge. This is one area where our rent-to-own proposition really comes into its own. One of the things that we do, which I guess many other people do, is to reschedule the loan. For example, if the customer has 20 weeks left on their agreement, at £5 a week, and they owe £100, we might extend that to, say, 40 weeks, cutting their payment from £5 a week to £2.50. It is very much in our interests to try to get them to the end of that agreement. There are no extra costs. Yes, it costs us money, but we are trying to get that customer to the end.

Because our proposition is different from payday or home-lending credit, one thing that we can do is to downgrade that product. You have a TV with us. It is a 47-inch TV. It is great—you have enjoyed the use of it—but it is £12 a week and you can no longer afford that. We work with you potentially to downgrade that product, perhaps to a 32-inch TV—a cheaper model, something that is much more affordable and is suited to your new financial situation.

The final thing that I really want to draw out is the idea of returnability in the BrightHouse proposition. It is really different and unique in this part of the market. People can hand their product from BrightHouse back to us and have no outstanding liabilities or obligations to BrightHouse. If they change their mind after four weeks, six weeks, eight weeks, 20 weeks or whenever, they can hand the TV, sofa or washing machine back to BrightHouse, and that is the end of the story. We will take it back. We will not post any black marks on their credit file. We will not call it default or the end of the relationship with us. It is the ultimate forbearance option, in the sense that the customer can hand it back and they are not trapped into some form of unaffordable debt. Give the product back, return it and that is the end of it.

**The Chairman:** We are starting to get a bit tight for time. If you want to add anything, can you please do it very succinctly?

**Russell Hamblin-Boone:** As I have established, ours is a different customer demographic from the one that the other guys here represent. Our customers are people who have non-standard and irregular salaries, and they need to smooth their finances. The important point about affordability is that the businesses that I represent have been heavily scrutinised by the regulator. Because of the regulations that are in place now, their business models have changed fundamentally. It used to be about having big collections teams to recover as much debt as possible that had been lent to as many people as possible. Now it is about doing rigorous affordability checks, which include using big data, advanced technology and analytics to make a decision not only

about whether the firm can get its money back, but about whether it is affordable for the customer to take credit. That way, firms reduce the amount of collections costs, because fewer and fewer people are defaulting on their loans. As I said, 80% of people do not incur a penalty fee and pay back their loans on time. As 93% of loan applications are declined, only a very small percentage of applications for short-term loans are successful now. If people get into financial difficulty, lenders freeze the payment—freeze interest—and work with the customer to find a longer-term repayment plan.

**David Rees:** We use the old system for lending, which is the three Cs: character, capacity and conditions. Modern credit scoring systems produce a proxy for that, but the important difference in home credit is that we get to understand the customer as an individual, as a human being. We get to understand their household as well—the conditions. We understand the character of the customer, which is very important. That is a core element of our system.

**The Chairman:** We will have to be really brief in both asking and answering questions in order to get through the rest.

Q139 **Baroness Primarolo:** Could you explain why your practice and policy differ between each of you regarding who you are lending to, how much you charge and, importantly, what happens when there are arrears, either when the customer is overindebted or when they get into difficulties? I understand absolutely that you are lending to different cohorts—you made the point clearly—but there is both a commonality in approach and a difference in approach. I want to understand why that is happening.

**Hamish Paton:** I have just talked a bit about our approach to arrears. I cannot speak for—

**Baroness Primarolo:** Do you use bailiffs?

**Hamish Paton:** No, we do not.

**Baroness Primarolo:** Never?

**Hamish Paton:** No, we do not. We have some field agents—collections teams who go out to try to reconnect with customers.

**Baroness Primarolo:** Explain it carefully to me: what is a field agent who carefully tries to reconnect with a customer?

**Hamish Paton:** We have a weekly cycle of payments. If a customer misses a payment, the way our schedule works in the week is that the payment will be missed on Saturday night. We have found through experience that quickly connecting with that customer gives the customer the best chance to get back on track with payments as soon as possible. Rather than leaving it for a long period of time, we try to get in touch with the customer again on the phone in the early part of the following week.

**Baroness Primarolo:** I am sorry to interrupt, but you said that your customers come in and pay in the shop.

**Hamish Paton:** That is right.

**Baroness Primarolo:** You said earlier that that is part of it. You are suggesting that, when they miss a visit, you quickly follow that up regardless.

**Hamish Paton:** They have a number of different payment options. They can come into the store. They can pay on the phone. Regardless—

**Baroness Primarolo:** I am sorry, I am getting more confused. Your earlier evidence was very clear: it was cash, because they did not necessarily have bank accounts, and they came into the shop. You described that as a strength of your business model.

**Hamish Paton:** I apologise if I misled you. It is not just a cash business. We have a number of different options whereby our customers can pay. Yes, they can pay in the store in cash. They can also pay on the phone. They can pay by continuous debit card authority. We try to give our customers as many different ways of making payments with us as possible.

Yes, we have a process whereby, if a customer misses a payment, we try to reconnect with that customer as soon as possible. We try to do that primarily through the phone, but we have a team of people in the business who go and knock on the customer's door to try to reconnect. We are not trying to repossess the product or intimidate the customer. We are trying to make sure that we get the chance to speak to them. As I have already described, we have strong, positive options to get our customers back on track. We have the breathing space and we have the opportunity to reschedule the loans. We have the opportunity to be flexible with the product. The most important thing for us is to talk to customers as quickly as possible before the level of arrears builds up.

**Russell Hamblin-Boone:** The fundamental difference is the rigorous scrutiny that has been applied to our market by the regulator. I am sure the regulator will want to apply that level of scrutiny to the whole credit market, to look at where the drivers are—the drivers for profit and the drivers for incentivising customers to pay, or perhaps even not to repay, and the penalty fees associated with that. In our market, as I have explained, there is a slightly different demographic, but it is a very straightforward product. Lenders now have to treat customers fairly. They are regulated for their conduct, which means that they have to make sure that, with affordability, they are doing something that is in the best interests of the customer, not necessarily in the best interests of the firm.

**Baroness Primarolo:** Are there any points that you want to make about how your policy differs? Given the pressure on time, we would be interested if you wanted to do a subsequent note. Would that be all right?

**The Chairman:** That would be very helpful. This will have to be the last question.

Q140 **Lord Empey:** A number of submissions to the Committee expressed concern that tighter regulation could mean higher-risk customers resorting to illegal lenders. Does that mean that tighter regulation should be avoided? If tighter regulation means that the legal credit market becomes inaccessible to some customers, does your industry have a role to play in helping them to find other, legal alternatives?

**Russell Hamblin-Boone:** Absolutely. There is concern about people being turned down for certain financial products and, therefore, resorting to illegal lenders. It is important to note that it is very easy to characterise an illegal lender as somebody operating in the community, which they do, using

aggressive and violent tactics to recover debt. There is also the risk of an illegal online market, which is much more difficult to regulate and track, especially when the loan sharks are, effectively, operating outside the UK. There is a risk there. It is easier for someone to recognise a loan shark in the physical sense as opposed to the digital sense. We need to be aware of that. From our research, 6% of people said that they would consider using, or had used, an illegal lender, whether it was somebody in the street or somebody online. As responsible businesses, we lobbied the Treasury to continue to fund the illegal money-lending team in England and Wales. We all have a responsibility for the levy, which, thankfully, is now being applied to the whole of the credit market. Certainly, more can be done, as was presented by the previous witnesses, to make the judicial process much stricter and to make loan sharking a specific criminal offence.

**David Rees:** The simple response to the question is that illegal lending exists. It is a natural market response to regulation. Therefore, if regulation is tightened, those who are doing the tightening need to be aware of that risk and to factor for it.

**Hamish Paton:** Building on that point, in a world of tighter regulation, the demand for credit in these forms does not go away. Typically, there is less supply, which perhaps means that some of the people who need credit most can no longer access it in a regulated form, so moving towards an unregulated form is definitely a possibility. It tends to get talked about in terms of family, friends and acquaintances, but it is very much a feature of what will happen should regulation tighten further.

Q141 **The Chairman:** As we sign off, could all three of you, in one sentence, say one thing that you would like to see the Committee focus on? What would it be? Just one sentence each, please.

**David Rees:** The evidence—empirical evidence.

**Hamish Paton:** There is a desire to make sure that the supply of credit to the market is well regulated and responsible, and I totally concur with that. At the same time, demand is not going away. Whatever the Committee can do to think about increasing competition in this space, getting more people providing opportunities for those customers, with better competition and more providers, will lead to better outcomes for customers.

**Russell Hamblin-Boone:** I agree with those two points but, to prevent financial exclusion, we need to look at rewarding people for good borrowing behaviour, regardless of the credit products they are using. Particularly in the past, but also when people talk about it now, there tends to be stigma associated with being a payday customer. Actually, if a payday customer has paid off their loan well and demonstrated good borrowing behaviour, why is the credit reference agency not saying, "That is good", so that they start to transition into mainstream, cheaper products?

**The Chairman:** That is a very helpful point. Thank you very much, all three of you. It has been a very interesting session. Thanks very much for giving us your time and thoughts. We appreciate it.

## **British Bankers' Association – Written evidence (FEX0019)**

**0.1.** Promoting a better banking industry for the benefit of the UK as a whole is the BBA's overarching and long-term ambition. We are working with our members to deliver this by focusing on helping customers and raising standards within our industry.

**0.2.** The issues affecting access to services are many and varied, and will affect many of us over the course of our lives. Issues facing banking services in particular have already been identified by the Financial Inclusion Commission in its 2015 [Report](#), by the FCA in its recent [paper](#) on Access to Financial Services in the UK, and in some of the Committee's oral evidence sessions to date. These range from the difficulties some consumers face in providing the documentation needed to open a bank account, the ability of others to access credit, to the changing way people engage with their bank, the rise of digital banking and new technology, to the need to access specialist information and address vulnerabilities such as long term or mental health issues.

**0.3.** The banking industry has made good progress on a range of the issues which drive financial inclusion and to address the issues affecting access to financial services. We detail this progress in responses to specific questions below. However it is clear that these are often complex, multifaceted problems, and collaboration will be essential in making further progress.

**0.4.** It is our view that the key elements to overcoming barriers towards achieving good consumer outcomes and greater financial inclusion in the UK and are:

- financial education – enhanced financial literacy and capability, often an important prerequisite to tackling exclusion;
- smarter communication - of the rationale behind banking decisions and the range of alternative options that may be available to an individual;
- improved awareness – of alternative routes to entering the financial system and accessing services;
- broader collaboration – a joined up approach between all stakeholders (firms, regulators, Government, consumer organisations) to ensure that all customers have the chance to access the services they require, with as few barriers as possible.

**0.5.** We welcome the opportunity to respond to the Select Committee on Financial Exclusion on this important topic. We elaborate on our views responding to a selection of the Committee's questions below.



**Q1. Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?**

**1.1.** The BBA would align with the European Commission's definition of financial exclusion (roughly adopted by the FIC and the FCA), referring to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong<sup>100</sup>. In this respect we would consider financial inclusion to be the inverse of financial exclusion.

**Q2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

**2.1.** We would direct the Committee to the Financial Inclusion Commission [Report for responses to these questions](#).

**Q3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

**3.1.** We would direct the Committee to the Financial Inclusion Commission [Report for responses to these questions](#).

**Q4. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?**

**4.1.** UK banks recognise that people who may be in vulnerable circumstances (including disabilities and/or mental health problems) often need additional support.

**4.2.** Earlier in 2016 the industry, together with charities and consumer groups, proactively joined forces to publish recommendations from the very first financial services Vulnerability Taskforce in order to improve the experience and outcomes for customers in vulnerable circumstances. The recommendations published in the Taskforce [report](#) in February 2016 highlight effective access to

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<sup>100</sup> 2008, European Commission, *Financial Services Provision and Prevention of Financial Exclusion*.

support, customer focused and inclusive product design, specialist help and appropriate signposting.

**4.3.** The Taskforce recommendations have been endorsed by the larger UK retail banks, most of which are already in the process of embedding into business as usual. Concrete examples of accessible services for individuals with disabilities in particular (including for example visual or other physical impairments) include the new wave of accessible branches and ATMs, innovation in assistive technology and mobile banking apps now using biometric technology such as voice and touch recognition to access or monitor their accounts. The BBA's just published Help at Hand [report](#) expands on these and other examples.

**4.4.** The BBA is also working with the Money and Mental Health Policy Institute to build on the previous good practice that was developed for dealing with credit and mental health issues to see what more can be done to support customers in these circumstances.

## **Financial education and capability**

### **Q5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

**5.1.** UK banks have long recognised the role they can play in supporting financial education, actively supporting financial education and training, committing programmes and resources to deliver this.

**5.1.a.** The BBA and its members actively supported the APPG for Financial Education which led to the subject becoming compulsory in England's secondary schools. Banks also recognise the challenges that schools and teachers still face in finding time and in embedding the subject, so remain supportive of the ongoing work of the APPG two years on.

**5.1.b.** A significant number of major retail banks run financial capability programmes and provide support to schools. The investment from banks can amount to large sums of money which provide quality and impartial learning materials. Adapting programmes to more modern technology and offering support to teachers, parents, and peers are amongst the ways banks try to ensure more engagement and reach through their programmes.

**5.1.c.** Employee volunteering programmes also mean some schools have access to delivery support from a bank employee. Some banks are

already working with Money Advice Service (MAS) on IMPACT evaluation to ensure that the programmes are evaluated beyond their reach and address outcomes and impact.

**Q6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

**6.1** The BBA supports the principles of the Money Advice Service's UK financial capability strategy and its long term goals to address financial capability at all life stages. The BBA made recommendations to the Public Financial Guidance Proposals that Financial Capability should form part of the new money guidance service due to come into existence in 2018.

**6.2.** As well as running community programmes which address financial capability, many UK banks have also progressed to simplify their product offerings, apply Plain English to their communications, and now provide early warning alerts to people who may be at risk of financial difficulties. While there is always more that can be done, these changes all improve the accessibility to banking, help improve skills and knowledge, and encourage motivation for customers to engage with their finances.

**Addressing financial exclusion**

**Q7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

**7.1.** Personal informed choice is and should be the starting point for any engagement with the financial services; yet there is an argument to be made that we all share responsibility for financial inclusion. Where people face barriers to accessing financial services and banking in particular, there is a role for industry to play in highlighting the benefits of banking and in making it easier to access products and services.

**7.2.** The banking industry has made good progress on a range of the issues which drive financial inclusion and we highlight some examples under Question 8.

**Q8. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

**8.1.** The banking industry has made good progress on a range of the issues which drive financial inclusion:

**8.2.** *Basic Bank Accounts*

**8.2.a.** Basic Bank Accounts were first introduced in the UK in the mid 1990's to enable the financially excluded access to mainstream banking. Last year UK's major retail banks worked with HM Treasury towards a voluntary standard to provide a standardised 'free' service across nine basic account providers. The introduction of the new Basic Bank Accounts in January 2016 by nine major retail banks is a genuine inclusion tool aimed at serving those who for a range of reasons may not previously have been able to access banking services. High street banks have operationalised the basic bank account agreement and new basic bank accounts are being delivered in full since the turn of the year, including the obligations to ensure visibility and access. As a result more people than ever before can now access banking services without any fees.

**8.2.b.** Under the EU Payments Directive, all UK banks will now have an obligation to now provide a 'payments' account to all EU consumers. At its lowest level this is a basic bank account and will be available to all including the currently excluded from mainstream banking.

**8.3.** *Switching*

**8.3.a.** The banking industry is very much in favour of competition and actively encourages customers to shop around to get the best deals. Over the past five years, banks have introduced a number of different services to help customers keep on top of their money and compare offers so they can make informed choices and switch if appropriate. To give just a few examples of this commitment, customers can now see itemised charges on bank statements, over 1.3million text alerts from banks are sent to customers each week and the midata tool was launched last year to help consumers compare prices based on data from their actual account use. Customers are also provided with annual summaries and breakdowns of charges taken to help comparisons.

**8.3.b.** The voluntary standard for the new Basic Bank Account also places additional responsibility on banks signed up to it, to 'accept a switch' from a financially excluded person in certain circumstances.

**8.3.c.** Moreover, the support and development of open API's will allow consumers to use their personal data to compare and contrast provider products and at the same time improve transparency on pricing.

**8.4.** *Identity and address verification (ID&AV)*

**8.4.a.** The BBA is working with the industry to bring greater consistency and clarity across the banks to the ID&V documents acceptable for basic bank accounts. This work is aimed at expanding the list of commonly acceptable documents for ID and AV purposes, focusing on consumer segments typically excluded due to a lack of more mainstream documentation. 'Typically excluded' groups are drawn from examples named in discussions with the Financial Inclusion Commission, the BBA's Consumer Panel, and the more recent FCA paper: Access to Financial Services in the UK.

**8.4.b.** As part of the financial inclusion and helping customers agenda, banks will seek to crystallise some of the discussion outputs in guidance/tools for advice case workers in order to help bridge policy/practice gaps. The extent to which any extended list of commonly accepted documents can be published e.g. on websites will be considered against fraud concerns around publicly available material.

**8.4.c.** Industry is also open to exploring with DWP alternative benefits and Universal Credit related documentation that may be used for ID purposes.

## **8.5. *Branch provision and alternative banking options***

**8.5.a.** The way we bank is changing, and as a result a number of banks are reshaping their branch networks. Innovations in everyday technology and personal communications are changing the frequency and channels with which we engage directly with our banks. Further changes expected over the coming years, such as in facial recognition and biometrics, will bring about significant improvements to security, ease of access and deliver a better experience for consumers. Firms are also launching video technology for face-to-face conversations and offer help in branches for those who require additional support in accessing digital services, or who lack the technology, skills or confidence to bank in this way.

**8.5.b.** Digital has an important role in promoting financial inclusion though in turn the challenge of digital exclusion would need to be met. Banks realise that using the latest technology is not for everyone. That is why more than 20 banks have done deals to allow customers to do basic banking through Post Office branches and have invested millions of pounds refurbishing branches to install technology to help customers. 99.9% of adults live within 20 minutes' drive of a bank branch or post office. As a result there are now more places to bank than ever before – from 20,000 places to carry out transactions face-to-face, to 50,000 free to use ATM machines, and new mobile van branches which serve to help customers carry out a range of personal transactions, including cashing cheques, making account deposits and paying bills.

**8.5.c.** Since branch networks were first established, the UK has gone through significant change with businesses, shopping centres and populations developing, declining or moving. It is therefore important for banks to review their network to ensure that they are located in the right locations for their customers. The industry and BBA put in place the Access to Banking Protocol this time last year to ensure that the impact of associated branch closures on local customers are taken into account, and that banks take steps to properly inform and engage with customers to ensure that they continue to be able to access banking services through a range of alternative methods.

- Banks are no different to other high street brands that have to adapt to the drop in footfall in branches (up to 50% in the last five years) as customers choose to do more and more of their business digitally and online. While no one wants to see job losses or branches in demand close, banks must assess local demand. Statistics around branch decline show:
- The percentage of customers carrying out simple transactions in branches in September 2015 was just 28% - down from 55% the year before<sup>101</sup>.
- Mainstream bank branches have suffered 10% annual decline in transactions in recent years.
- For one large high-street bank, 93% of contact from their customers is now completed via the telephone, internet or smartphone, while 97% of cash withdrawals are made via an ATM.
- The average small branch costs £250,000 a year to run.
- Where banks are closing money is being reinvested to meet customer needs, suitable for modern living. As a result it's now easier than ever for customers to do their banking: people can set up standing orders and direct debits to pay their bills; check their balance in seconds on phone apps; speak to their bank 24/7; pay a friend digitally; and so on.

**8.5.d.** The Access to Banking Protocol is currently being independently reviewed to ensure it continues to play an important role in supporting customers affected by a closure. Led by Professor Russel Griggs OBE, the review will consider the way banks have applied the Access to Banking Protocol, as well as the outcomes for affected customers and communities. If appropriate, it may make recommendations to amend procedures to ensure banks continue to meet the protocol's objectives.

## **Accessing affordable credit**

### **Q9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

**9.1.** To help customers understand if they are able to take out credit, a number of quotation tools and eligibility checkers have been developed across the industry. The Industry has agreed with the FCA that it will undertake a piece of cross-sector work over the next year to assess how these recent innovative developments help customers to shop around for the best products and deals, and identify any areas where enhancements might be helpful for customers.

**9.2.** To help customers to access affordable credit, a number of firms now provide credit-builder products specifically to applicants with no or limited credit history, or who have had previous financial difficulties. These products are subject to a robust credit assessment to ensure they are right for the customer and meet the responsible lending requirements. They typically start with a low credit limit and give the customer the opportunity to build up a history of managing their finances which should allow them to get better access to credit

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<sup>101</sup> source: 'Bricks and Clicks' by Social Market Foundation for the Post Office

products and services. Alongside these products firms provide information on how credit scoring works, to help customers to demonstrate their ability to meet their financial commitments and thereby open up opportunities for further products and better pricing. However access to credit is not just a lower socio-demographic issue – the ability of banks and regulators to mediate between the need for customers to access services against the need to maintain financial crime and fraud controls is an ongoing challenge.

**9.3.** The FCA occasional paper 20 highlighted concerns that customers' did not have sufficient knowledge of credit scoring or information as to why they might have been rejected for an application. The industry will be considering ways in which clearer messaging can be provided to customers to help them understand potential options that are available to them if they are declined for a credit application.

**9.4.** Banks are also supportive of customers who might be about to enter financial difficulty or who are in financial difficulty. Banks will try to reach out to customers who, through the operation of the account or credit history, they have identified as being more likely to enter into financial difficulty. This pro-active approach is to get customers to seek help at an early stage. For customers that are in financial difficulty, banks may use a range of measures to help customers. This can be agreeing to defer payments; giving customers time (forbearance) to seek debt advice, or rescheduling the debt into a more affordable payment. Banks also provide direct or indirect support to Credit Unions and through this provide valuable support to local communities. A considerable amount of work is also being done by industry via the FCA under the Credit Card Market review to develop strategies to tackle what is described as 'persistent debt' and those in 'pre-arrears'.

**9.5.** As well as their internal specialist staff providing support to customers in financial difficulty, banks will signpost customers to the free to client debt advice organisations such as StepChange Debt Charity and Money Advice Trust. As well as being in the best interests of the customer to get holistic debt and money advice (checking benefit eligibility and dealing with all of the customers creditors), it is also a regulatory requirement under the FCA rules.

## **Financial technology (Fintech)**

### **Q14. 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?**

**10.1.** While Government has a role, we wanted to highlight that a number of UK banks are also actively involved in supporting Fintech and engaged in areas that can tackle financial exclusion. This includes members being active with Innovate Finance; FCA Project Innovate; and the Open Banking Working Group .

**10.2.** A key task of Government is to ensure that different initiatives stay linked up. There is interest in digital and data-based solutions in a number of departments and regulators. For example, the projects noted above involve the Competition and Markets Authority, the FCA, and HM Treasury. It is important

that the different organisations cooperate to ensure duplication is avoided and that these initiatives build off each other as much as possible in order to provide maximum benefit to consumers.

*12 September 2016*



British Bankers' Association, Fair Finance and Association of British Credit Unions Limited (ABCUL) –  
Oral evidence (QQ 150-158)

**British Bankers' Association, Fair Finance and  
Association of British Credit Unions Limited (ABCUL) –  
Oral evidence (QQ 150-158)**

[Transcript to be found under Association of British Credit Unions Limited  
\(ABCUL\)](#)

## **British Insurance Brokers' Association (BIBA) – Written evidence (FEX0075)**

The British Insurance Brokers' Association (BIBA) is the UK's leading general insurance intermediary organisation representing the interests of insurance brokers, intermediaries and their customers.

BIBA membership includes just under 2,000 regulated firms, who employ more than 100,000 staff. General insurance brokers contribute 1% of GDP to the UK economy, they arrange 54% of all general insurance and 78% of all commercial insurance business. Insurance brokers put the client's interests first, providing advice, access to suitable insurance protection and risk management.

Thank you for the opportunity to contribute to the Committee's understanding of access to insurance; answers to the questions set out in the call for evidence are included below.

### **Q1. Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?**

Insurance pricing is risk-based with those posing the highest risk contributing more in to the risk pool by way of a higher premium, or customers being declined because the risk is too high or not properly understood by an insurer who is not specialist in that particular area of risk or does not possess the relevant knowledge. Whilst there can be risk-factors which may result in these individuals failing to find appropriate cover, it is not necessarily because the risk is uninsurable; often it can be because they are not going to the right insurance provider. The recent popularity of price comparison websites (PCWs) has resulted in a 'computer says no' scenario for many non-standard risks. More often than not, specialist insurance brokers can place these risks. Lack of knowledge of where to go for non-standard insurance means perceived exclusion has the same effect as actual exclusion. Appropriate signposting to providers who can help is one way this can be avoided.

### **Q2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

Examples of exclusion include, but are not limited to:

- a. Criminal convictions
- b. Northern Ireland conflict-related convictions
- c. Pre-existing medical conditions with travel insurance
- d. High flood risk in property insurance
- e. Older people with travel and motor insurance

BIBA has been able to successfully work with Government and other industry stakeholders to provide cover to groups such as these. Specialist brokers can

provide cover to those with criminal convictions and we have worked with the Office of the First Minister in Northern Ireland to provide insurance to those with convictions related to the conflict in NI. We have several members who specialise in offering cover for people affected by terminal illness or cancer – allowing them to travel abroad, sometimes for the last time. Our flood specialist brokers have helped many customers who thought they could not get cover when they were turned away from price comparison websites and we have signed an agreement with the Government Equalities Office and the Association of British Insurers on insurance for older people. The agreement launched jointly with BIBA and Theresa May when she was Home Secretary in April, named '*Transparency and access in motor and travel insurance for older people: An agreement on age and insurance*' is a condition of membership of both the ABI and BIBA. It mandates that if you're not able to offer cover to an older person based on their age, that insurance provider should signpost them to someone that can help. More often or not, that customer is signposted to the Find a Broker service operated by the not-for-profit trade body BIBA. The service has helped over 243,539 older customer access insurance in the last four years.

**Q3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

Credit rating is one of the important risk factors used in motor insurance. This can provide several indicators such as likelihood to pay monthly premium instalments and propensity for fraud. In terms of motor insurance, employment status is also used, as insurers understand those who are employed are more likely to keep the vehicle in a roadworthy state – reducing the risk of accident.

**Q4. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?**

In terms of motor insurance, cover cannot be refused based on a disability if the DVLA are satisfied as to the health of a driver and have issued a driving licence. In terms of travel insurance, 80% of claims are for medical care; therefore health plays an important role in determining risk. As mentioned above, specialist insurance brokers with expertise of complex conditions can often place these risks where price comparison websites fail. An example of this can be found in our [Manifesto](#) where a BIBA broker was able to find travel insurance for 120 WWII veterans to travel to Arnhem to attend a service to commemorate the Liberation of Arnhem in 1945.

A second example is also in the manifesto where a terminally ill man, Jason Liversidge, with both Motor Neurone Disease and Fabry disease could not find the cover needed to travel to Disney World with his family. BIBA's Find a Broker service was able to step in and find the insurance they needed with a competitive premium (see video of Jason and Liz Liversidge explaining in their own words how they struggled, then found the cover they needed <https://www.youtube.com/watch?v=Ok0nxOtVD1c>).

**Q5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

**Q6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

**Q10. How effective has Government policy been in reducing and preventing financial exclusion? Does the Government have a leadership role to play in addressing exclusion?**

We have chosen to answer questions 5 and 6 and 10 together.

There is very little in the way of financial education that takes place in schools and few other bodies who work broadly on helping the public understand how insurance can help them protect themselves and their assets.

Following the Government decision to close the Money Advice Service, identifying gaps in the financial guidance market is a relevant objective for the replacement money guidance body.

BIBA would like to propose themselves as a relevant third party who could assist in this area. As described above, BIBA is a not for profit Trade Association who run a general insurance Find-a-Broker service which helps over 250,000 general insurance customers access insurance every year.

More often than not these queries relate to gaps in the financial guidance markets where customers with unusual or non-standard risks have been unsuccessful in finding suitable insurance solutions in the general market. This is often because they find 'the computer says no' - this concern was raised in the FCA Occasional paper 17, Access to Financial Services in the UK in May 2016 as a barrier that can exist for consumers trying to access financial services in the UK.

Another barrier that was raised in this same paper was that 3.8 million UK households are without any internet but also 12 million people live in rural or remote areas of the UK with poor internet access. This same paper also highlights 3 million people with disabilities who have been turned down for insurance or charged extra. This goes on to say the 'non-standard consumer' can find it impossible to find tailored or appropriate products.

We have formally suggested a new agreement with Government that builds on our existing and successful Find-A-Broker Service that could assist in this area.

**Q7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

Personal responsibility is a key part of an insurance contract as the insured has responsibilities including a fair presentation of the risk under the Consumer

Insurance (Representation and Disclosure) Act 2012, as well as other responsibilities dependant on the type of insurance, regarding due care, vehicle/home maintenance and reporting incidents that may give rise to a claim. If the insured does not fulfil the responsibilities they have an insurer may not pay their claim. Brokers, acting as agent of the client under agency law, often provide guidance on the cover they are purchasing as well the responsibilities both parties have to one another. This understanding is crucial to ensuring that an insurance policy responds when it is needed and pays the claim. Brokers usually get paid by insurer via commission rather than fees, meaning that this service often does not cost more than going direct.

Utmost good faith is a positive duty voluntarily to disclose, accurately and fully, all facts material to the risk being proposed.

BIBA has also recently launched a [Code of Good Practice to help vulnerable customers](#) in conjunction with the ABI. Under the Code participating insurers and brokers will:

- Ensure staff are adequately trained to recognise and understand potentially vulnerable customers at renewal and be able to offer flexible options to help address needs (where necessary).
- Periodically review legacy policies to, where possible, identify vulnerable customers to ensure they are aware of any more suitable alternative products now available.
- Ask potentially vulnerable customers at renewal if their current policy and renewal terms meet their needs, and make clear the importance of reviewing their cover.
- Consider if additional communication, for example a telephone call, is needed to help vulnerable customers through the renewal process.
- Ensure that the customer's options, and how they can exercise them, are always clearly set out.

**Q8. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

Many banks opt to provide insurance cover via packaged bank accounts. There have previously been issues with the way these have been sold to which led to the regulator issuing [new rules](#) to ensure that the product was suitable for the customer. The policies offered are often limited in terms of their cover compared with quality stand-alone products sold by brokers, which can be a surprise to customers when it comes to a claim.

In terms of non-standard risks which banks, the Post Office or other providers can't place, BIBA would suggest a system of 'signposting' to the BIBA Find a

Broker service in a similar way to the '*Transparency and access in motor and travel insurance for older people: An agreement on age and insurance*' agreement mentioned above– ensuring that those distressed risks that can't find cover are directed to someone that can help.

**Q9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

In terms of credit, many brokers offer insurance premium finance, allowing them to spread the cost of their premium over the period of the insurance contract.

**Q11. What has been the impact of recent welfare reforms on financial exclusion?**

**Q12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

We have chosen to answer questions 11 and 12 together.

BIBA has no comment on welfare reforms specifically; however, young people aged under 25 have seen their housing benefit withdrawn. Young drivers also experience some of the highest insurance premiums.

Young drivers make up just 12% of licence holders but are involved in 25% of road deaths and serious accidents, which tend to be more expensive in terms of claims. The increased number and costs of accidents involving young drivers mean their insurance premiums are much higher.

One way to offset this could be to promote telematics insurance policies which offer discounts to the safest drivers based on their driving behaviours. This is monitored either via a smartphone app or 'black box' in the car measuring variables such as speed, acceleration, deceleration, G-force in corners and familiarity of route. Young drivers in particular can make significant savings as well as

Research by the Road Safety Foundation, commissioned by Ageas and in conjunction with BIBA member ingenie, showed that an Insurance Premium Tax (IPT) break on young driver telematics products would lead to safer roads and more insured drivers. It would mean a net benefit to the UK economy of £370 million at a benefit- cost ratio of more than two to one.

Further details can be found on Ageas' website:

[https://www.ageas.co.uk/documents/corporate/press/IPT\\_business\\_case\\_FINAL.pdf](https://www.ageas.co.uk/documents/corporate/press/IPT_business_case_FINAL.pdf)

**Q13. 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? What balance should be struck between regulations and incentives for financial institutions?**

**Q14. 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?**

We have chosen to answer questions 13 and 14 together.

Brokers play a crucial role in helping customers, particularly those with non-standard risks, find the insurance they need. However, research commissioned by BIBA and carried out by London Economics shows that UK insurance brokers face the most expensive regulatory regime in the world; more than double the cost of our nearest competitor, Singapore. As well as the extra cost, the extra work generated by UK regulators stifles innovation in Fintech that can help empower customers.

The sheer weight of regulatory change in recent years from the FCA and the Competitions and Markets Authority (CMA) has meant a significant amount of IT resource has been diverted away from innovation and into compliance.

For example, a leading broker software houses advised they have had to delay developments of Mylicence – a facility to automatically check DVLA's driver licence records, and Flood Re to ensure compliance with the CMA protected no claims bonus (NCB) rules that begin in August this year as they require major systems changes.

They reported to us that new regulation CMA and FCA regulation required them to spend an additional 4,000 hours of work in ensuring compliance. BIBA would argue that something like Flood Re is far more important for customers in flood risk areas; however, because the new CMA protected NCB rules is a legal regulatory requirement we have no choice as an industry but to focus on regulation as the priority. This resulted in few brokers being able to utilise Flood Re when it launched on 4 April – ultimately meaning fewer customers can access affordable flood insurance.

The FCA's forthcoming changes to split out add-ons into more detail and to show last year's renewal will also take up front line resources and mean innovations such as Mylicence get pushed further down the agenda.

The UK is already the most expensive regulatory system in the world. Some of BIBA's largest members pay comfortably over £1 million in regulatory fees and our members pay collectively over £28 million for their direct cost of regulation, but then even more than this again to ensure compliance with this constant flow of new requirements from our regulators.

At the moment we have seen no benefits from the Government's red tape challenge and in fact for 2015-16 saw a 8.4% increase in the direct cost of regulation.

We would recommend to the Committee that now the Enterprise Act has received royal assent, that Government strongly enforce part 2 of the Bill regarding a regulators performance report and the duty to report on the effect on economic growth of regulation 'Red Tape'. Crucial to this helping our industry this is ensuring the FCA is confirmed as one of the designated regulators under the secondary legislation.

BIBA would be very happy to give oral evidence to the committee and we are happy to invite any committee members to come and visit the call centre to see how we can help the financially excluded to access insurance.

Yours Sincerely

Graeme Trudgill, FCII  
Executive Director

*15 September 2016*



## **Buy as You View – Written evidence (FEX0013)**

### **Introduction**

1. Buy as You View (BAYV) is delighted the House of Lords Financial Exclusion Committee has been established and is examining the consumer group we term the “forgotten borrower”. This consumer group who are financially excluded have long been overlooked by policymakers and the mainstream credit companies, and there is a lack of understanding of their circumstances. As a company operating in the Rent-to-Own (RTO) sector, providing essential household items to many low income families who are unable to access standard forms of credit, we believe we have a unique insight into how to tackle financial exclusion. We have daily contact serving many of the 1.5 million financially excluded families across the UK, and we would be delighted to provide oral evidence to the committee as the inquiry progresses. This response outlines the challenges the forgotten borrowers face when it comes to accessing credit.

### **Background**

2. BAYV is a Home Collected Credit business with over forty years’ experience helping mostly low income households to buy high quality home furniture, consumer electronics and other durable household products through affordable weekly payments.
3. We currently serve 65,000 customers and employ more than 500 full time employees operating in 6 major geographical locations: South Wales, Scotland, the North East, Yorkshire, Midlands and the North West. We do not operate a “bricks and mortar” store operation, and 80% of the 2,000+ applications we receive every week come via our website.
4. BAYV operates one of the nationally lowest APRs in the industry with all charges included upfront and no late fees, guaranteeing that customers will not face any extra charges. We allow customers to return their products at any time without financial penalty, and have a strict affordability checking process that sees less than 30% of all applications approved. Our research has showed that it is often more difficult to be approved a mortgage with a high-street retail bank than be approved a payment plan for a BAYV washing machine, demonstrating our commitment to only taking on customers who are capable of meeting their repayments.
5. We do not charge late fees or default interest. Our customers are clearly shown exactly how much they will pay (per week and in total), for how long, and the cash price of the product. We have spent several years working with organisations such as Thrive, Church Action on Poverty and

the Centre for Responsible Credit to develop a customer charter that is clearly displayed on our website.

### **The forgotten borrower: exclusion from standard credit**

6. The RTO and Hire Purchase sectors serve a customer base of approximately 3 million households across the UK, many of whom are at the lower end of the income scale or recipients of welfare support. The sad but factual truth is that much of this population are excluded from access to other sources of finance and are unlikely to have enough available savings to replace basic essential household products, like beds and washing machines.
7. Many of the forgotten borrowers rely on short term loans and RTO agreements to meet shortfalls in their income. Recent research published by the Consumer Finance Association (CFA) shows that 54% of customers who access loans and short term credit agreements feel *"it makes it easier to pay bills...and without this access to credit, they might be tempted to turn to his local loan shark"*.
8. Furthermore, a large proportion of our customers are single working parents on relatively low incomes but with considerable outgoings, and a payment plan with BAYV helps to give clarity and security of the affordable bills that are paid for essential household items on a monthly basis. The CFA also found that customers who set up loans and payment plans online *"like borrowing online because it's a controlled, efficient environment that they understand"*.
9. Many of BAYV's 65,000 customers across the UK are financially excluded from mainstream forms of credit. We believe this consumer group who struggle to afford essential household items and cannot access standard credit are the "forgotten borrowers" of their generation. Among many other associated problems, they are unable to afford to buy or borrow typical household goods many take for granted. It was this unmet demand from which the Rental and Hire Purchase sector was borne out of in the 1950s.
10. At a time when the Government is keen to tackle financial exclusion, there has been little in-depth research to understand this vast consumer base and we urge the committee to examine the type of financial products that can work for low income households, such as the often overlooked RTO market. Given our experience of working with financially excluded families, we are very keen to support the inquiry's objective to *"find a way forward and look at the role banks and others in the financial services industry can play in helping those who are currently excluded..."*

## **BAYV supporting financially excluded families**

11. BAYV understands that working with low income households requires a responsibility to our customers and we operate a distinctly different model to our competitors which leads the industry in transparency, responsibility and affordability. We are the only company in the RTO sector to have fully adopted the customer charter the industry worked on with consumer groups and charities.
12. We understand that many customers do not have the financial education often needed to navigate the complex rules, regulations and payment plans that are often presented in documents which can be very difficult to understand. Therefore, BAYV is the only RTO business to offer warranty and insurance as optional extras and it is our policy to point out to customers that home insurance may be a cheaper option, including a marker on our website. Our prices are fully transparent within our website listing and catalogue - for every product we show: the cash price; number of weeks; the total cost and the weekly payment.

## **Misconceptions of the RTO sector**

1. The public perception of the RTO sector is popularly linked with the largest retailer; BrightHouse, which has regularly come under criticism for its high interest rates, lack of transparency and practice of compulsorily “bundling” warranty and other charges into the total cost of the product.
2. Due to the bad practises of our competitors in the past, the RTO sector has rightly come under close scrutiny from the FCA and Parliament. There are many who believe that the RTO sector should cease to exist, but we believe this would only lead to more families becoming financially excluded.
3. There are many not-for-profit companies operating in the RTO sector, such as Fair for You, Own Your Own and a range of community run credit unions. Whilst we welcome more competition in the sector, providing more choice for consumers, it is unrealistic to expect the not-for-profit sector to provide non-standard credit for the millions of consumers who rely on RTO agreements to fund their essential household items. The not-for-profit companies do not have the national scale nor the access to capital that the RTO companies do and would be unable to keep up with consumer demand. It is therefore vital that the RTO sector continues to function with a mix of not-for-profit and for-profit, but all companies act in the best interests of financially excluded consumers.

*12 September 2016*

## **Carnegie UK Trust – Written evidence (FEX0032)**

The Carnegie United Kingdom (UK) Trust welcomes the opportunity to submit evidence to the Select Committee on Financial Exclusion.

The Carnegie UK Trust was established by Scots-American philanthropist Andrew Carnegie in 1913 and works to improve the lives of people throughout the UK and Ireland, by influencing policy, and by changing lives through innovative practice and partnership work.

We have chosen only to respond to the parts of the questions for which we have relevant experience and evidence.

### Summary

Affordable credit (small, short term loans of £500 or less to be repaid within a year) is accessed by those excluded from mainstream financial services. It is therefore a helpful prism through which to explore financial exclusion. Provision, at scale, of more affordable loans, delivered on a social, not-for-profit basis, with wraparound financial support, would provide an alternative to high cost credit lenders and significantly improve the financial position and wellbeing of these citizens, saving them hundreds of thousands of pounds a year in interest payments.

This submission outlines how to widen access to affordable credit to disadvantaged groups through developing the UK's successful community lending sectors of credit unions and community development financial institutions. Although this sector is currently miniscule in comparison to the commercial high cost credit sector, there is plenty of good practice to build upon – and with appropriate investment, brokerage, partnerships and development support there is real potential for the sector to flourish.

### Background

1. Since 2014 the Carnegie UK Trust has been working on financial inclusion through the lens of affordable credit (small, short term loans of £500 or less to be repaid within a year). Affordable credit is a helpful prism through which to explore financial exclusion. Those individuals who are excluded from mainstream forms of credit in the UK, such as bank loans, credit cards or overdrafts, are required to use high cost alternatives such as payday loans or doorstep lenders to meet their credit needs. They pay a significant premium for doing so, meaning that credit is most expensive for those who can least afford it.
2. If this situation were to be addressed through the provision, at scale, of more affordable loans, delivered on a social, not-for-profit basis, to those excluded from mainstream financial services, this would significantly improve the financial position and wellbeing of these citizens, saving hundreds of thousands of pounds a year in interest payments.

3. While highly important in itself, the provision of more affordable credit also provides an opportunity through which potentially financially excluded citizens might be engaged with a range of other financial inclusion services and support mechanisms. When people seek to borrow money from a non-mainstream lender it is rare that limited access to credit is their only financial inclusion need. Those supplying more affordable credit therefore have an opportunity to offer a route through which people might be engaged in services such as debt advice, opening of basic bank accounts, savings schemes and welfare benefits advice. In this way, credit can be a vital gateway to wider financial inclusion.
4. The Trust has published two reports on affordable credit: [Meeting the need for affordable credit: discussion paper](#) and [Gateway to affordable credit: report of the affordable credit working group](#). In June 2016 we established an Affordable Credit Action Group to oversee work on the recommendations set out in the [Gateway to Affordable Credit report](#) in Scotland. The Group is chaired by the Very Reverend John Chalmers, Principal Clerk to the General Assembly of the Church of Scotland and former Moderator of the Church of Scotland. The group's members comprise of senior representatives from the private, public and voluntary sector, including representatives from Royal Bank of Scotland, Virgin Money, Scottish Government, Poverty Alliance, Young Scot, North Ayrshire Council and Glasgow Housing Association.
5. While we are highly supportive of mechanisms to grow the not-for-profit affordable credit market in the UK, the Trust recognises that small, short term loans are not suitable for everyone and is clear in its view that affordable credit is not a substitute for fair wages or a decent welfare system.
6. In this submission we use affordable credit as a prism through which to explore and address financial exclusion.

#### Accessing affordable credit

- **What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans?**
7. As the Committee will be aware, in April 2014 the Financial Conduct Authority (FCA) introduced new measures to restrict the high cost credit market. These measures included stricter regulatory rules on repayment and collection methods, increased scrutiny on affordability and creditworthiness, and substantially more resources to monitor and enforce these rules. In January 2015 the FCA introduced a cap on the total cost of credit on the loans issued by payday lenders to reduce the cost of short-term credit for consumers.
  8. There is emerging evidence that these new regulations have begun to significantly reduce the number of high cost credit loans issued by regulated high cost credit providers For example:

- a. The Consumer Finance Association (CFA) reports that 54% fewer payday loans were issued in the first quarter of 2014, compared to the same period in 2013.<sup>102</sup> Overall, the Consumer Finance Association has estimated that the market has contracted by almost 70% as a result of new regulations.
  - b. Provident Financial Group, although unaffected by the cap, announced that their lending volumes in 2013 had reduced from 1.8 million customers to 1.5 million.<sup>103</sup> In February 2015 they announced that they had reduced their home credit numbers by almost 500,000 to just over 1,000,000. This represents a 44% reduction in two years.<sup>104</sup>
9. These statistics suggest that high cost credit providers are increasingly focusing their businesses on 'near-prime' borrowers and withdrawing supply from those with the poorest or thinnest credit files.
10. These changes in the market should be viewed positively, tackling some of the costs and potential detriment experienced by some of the most vulnerable consumers in this market.
11. However, there has been very limited evidence published to date on where those who previously borrowed from high cost lenders but are now unable to do so, are going to access credit should they need it. It may be that fewer people are borrowing money. An alternative scenario is that many people are finding alternative sources of lending including unregulated or illegal lenders, or borrowing money from family members and friends who may be able to ill-afford such loans and where the social and emotional impact of failure to repay is often severe. Robust research is required to identify exactly what is happening to people in this credit gap. We believe it is likely that more support for not-for-profit, affordable credit suppliers such as Community Development Finance Institutions (CDFIs) and credit unions will be required to help fill this gap.

### Addressing Financial Exclusion

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

12. In terms of the provision of affordable credit, there are two community finance sectors that provide appropriate support to disadvantaged communities: credit unions and community development finance institutions (CDFIs). However, these social lenders are, at present, extraordinarily small in comparison to the commercial high cost credit market, as evidenced in our recent [Gateway to Affordable Credit](#) report and set out below:

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<sup>102</sup> Russell Hamblin-Boone, CEO, CFA, remarks to North Ayrshire Council payday lending evidence hearings, July 2014

<sup>103</sup> <http://www.ii.co.uk/research/LSE:PFG?news/item/1003172/final-results>

<sup>104</sup> <http://ii.co.uk/research/LSE:PFG/news/item/1393316/final-results?context=LSE:PFG>

- a. In 2013 payday loan and home credit companies served nearly five million customers across the UK, providing £5 billion-worth of loans via a range of different products. Despite the significant contractions that have occurred in 2014 and 2015 in the supply of commercial high-cost lending, these remain substantial markets.
  - a. In contrast, credit unions in the UK – by far the larger of the two community finance sectors serving disadvantaged communities – lend £700 million annually across 360 institutions, with reported savings deposits of over £1 billion. Personal lending CDFIs in the UK currently only lend in the region of £20 million annually in small-sum credit to financially-excluded individuals.
13. We believe that the provision of more affordable credit to the most disadvantaged should be significantly extended and there are opportunities for doing so by growing the UK's credit union and CDFI sectors. There is some evidence that demand for credit is likely to increase in the coming years: The Office of Budget Responsibility predicts that by 2020 the level of household debt will be at a similar ratio to incomes as to before the financial crisis<sup>105</sup>; fundamental shifts in the labour market mean that over a third of temporary workers in the UK cannot find a permanent job<sup>106</sup>, with lower levels of job security potentially impacting on people's ability to secure and repay loans; and further reductions to welfare benefits will place even greater pressure on the household budgets of those on the lowest incomes. In order to meet both current levels of demand for credit and to serve any future increase in demand the community finance sectors across the UK will need to expand, and are likely to require significant support to do so.
14. Achieving this expansion is not straightforward. Public policy has long grappled with how best to develop at scale, affordable credit services to those on low incomes and with limited or poor credit histories. There are many good examples of successful, not-for-profit affordable credit schemes being delivered locally. The challenge is making these services available much more widely.
15. We need to understand the range and depth of challenges involved in this process, if these issues are to be overcome. Our 2016 report, Gateway to Affordable Credit, summarises these challenges as follows:
- a. The profile of customers who borrow from short-term high-cost lenders and community lenders is more diverse and segmented than many people realise. This necessitates solutions that provide a range of products and delivery channels to meet different needs and preferences.
  - b. Delivering short-term high-cost credit is inherently expensive. Instant, small, short-term loans – typically less than £500 to be repaid within a year – to customers with few financial resources and

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<sup>105</sup> Office for Budget Responsibility, Economic and fiscal outlook, November 2015

<sup>106</sup> ONS Labour market statistics, January 2016

limited credit records will necessarily incur an APR that is higher than mainstream lenders. However, due to reputational risks there is often a reticence among policy makers to support lending services where loans appear to have a high APR, even when delivered on not-for-profit basis.

- c. The priorities that citizens excluded from mainstream financial services attach to a loan offer are not necessarily the same as other borrowers. Issues such as trust in the lender; flexibility in repayments; speed of access to the loan; simplicity of the application process; customer service; and integrated support are often just as important, if not more so, than the price of the loan.
- d. The factors which determine the cost of providing a loan are varied and interdependent. They include issues such as the loan term; loan value; staff conversion ratios; delivery channels; overheads; level of risk; arrears; the cost of investment capital; and the cost of attracting new customers. Community lenders must balance all of these issues when seeking to deliver a sustainable affordable credit service.
- e. Community lenders must grow exponentially to deliver affordable credit across the UK. These lenders currently face significant and different barriers which hinder efforts to operate at scale.
- f. Credit unions are the largest community finance sector lending money to disadvantaged groups in the UK. The Credit Union Expansion Project is currently supporting a number of credit unions across the UK to reduce the costs of lending through technological and delivery improvements. This should enable credit unions to lend to more financially excluded customers, by making such loans more financially viable and by attracting more affluent borrowers to cross-subsidise loans to more disadvantaged groups.
- g. Credit unions have a number of other strengths they can contribute to the growth of affordable lending. The sector has a strong volunteer tradition, which reduces its cost base; has good access to loan capital with hundreds of millions of pounds held in savings; provides the cheapest non-mainstream loans available within their 42.6% APR cap; and is improving its responsiveness to customers through the development of new technologies, including an automated lending decision tool and online and mobile lending tools.
- h. However, the sector also has challenges in its capacity to scale up affordable credit delivery. It is a diverse sector, with every credit union independent and different – and not all have a desire to extend their reach to more disadvantaged groups. The model being tested through the Expansion Project of attracting more affluent borrowers to enable cross-subsidy to disadvantaged groups is not yet proven. Lending capacity within credit unions is not always fully



exploited – for example Scottish credit unions alone currently hold £100 million in savings that could be out on loan. The money that credit unions lend belongs to their members – and credit unions therefore continually need to ensure that the balance of their loan book generates a sufficient return for savers, a position which is difficult to reconcile with substantial lending to disadvantaged groups.

- i. The personal lending CDFI sector in the UK is far smaller than the credit union sector. CDFIs are generally more expensive than credit unions but they have a strong social ethos and target loans at disadvantaged groups at much lower rates than commercial high cost lenders. They are not restricted by a loan cap and often include wider financial inclusion advice and support alongside their loan product offering.
- j. The main challenge for the CDFI sector if it wishes to grow is attracting sufficient external investment to develop its infrastructure and recruit and train skilled personnel. Unlike credit unions, CDFIs do not hold savings and therefore rely on external investment to provide their loan capital. The cost of this capital must be priced into their loans. Public sector grants can provide such capital in the early stages of CDFI development but to become financially sustainable CDFIs must be able to demonstrate their viability, without subsidy, to commercial investors. Proving this viability, and attracting investment, can be difficult but it has been achieved by CDFIs in the UK. The journey to financial sustainability is likely to be a long one for most CDFIs and requires supportive partners in the public sector and amongst social and commercial investors.
- k. Effective partnership is essential in assisting the growth of affordable credit and ensuring its provision is a gateway to wider financial inclusion. This partnership may come from financial service providers, public services or the charitable sector. Many, excellent examples of joint working between different organisations exist at local level. For example, CDFIs providing identification processes to allow customers to open basic bank accounts; local authorities, housing associations and charities providing premises through which affordable credit providers can offer loans; or banks referring customers to local credit unions. The challenge is to replicate such examples more widely – and many potential partners are under financial pressure and may lack capacity to assist.

*Strengthening support: Overcoming the reputational challenge*

16. The fact that non-mainstream lending, even on a not-for-profit basis, is more expensive than mainstream lending is reflected in the interest rates charged on loans, usually presented as Annual Percentage Rate (APR). These interest rates appear incredibly high compared to APRs charged by banks for mainstream loans. This has led to a public perception that

charging high APR for loans is inherently exploitative and unaffordable, and APR remains a key source of public concern.

17. However, there are significant limitations in the use of Annual Percentage Rates as an indicator in understanding the affordability of the types of small, short-term loans sought by many disadvantaged customers. This is because an APR is an annualised measure, beneficial when comparing mortgages or longer term loans, but not particularly useful when comparing short-term loans.
  18. There are practical reasons why providing small, short-term loans to the customer bases described are expensive for not-for-profit non-mainstream lenders. These lenders: tend to serve a high risk customer base (those who are more likely to miss payments or not pay back their loan at all) resulting in a higher risk of 'bad debt'; generally lend cash rather than transfer money electronically which increases the administration costs of providing the loan; and the cost of lending, in respect to administration, set up and operating costs are largely fixed and do not vary proportionately to the size or term of the loan.<sup>107</sup> Mainstream lenders such as banks are able to reduce the cost of credit by only loaning large sums over longer periods. The cost of administering this type of loan is proportionately much smaller than it is for short term, small sum loans.
  19. The practical challenges in bringing down the cost of a small, short-term loan coupled with the negative public misperception of a high APR can mean that policy makers who otherwise may be interested in supporting responsible delivery of affordable credit may be reluctant to do so. Policymakers need to develop a suitable risk appetite to overcome the reputational challenges around relatively-high APRs; recognise that this is not the key issue for the customer group; and support not-for-profit interventions that help to develop products that people want, focusing on responsible lending and affordability, whilst making a significant positive difference for some of the UK's most disadvantaged communities.
- **What role should banks play in increasing access for those most at risk of exclusion?**

20. Banks can play a key role in supporting social lenders that are providing affordable credit to citizens at risk of financial exclusion. Our Gateway to Affordable Credit report identified four ways in which banks can fulfil this role:
  - a. Provision of basic bank accounts: There are examples of good practice partnerships between community lenders and banks which permit community lenders to undertake an identification verification process for their customers, enabling them to open a basic bank account. This is an excellent example of access to affordable credit providing a gateway to wider financial inclusion. We would like to see all providers of fee-free basic bank accounts develop similar arrangements with a local credit union or CDFI.

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<sup>107</sup> Joseph Rowntree Foundation (2006) Affordable Credit for Low Income Households

- b. Referrals: In some areas, mainstream financial services refer declined loan applicants to local credit unions or CDFI, to identify if they may be able to provide a loan or offer another type of service. Again, we would like to see all mainstream financial services across the UK should have a similar referral arrangement with local credit unions or CDFIs, providing such a referral does not place an unreasonable expectation on these organisations to approve credit.
- c. Releasing data: Our knowledge of borrowing levels within individual communities remains limited, with most published data at a more macro level. The release of data from all lenders on a postcode or ward basis across the UK would provide an in-depth picture of borrowing in communities, which would be hugely valuable in supporting credit unions and CDFIs to understand their market better and target resources accordingly.
- d. Investment: Banks should commit to dedicating time and energy to analysing CDFI business models and determining how they can best support these lenders to grow – through a mixture of commercial investments and corporate social responsibility resources.

- **What role should Government, the charitable sector and business play in tackling financial exclusion?**

- 21. Many of the solutions to providing more affordable credit are likely to be local – even if supported by strategic leadership and resource at national level. Different solutions will be required in different local areas. Local authorities have a vital leadership role to play here, setting the direction of travel for their area and building on local financial inclusion strategies and interventions.
- 22. Affordable credit specifically and financial inclusion more generally are vital aspects of a wider social justice agenda. To that end, any organisation that is interested in improving outcomes for disadvantaged individuals and communities potentially has a role to play in supporting the development and delivery of not-for-profit affordable credit services. This might include housing associations; advice agencies; churches and faith groups; libraries; health professionals; social workers; charities and social enterprises; community workers; and businesses with a corporate social responsibility agenda.
- 23. Each of these organisations might be able to help develop the growth of affordable credit services in their local area by: referring clients to a community lending provider; offering community lenders access to their premises at a reduced rate to deliver services on an outreach basis; or offering skills and expertise on a pro-bono basis.
- 24. It should be recognised that the development of such partnerships is often far from straightforward. Many of the potential partners listed above are under increasing financial and time pressure and their resources and ability to support affordable credit or financial inclusion initiatives may be limited.

### Government policy and legislation

- **Does the Government have a leadership role to play in addressing exclusion?**

25. The UK Government has a critical leadership role to play in supporting the expansion of affordable credit across the UK. In its leadership role, Government can give a clear indication that affordable credit is an important, priority area of policy; 'give permission' to others to take on some of the reputational risks around APRs; and encourage, enable and support activity at local level. To help support this we believe it would be helpful for a government Minister to have a designated responsibility for financial inclusion, which would include affordable credit, as part of their portfolio.

### Financial Technology

26. The provision of good quality financial products, designed to meet their specific borrowing needs, could incentivise and support people to get online. The Trust would emphasise, however, that there is a correlation between financial and digital exclusion.<sup>108</sup> Particularly high levels of digital exclusion are experienced by older citizens, those who are unemployed and social housing tenants<sup>109</sup>. When exploring digital solutions it is therefore important to consider that those who most need to access credit may not be able to do so digitally.

*14 September 2016*

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<sup>108</sup> Poverty Alliance (2013) Welfare reform and financial exclusion in Scotland

<sup>109</sup> Carnegie UK Trust (2013) Across the Divide – Tackling Digital Exclusion in Glasgow

## **Centre for Housing Policy – Written evidence (FEX0045)**

### **9. What has been the impact of recent welfare reforms on financial exclusion?**

1. In September 2016, the Centre for Housing Policy completed large scale longitudinal research that mapped the housing, work and financial circumstances of social housing tenants living in London. Interviews took place with tenants once a year between 2013 and 2016. Tenants were all below pension credit age, and none were living in supported housing. The quantitative element of the research included 1,648 tenants interviewed by telephone at Round 1, and the qualitative work included face-to-face interviews with tenants in their own home. There were 54 interviews at Round 1.
2. The research has been able to draw broad conclusions on tenants' responses to a range of welfare reform changes, in the light of detailed knowledge of how respondents managed their day-to-day finances. Welfare reforms – including the introduction of the social rented sector size criteria ('bedroom tax'), a tighter sanctions regime connected with applications for jobseekers' allowance, and the freezing of certain benefits which constitutes a reduction in real terms – have had a damaging effect over the long term for a significant minority of social housing tenants, including many who are in work. The research found instances of tenants left with less than £30 a week to pay for food, groceries, travel and clothing. This situation may be sustainable over a matter of months, but over years the welfare reforms have left many households reliant on the sale of personal items to pay for essentials such as food or heating.
3. Welfare reforms have introduced entrenched indebtedness for some households, and led to circumstances where expenditure on mandatory items (for example, rent, utilities, council tax) often very nearly exceeded income. Living on very small sums of money generally amounted to financial exclusion, since tenants were simply unable to manage their finances within the formal banking system. People living on a limited income 'micro-manage' their finances on a weekly basis. This micro-management tends to take place outside the banking system and instead relies on the use of pre-payment cards for example for utilities. The use of services such as direct debit was not regarded as workable when income was extremely low, because routine payments in excess of what was directly required for day-to-day living were not feasible. Tenants were tending to juggle their finances by paying minor amounts across a range of bills.

Centre for Housing Policy – Written evidence (FEX0045)

Further details of the study are available at:

<http://reallondonlives.co.uk/research/>

*14 October 2016*

## **Centre for Responsible Credit and Financial Services Consumer Panel – Oral evidence (QQ 122-131)**

Evidence Session No. 12

Heard in Public

Questions 122 – 131

Tuesday 1 November 2016

[Watch the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); The Bishop of Birmingham; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Damon Gibbons, Director, Centre for Responsible Credit; Sue Lewis, Chair, Financial Services Consumer Panel.

**The Chairman:** Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website. You will of course have the opportunity to make any necessary corrections to the transcript. Would you like to introduce yourselves, please—who you are and the organisation that you represent?

**Damon Gibbons:** I am Damon Gibbons. I am the director of the Centre for Responsible Credit, which is an independent, not-for-profit think tank and research unit in the Learning and Work Institute. We are hosted by that charity.

**Sue Lewis:** I am Sue Lewis. I represent the Financial Services Consumer Panel. I am also a trustee of StepChange, which may be relevant to these discussions.

Q122 **The Chairman:** Thank you. We have quite a lot to get through, so I will kick off with the first question. How do you think the pattern of consumer credit and problem debt has changed since 2008, and what are the consequences of those changes?

**Damon Gibbons:** We considered that recently in a report that we put out for the TUC—*Britain in the Red*—which looked at the pattern by volume of lending that is taking place. After 2008, there was an immediate dip. Households cut back on consumption, which was, of course, part of the reason for the recession around that time. They also paid down debts, so there was a fall in the outstanding amount of consumer credit. Since 2010 in particular there has again been a significant increase in consumer credit indebtedness. On the aggregate figures from the ONS, we are probably only about 5% away from the peak in 2008. In total, over the last eight years, the aggregate level of consumer indebtedness has fallen by only about 5%, which is very limited.

There has been a shift towards credit card lending. In 2008, around 33%—a third of the market—was credit card debt; it is now around 41% or 42%. That has been a significant shift. On some of the specific lending products, we have seen the expansion of subprime credit cards, particularly very high-cost products such as those offered by Vanquis Bank, which is part of the Provident Financial Group. There have also been changes as a result of regulatory action by the FCA, particularly the cap on payday lenders, which morphed that product into a sort of instalment loan. That has some benefits and some disadvantages for households using such products.

There has been renewed growth over the last year or so in home credit—the door-to-door loans that are offered by the likes of Provident Financial and others. There is greater concern about alternative credit products such as guarantor loans and logbook loans, which have come under great scrutiny. We



have had long-standing growth in the rent-to-own market—BrightHouse and so forth.

As far as I can see, the overall driver for that is that as the stock of consumer credit has not reduced significantly, interest payments on consumer credit debt are still at a very high rate. Interest rates on consumer credit debt have not fallen, despite base rate cuts. The squeeze on incomes, particularly with the lack of real-wage growth since 2010, has meant that consumer credit debt repayments are a greater burden on households than they were before. That is probably some of the explanation behind why debt advice charities are reporting increased arrears on household bills, for example. It is not necessarily because, as some in the high-cost credit sector might argue, credit options have been constrained, and people are therefore not able to manage their cash flow and are getting into arrears with household bills. Quite conversely, credit growth is strong, but interest payments relative to the surplus of people's disposable income are much lower. That is causing that effect.

**Sue Lewis:** There is not much I can add to that comprehensive description, except that since the FCA took over regulation of the consumer credit market we have seen a lot of gaming of the system. For example, since it imposed the payday lending rules, we have seen products that are more in the nature of rolling credit. As Damon said, there has been a rise of alternative products such as guarantor loans.

**The Chairman:** I have one quick follow-up question; you touched on it, Damon, in that comprehensive overview. We have had quite a lot of evidence that the make-up of problem debt has changed in nature quite a bit over the past 10 years. Whereas 10 years ago it would primarily have been debt from credit cards, catalogues and that sort of thing, that has now been overtaken by areas such as council tax, rent and utilities arrears. Do you share that view?

**Damon Gibbons:** I certainly do not dispute the fact that debt advice agencies, at least not-for-profit debt advice agencies, report more people coming to them with those kinds of debts. That is indisputable. However, that is not the entire picture of the indebted population. There are probably some shortcomings in relation to the data that we have about the types of debt problems that people have.

There has been a burgeoning in for-cost—for-profit—debt advice by companies. We do not have good insight into the types of problems that they are reporting. I suspect that for-profit debt management plan providers are more interested in trying to get hold of debtors who have consumer credit debts rather than household bill debts; they make money from debt management plans on consumer credit debts rather than household bills. We do not have a comprehensive picture.

From the aggregate data, the Office for National Statistics produces other accounts payable in the national accounts, which is non-consumer credit debt, and could comprise council tax, income tax, debts to small businesses and various other things. That is bundled together in the aggregate data in the national accounts. Until the ONS releases a breakdown of other accounts payable in that dataset, we will not know for sure, but the amount owing in

other accounts payable has been falling, not increasing, in recent years. It is for the ONS to come back and provide further detail on that.

**Sue Lewis:** That is certainly something we observe, if I can pop my StepChange hat on for a minute. The other thing I should have mentioned is that we are seeing a big increase in friends and family borrowing, with an average of something like £4,000 outstanding to friends and family, which can put strain on those relationships.

Q123 **Lord Haskel:** There are a variety of ways to resolve problem debt: individual voluntary arrangements, debt relief orders, bankruptcy and others. Do they add to financial exclusion, or do they help to avoid financial exclusion? Which is it?

**Damon Gibbons:** It is a bit of both. In the UK, the landscape of insolvency, and indeed debt management, for want of a better, broader, term—in which I include debt advice and debt management plans—is extraordinarily confusing and fragmented. Each solution—IVA, a debt relief order, bankruptcy or a debt management plan—has pros and cons. It is extremely confusing for debtors to know which is the most appropriate procedure for them. The biggest problem is that it is not fit for purpose as a landscape.

As I have already recounted, the pressures on households of indebtedness and the payments they are making on consumer credit have increased significantly since 2010, but the number of people going through insolvency procedures has fallen. There was a slight uptick in the last quarter's figures, but generally there has been a significant reduction in the number of people going through insolvency, which means that they are not getting access to a write-off. Where there have been increases, they have been in the number of people going into debt management plans, where there is no write-off of debt and they are very lengthy. One purpose of an insolvency regime is to release people from their debts, given certain conditions, and to make them productive members of society again as quickly as possible. We do not seem to have a landscape of provision that actually does that.

There are certain specific things that we could learn from other countries; for example, chapter 11 in the US, which protects debtors' homes. We have a problem for people in mortgage difficulties with consumer debts, who will not take bankruptcy or who will end up paying huge amounts of fees in an IVA if they go down that route, and for whom a debt management plan with no write-off is effectively their only option. There are some other idiosyncrasies. Debt relief orders have an upper limit on the amount of debt that you can have in order to qualify. That seems strange, in that those who are most indebted with no assets will not get assistance through that procedure. You have to be below that to get assistance.

The fundamental point is that a lot of debt has been written off by originating lenders in the system and sold. It has been bought up by third-party debt collection companies, which are now backed by private equity. They have expanded dramatically. They bought up those debts at 5p or 6p in the pound, yet the debt is being collected at full rate. A lot of that debt is on debt management plans and is still being paid for at 100% of the nominal face value. A lot of debt could be written off, but it is not. In economic terms, that is quite significant: interest payments on consumer credit debt of around £26 billion a year, which is a significant amount—over 1% of GDP—are going on

debt repayments, a great proportion of which, I imagine, has already been written off on bank balance sheets.

On the financial exclusion point, these are lengthy procedures if you are in a debt management plan for eight years. How does it help you to become included again if your IVA is for six years? Those are the sorts of issues. It should be a question of obtaining quick release for people who have no prospect of repayment, but it is not.

**Lord Haskel:** The speed of resolving the problem is important.

**Damon Gibbons:** I think so, yes.

**Sue Lewis:** The whole landscape is really confusing for consumers. Often they reach some sort of solution through a lead generator—someone spams them and says, “We can solve your problems”, and they may not end up with the best solution for them. They may go to one of the reputable agencies, but they may not. I would like to see something that reduces that confusion and perhaps regulates the lead generators. People are very vulnerable at such times.

On the point about the lengthy process, the one thing about debt management plans and the like is that they can help people to rebuild a credit record—even though that takes quite a long time—because they can show their ability to repay debt. I fully accept, however, that the timescales are very long.

Q124 **Lord Empey:** In an era of devolution, the regions now have legislative responsibility for this area, in many cases. Could any lessons be learned about different practices in different parts of the country?

**Damon Gibbons:** The debt arrangement scheme in Scotland is the obvious place to look. It is an improvement, although it does not have write-off within it either. I would like to see something in the UK that is systematic, such as the debt arrangement scheme in Scotland.

**Lord Empey:** Could I interrupt you? Are you aware of the breathing space Bill in the other place, from Kelly Tolhurst? It sounds a bit like chapter 11 to me. Is there any traction in that, do you think?

**Damon Gibbons:** There certainly would be if we were to have in the UK the breathing space proposals that StepChange put forward. I fully support those. It will be interesting to see what is happening with regard to that in the devolved Administrations, in Scotland in particular. They have not necessarily made full use of the powers they have; for example, I would have thought that some element of write-off in the debt arrangement scheme would be a major step forward. Devolution provides a testing ground, hopefully, for variations on a theme.

**Sue Lewis:** The breathing space proposal is the best example, I agree.

Q125 **Lord Harrison:** Sue, you are a member of the Financial Services Consumer Panel, which has called for a “duty of care” to be placed on financial service companies. Could you tease out for us what form that would take? More especially, how would it affect the financially excluded?

**Sue Lewis:** It has certainly been one of our themes for a while. We are proposing a duty of care in primary legislation that the FCA would then interpret in its rules, depending on the complexity of the market that was under consideration. In practice, it would mean that firms would be required to avoid conflicts of interest and put the interests of their customers first. That is not a fiduciary duty, because obviously they also have duties to shareholders, but it would mean that their business models would need to act in the best interests of consumers. PPI is an obvious mis-selling problem that would not have happened if banks had had a duty of care, because they would have had to check that the elements of PPI were suitable for the customer they were selling to. They would put the interests of that customer first.

**Lord Harrison:** Why is that not a fiduciary duty? Properly interpreted, a fiduciary duty is to improve opportunities for the firm, by having concerns environmentally and for the workplace, and for the consumer. I see that duty of care as a fiduciary duty.

**Sue Lewis:** We have not described it in that way. In one sense, it does not really matter. What matters is what it could achieve in legislation just in clarity, both for consumers and for firms in knowing where they stand. At the moment, they have the FCA's slightly vague principles of treating customers fairly, but those principles are not rules, and it is therefore very hard for the FCA to enforce against them, and for the ombudsman service to take them into account when it determines compensation. It is about clarity across the board. If someone is not actually a customer, how does the duty help them? It would not directly, but it would enable or force banks and others to look more broadly at what they offer. One of the exclusion problems is that there are no products that respond to the needs of those on lower incomes.

**Lord Harrison:** Damon, could you tackle that aspect? How, in the end, does it help those who are financially excluded, if indeed you agree with the idea of a duty of care?

**Damon Gibbons:** I will not go into detail about the specific proposal. Some years ago, when the Financial Services Bill was going through Parliament, we responded to it by arguing that there ought to be broad social and economic objectives for banks in particular, and some obligations ought to be placed on them in return for what is an implicit taxpayer guarantee, a bailout and so forth. We would like that expressed in a way that is similar to the Community Reinvestment Act obligations on banks in the United States, where there is an affirmative obligation for banks to demonstrate how they meet the needs of underserved communities. They do that by setting out their plans to meet the needs of lower-income communities and by being ranked on that by the regulator. As a result, trillions of dollars have flowed from banks through credit unions and other local economic development in the United States. We see that sort of obligation as something that should be pursued in the UK, too. Short of that, however, we tried for obligations with regard to disclosure of lending patterns at local level, so that there could be a process of better engagement between local communities, local authorities and other stakeholders and the banks, saying, "What are you doing in our community to support our businesses and help households in financial difficulty?" and so forth. It is very disappointing that although Parliament discussed that at

length as a potential amendment to the Bill a few years ago, government chose to take it down a voluntary route with the British Bankers' Association.

There is a voluntary disclosure framework in place. Banks have been disclosing lending patterns on personal loans at postcode level for a number of years. We looked at that recently. We did a case study in Leicester, and overlaid the data with other locally available data. Only 15%, or thereabouts, of the consumer credit market is covered by the disclosure framework. We do not have credit card lending, we do not have overdraft lending and we do not have any of the higher-cost lenders involved in that disclosure framework. It is not really doing the job of driving the necessary engagement about where the problems are and which lenders in particular need to engage with local agencies.

Looking again at obligations with regard to disclosing what lenders are actually doing in local areas would be very useful. I accept, however, that it would not address Sue's point, which is whether it would stop PPI or those sorts of problems. That is a different kind of duty. We are getting into discussions about whether principles-based regulations such as those pursued by various regulators over the years in the UK have been effective or not, or whether more stringent rules regarding products and other regulatory interventions are required.

**Q126 Lord Holmes of Richmond:** Where has the Financial Conduct Authority been successful in its activities so far, and where might it do better? How well do you think the authority has dealt with the subprime lending sector, not least payday loans, rent to own and home credit?

**Sue Lewis:** It has certainly acted swiftly on high-cost, short-term credit. That was fine. It is still thinking about adjacent markets such as rent to own. Our biggest point on this is that most debt is credit card debt or overdraft debt. Payday loans hurt very vulnerable people, so it was absolutely right that the regulator dealt with them, but most of the overindebtedness we see is due to credit cards and overdrafts, particularly unarranged overdrafts. We want a level playing field on regulation across all forms of debt. If that means a price cap, it means a price cap on the cost. Unarranged overdrafts are often more expensive than payday loans, but they are completely unregulated. We want that market levelled.

**Damon Gibbons:** I agree entirely with Sue's assessment. I am a little concerned as to how far we can thank the FCA itself for the interventions in the payday lending market. The original Act that set up the FCA gave it the power to cap prices, a power that it chose not to use. Effectively, Parliament forced the FCA to cap prices in respect of payday lending. The FCA itself was very reluctant to use those kinds of direct interventionist approaches. Indeed, it is concerning that its mission statement, which it put out for consultation just last week, focuses on the primacy of using competition interventions, rather than consumer protection interventions. That is worrying, because over the years there has been very little evidence that competition-type initiatives, for example, to promote switching among lower-income consumers and so forth have actually worked. That dates back to 2005 and the Competition Commission's inquiry into home credit, in which I was heavily involved at the time.

Of the so-called remedies that the Competition Commission brought in and that it evaluated itself only a few years ago, it said, “We cannot tell whether or not the competition aspects of what we have tried to do have had any effect at all on the market”. What it could say was that the requirement to give a rebate to people who effectively re-rolled over their borrowing in that area of the market had had an impact. It knew what direct intervention had cost the industry, and how much of that had transferred to households, but it had no idea whether the competition stuff that it brought in had had an impact.

We saw a similar case recently when the Competition and Markets Authority looked at switching for people on unauthorised overdraft charges. It is very difficult for people who are in debt to switch, because they are effectively trapped by the requirement to repay the debt before they can move. I do not think that competition approaches in that sector of the market will be effective. It is very worrying that, since 2008, regulators in the UK have not looked afresh at the evidence as to whether competition-type approaches deliver good outcomes for lower-income consumers. It is more an assertion and an article of faith by regulators in the UK that those approaches will work.

The good stuff that I think they have done is on supervision and enforcement, where they have uncovered quite a lot and put in place redress schemes; for example, with Wonga and other payday lending companies. I have some concerns with regard to the consistency of those redress schemes. It is not easy to work out why in some circumstances the FCA says that all the loan will be written off, yet in other circumstances it says that the detriment is such that only the interest will be written off but the household still has to pay back the principal. That is inconsistent with the Financial Ombudsman Service approach in a number of cases. It is extremely confusing.

It is extremely surprising to me that home credit was left out, and specifically excluded from the high-cost, short-term credit cap. I do not know the reason for that. The problems with home credit in this country have been long standing. The Competition Commission failed to sort that out, the OFT failed to sort it out and now the FCA is failing to sort it out, too.

On affordability, we have a real dog’s dinner. I do not think that the industry is very clear about what the affordability rules mean, and I do not think that consumers or consumer agencies are very clear about what it is all about. I hope we get to something much more structural. As an example, we talk about lots of problems in the credit market, and we could say that student loans are a problem, but one of the good things about student loans is that it is pretty clear that if your income is below a certain amount, you do not pay the loan back. There is acceptance of that. It is pretty clear to students and it is pretty clear to lenders. Why we do not have as straightforward an approach regarding consumer credit, I do not know. That is the approach they have in a number of US states, and in Canada, too. We have not really seen the FCA fundamentally depart from the pre-2008 approach and the OFT approach, but it has been pushed in a number of areas to take action where it was otherwise reluctant to do so.

**Lord Holmes of Richmond:** I will ask this briefly, and I ask for a brief answer if you are able. The inconsistency point that you raise is incredibly important. What is your sense of the reason for that inconsistency? What

needs to be done to get an assurance that when action is taken it is consistent across the piece?

**Damon Gibbons:** The reason for it is simply that the FCA has not set out the basics of its thinking when it has put in place redress schemes. It has almost been, "Let us announce a redress scheme", and that is sufficient to keep people happy with the fact that it is doing something. I do not think that it has thought through the principles behind which those redress schemes would be calculated and put in place.

There is an element of pragmatism about the FCA. I do not know whether it wants to set out in detail the basis on which it will work through what a redress scheme looks like for public scrutiny, to see whether it meets the public opinion test of whether it looks fair, or whether it wants to cook up a redress scheme that is sort of acceptable to the firm and will not put it out of business, and makes it look as if the FCA is taking action. Simply because of the lack of transparency, I do not know what the truth is behind that, but I know that it does not look good.

**Lord Haskel:** You spoke about most debt being unauthorised overdraft and on credit cards. Do you think that the banks and the credit card companies can do more to stop people going overdrawn unauthorised?

**Sue Lewis:** Yes, if they wanted to, of course they could. They have the technology to do it.

**Lord Haskel:** Exactly.

**Sue Lewis:** They market accounts that say, "For £10 a month we will not let you go overdrawn", the technology is there, but the problem is that that is where banks make a lot of their money. One thing we have called for is a total limit on people's unsecured borrowing, from whatever source. The FCA published a paper in August showing that the biggest predictor of problem debt is an individual's debt-to-income ratio. You could very simply—if the FCA or the industry chose—limit people's borrowing, not necessarily to something affordable day by day, but to a particular debt-to-income ratio. Of course, the industry could do something about it, but it will not while it is making so much money out of people slipping into overdraft or taking on credit debt, perhaps tempted by 0% balance transfers. The credit card industry knows that it is pulling in people who will end up paying a lot more later. Those business practices in the industry cause a lot of the problems.

**Lord Empey:** On the business of unauthorised overdraft, is the dilemma not that, if a standing order is bounced because there is no overdraft, it can sometimes produce charges of its own? We are just shifting the problem around from one place to another.

**Sue Lewis:** Under the voluntary agreement on basic bank accounts, there is no charge on bounced standing orders. That is part of the agreement, so, again, we know that banks can do that. They could defer the standing order; they could give the customer the option of deferring a standing order until they have money in the bank.

**Lord Empey:** Previous witnesses told us about the difficulties. With zero-hours contracts, people's earnings are inconsistent, and if you are rigidly stuck on a standing order cycle for household bills and so on, you can get

huge knock-on effects from the providers of those services, even if it is not the banks themselves.

**Sue Lewis:** Yes, that is true, but I still maintain that there is the technology to enable people, especially those with lumpy incomes, to defer payments until they have some money in.

**Damon Gibbons:** That is fundamental. A lot of credit is used for cash flow management, because people are in difficulties with fluctuating incomes, fluctuations in expenditure pressures and so forth. If it was easy for them to contact their utility providers, the council or other household bills and reschedule those payments rather than take out credit, they would not pay the interest that they pay, often at very high cost, to high-cost lenders, and would not necessarily incur other costs, for bounced direct debits or those sorts of things.

It is interesting that we have not seen investment in financial services technology or investment in the energy, the effort and the research to make the sorts of things happen that people would clearly benefit from, but which would not be profit-making for banks or credit institutions. Instead, we have seen development of products that are fast and get money to people quickly when they are having cash-flow issues—those sorts of marketing approaches. Something is going fundamentally wrong in what we are using the available technology for and how we get it to help low-income households, rather than simply creating more credit products on the basis that that is what people will continue to need.

Q127 **Lord Fellowes:** As you realise, we have received a range of views on the effects of the 2013 regulations on the short-term credit sector. Some have suggested that displaced customers are going to illegal lenders instead; some that they are moving to other legal but less heavily regulated parts of the sector; and some that customers are simply doing without credit altogether. I wondered what your take was on that.

**Damon Gibbons:** All those things are entirely plausible when the FCA introduces a cap in only one element of the market. That is certainly the case. We used to have arguments about where the cap should be—the level and associated issues. We needed to make sure that lenders who were capped could not evade it, and those sorts of issues. Clearly, if you introduce it in only one area of the market, you allow all the other lenders, effectively, to evade the regulation, so it is not a surprise if there is movement into those areas. There is probably a bigger issue of principle about caps that regulators have not quite grasped, which is that they reduce the level of risk being taken in the financial system as a whole. There are good economic benefits from capping consumer credit more broadly. If returns on investment on consumer credit can be consistently higher than, for example, those on investment in productive business or manufacturing or other things, that is where a lot of the investment will get channelled. It will be channelled into lending to the household sector. Caps have a broader application than simply consumer protection at the individual level. I would like to see a regulator that got to grips with some of the economic arguments for things.

It is entirely possible that illegal lending has taken place. It is not quite as straightforward as some would make out. The payday lending industry, before the cap was imposed, was at pains to point out that the majority of its



customers were young, savvy, technologically adept people who were just hard up now and again. They are not the sorts of people who would go down to the local pub and borrow from the local loan shark if they could not get an online loan within 15 minutes. I do not think there is a direct correlation between the types of people who get into lots of problems with loan sharks and the payday lending customer base, where the cap has actually had an effect.

The statistics on illegal lending are not particularly reliable. As with any crime, there are reporting issues. Often, people are more likely to be caught after the illegal moneylending unit has undertaken marketing activities and so forth. We do not know whether that is an increase in the actual number of people who are getting involved with loan sharks or just increased detection and reporting of it. Nevertheless, if you wanted to do something about illegal lending, we should probably have a straightforward criminal sanction for it. The lesson from Japan, when they introduced interest rate caps because of concerns about illegal lending, was that they hiked up the criminal sanction and made it a priority for the police force to do something about it. The result of the cap was a reduction both in the price of credit for people in Japan and in the number of illegal lenders. It can be tackled through those sorts of approaches. Ultimately, however, we need across-the-board, consistent regulation of the different areas of the market.

**Lord Fellowes:** Would you do something now on the regulatory front—right away?

**Damon Gibbons:** Yes. I would immediately look to expand the scope of the cap to other areas, particularly home credit and rent to own, which have been mentioned, and to credit card lending where it is rolled over on a regular basis to prevent that.

**Sue Lewis:** The FCA does a lot to warn people about investment scams, but very little to warn people about loan sharking. Both those things are outside the regulated boundary by definition. We would like to see more campaigns on loan sharking. It is important to remember that people often do not know whether the lender they are dealing with is a loan shark or just a home credit person. They both appear the same. It is quite hard to get under illegal lending and the extent that it is carried on. I think the FCA, in its review of the price cap, will attempt to do that, but it is quite a hard thing to do. We would like more awareness campaigns.

Q128 **Baroness Primarolo:** I want to be clear about what you are saying with regard to regulation. Are you suggesting that there is merit in imposing regulatory measures similar to those imposed on payday loans across the subprime credit market? It is not a solution in itself, but it begins to open up the other arguments. Is that the case? What are the other arguments that would flow from that, briefly?

**Damon Gibbons:** I am suggesting that that is done, yes. The bottom line is that if only one area of the market is capped, as is currently the case, that lends itself to others marketing themselves and taking advantage of the section of the customer base that is no longer being served. Things such as rent to own in particular have expanded in recent years, and they are extraordinarily expensive ways to borrow. I would like the FCA to look at a consistent approach about a reasonable price to pay for credit in the market

as a whole, not just in respect of whether the loan is only available for less than 12 months or not—those sorts of things.

**Baroness Primarolo:** You are suggesting that dealing with the illegal lenders—the loan sharks—would need to be linked to enhancing police activity on criminal measures as well, so that we did not see a shift. Those people will still need the money.

**Damon Gibbons:** There are two things. First, we ought to take loan sharking very seriously. There should be a specific criminal offence of loan sharking. At the moment, it is very difficult to bring prosecutions under the various pieces of legislation or to get convictions at a certain degree of sentence.

In Japan, the lesson was to have a specific criminal offence of lending without a licence, which was significantly up the scale of sentencing. As a result, the police took it much more seriously in their allocation of resources in local communities. That was one of the lessons from Japan. That in itself will still not be the answer. Fundamentally, we are still talking about people having credit needs, or at least having needs to fund themselves in emergencies or to buy essential household items, and those sorts of things. There is a question about whether the market can deliver for everybody, or whether some of the social policy interventions are necessary to help people in those positions.

**The Chairman:** Damon, you mentioned various regulatory approaches and legislative requirements in other countries. You mentioned the US, Canada and Japan. Would it be possible for you to let the Committee have a note on those approaches and any evidence that exists of how effective they have been?

**Damon Gibbons:** I would be delighted.

**Baroness Primarolo:** Particularly on the point about obligations, so that we do not have a confusing set of messages—key obligations about ensuring that there is accountability, affordability and transparency.

Q129 **Bishop of Birmingham:** Damon, your last comment is a good lead-in to looking a bit more at the effect of the market. You have already mentioned affordability a couple of times. Could you go over that again? How much can we expect of the market in providing short-term, small amounts of lending? On short-term credit, even for that which might be provided by responsible lenders, are there alternative ways of providing credit to people who might not fit into a market model?

**Damon Gibbons:** It is sometimes helpful to look at things in extremis. If we saw homeless people on the street being lent money at vast interest rates, we would say that it was potentially justifiable on the grounds that not many of those people would pay back those loans, so the risk element is clear. A lender could justify charging them a fortune on a pure market perspective, but it would do nobody any good, and the few who did pay back would be paying for all the other people who did not. That is one of the reasons why the cost would be so high. That is the argument in complete extremis. At some point towards that, a line has to be drawn. Drawing that line is the job of politicians, regulators and so forth, but a line has to be drawn, because the extreme market position is clearly absurd.

There are two problems. The first is that we have gone down the route of saying, "Let us create more affordable credit, through credit unions and so forth". The difficulty with that is that they too are dealing with people who are fairly high risk, and the scale at which they are able to conduct their operations is limited. We are asking them to create an entirely new, small-scale infrastructure to deliver credit to quite high-risk individuals, and that is very difficult, or virtually impossible, to do. We need some mechanism, or at least a scalable approach, for getting credit to people, and potentially some element of cross-subsidy. In many areas of the credit market, the poor cross-subsidise the wealthier. It is an extremely regressive system, which is driving wealth inequalities in this country.

We have to look at developing social products whereby there is an element of cross-subsidy from wealthier individuals to poorer ones. The classic one would be if people were to pay for their bank accounts and there were not so many back-end charges for people who get into difficulty. The market cannot deliver that, because at the moment everybody is stuck in a prisoner's dilemma: you can never be the first bank to get rid of free banking. There has to be a regulatory intervention to break that prisoner's dilemma.

A couple of things flow from that. First, on the affordable credit side, how do we get that to scale? It would be very helpful if credit unions could pool resources, so that they could mutually and jointly invest in marketing on a national level in the development of products with fintech companies, which would enable them to deliver their services much more cheaply. They are trapped at the moment, because they each individually have responsibilities to their members for their deposits, so how can they take a joint risk on the venture? We need to think about what a back-office pooled deposit looks like for credit unions. In the US, there are credit unions at that level, which operate for the credit union movement and bring those things together. We do not have that in the UK. A national credit union infrastructure would be a good way forward.

There are some good alternatives, such as Fair for You, which is a not-for-profit alternative to rent to own. We need patient capital. The problem with the development of affordable credit in this country has been that lots of capital was given for pilot projects and so forth, expecting them to become self-sufficient within three to five years. It is the opposite in the commercial world, where venture capital is put out for very long periods of patient time. It is expected that the recipients get to scale and then start paying back, not that they start paying back on the route to scale.

**The Chairman:** Damon, we are starting to run out of time.

**Damon Gibbons:** Yes, I do not blame you for stopping me. There is a lot.

**Sue Lewis:** The cross-subsidy has to come from somewhere. It can come either from other customers of the lender or from the taxpayer. Personally, I was a fan of Social Fund budgeting loans, which filled a gap that could not be filled commercially. It has to come from somewhere.

Q130 **Lord Shinkwin:** I am mindful of the time, so I wonder if you could give brief answers and perhaps elaborate in writing afterwards. Damon, you touched on credit unions. Sue, you opened your remarks by talking about how the crackdown on payday loans resulted not just in alternative products springing

up but in a big increase in friends and family borrowing. Given that recent research, for example by Affinity Sutton housing association, showed that some 38% of its residents were unaware of the work of credit unions, how successful do you think third-sector credit providers such as credit unions have been in supporting subprime borrowers who cannot be served in other ways? How could they better be promoted and supported, and what role would you like to see central government taking? I emphasise the time constraints. Could you keep your answers brief and then follow up with further information? Thank you.

**Damon Gibbons:** We need a national infrastructure for credit union development. In many respects, they have been set up to fail. There have been some good developments recently, however, particularly the Circle Housing and Leeds City Credit Union tie-up, which means that any tenant of Circle Housing, no matter where they live, can join Leeds City Credit Union. The extension of those sorts of common bonds to all housing association tenants has been really good. That is probably the way forward.

The reality is that credit unions were set up as localised takers of small deposits, intermediated into small loans at low interest rates, which is a recipe for very slow growth. It is the model of banking from the 1910s but at an extremely small level. Some sort of element of pooling of loans and securitisation of credit union loans—mechanisms for them to raise much more investment—would be very useful. They have a problem on the marketing side, predominantly because they cannot market nationally as they are all local credit unions. We need a national credit union marketing company.

**Sue Lewis:** At local level they are absolutely great, but I do not think it is a scalable model.

**The Chairman:** If you want to add another sentence or two, that is fine. We have time.

**Sue Lewis:** No, that is okay.

Q131 **The Chairman:** That is fine. It is an area we have been keen to pursue in this evidence session and previous ones, and I am sure we shall pursue it in the future, too.

To bring this session towards a close, could you tell us where you think the Committee should be focusing its attention? If there were one, or a maximum of two, recommendations that you would like the Committee to get involved in, what would they be?

**Damon Gibbons:** It would be a focus on mainstream banks and their obligations to society as a result of the implicit taxpayer guarantee, the bailout and so forth. We need to get back to what banking is for, which is supposedly to support our economy and our households in a positive way. Over the last 40 years, banks have selected a better-off customer group to focus on and have wanted to outsource the provision of services to lower-income households, which is what they have done; they have been investors in high-cost credit. They have supported the development of high-cost credit, but they have not been willing to provide retail services to lower-income households themselves. We need to look at what their obligations actually are and try to find some levers to encourage them to re-engage with the

communities across Britain that have thus far been neglected by them. That would be a particular area.

The other area where I would like some ground to be made would be trying to reduce the demand for credit among lower-income households and trying to find ways to harness the innovation and technical know-how of the financial services sector in ways that deliver services such that low-income households do not need to use credit or financial services so much. That means bringing fintech companies and communities together, to co-design products from the perspective of lower-income households, with funding behind that through patient capital, and tests for that and so forth. That is not something the market will ever do itself.

**Sue Lewis:** The Committee could usefully look at the governance of financial inclusion. The Financial Inclusion Commission's report bore an uncanny resemblance to that of PAT 14, 15 years earlier. My question is: who is making this happen? Personally I think it should be the Treasury. It was the Treasury for a while, and I think it should be the Treasury again. It would hate that.

We have not mentioned another thing you might look at—people who have forcible bank account closures, who have their accounts closed for no reason, suspected of money laundering. Obviously I would like you to look at the duty of care, but I would say that. Finally—Damon touched on this—there are the risks and opportunities of technology and fintechs. It is a risk and an opportunity. We need to look at the future.

**The Chairman:** Thank you very much. You raised a point about overall governance, and the role of Government in this area is an issue that the Committee has been looking at right the way through its deliberations. We will continue to do so.

It has been a really helpful session, so thank you very much indeed. We have tried to cover a wide area. If you have any subsequent thoughts about things you would have liked to say to us, please feel free to submit a note. Thank you very much for your time.

## **Child Poverty Action Group and Gingerbread – Oral evidence (QQ 79-89)**

Evidence Session No. 8

Heard in Public

Questions 79 - 89

Tuesday 11 October 2016

[Listen to the meeting](#)

Members present: Lord Empey (The Chairman); Viscount Brookeborough; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Alison Garnham, Chief Executive, Child Poverty Action Group; Sumi Rabindrakumar, Research Officer, Gingerbread.

Q79 **The Chairman:** Good morning. We are delighted to welcome Alison Garnham, chief executive of the Child Poverty Action Group, and Sumi Rabindrakumar, Research Officer at Gingerbread. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live on the parliamentary website. A transcript of the meeting will be taken and published on the Committee website and you will have the opportunity to make any corrections to it where you feel that is necessary.

Perhaps I may open the questioning by asking you about the nature of the financial exclusion experienced by low-income and lone-parent families and whether policy interventions to tackle exclusion have been effective.

**Sumi Rabindrakumar:** Certainly it is Gingerbread's experience that financial exclusion among single parents is in the main simply about not having enough money. Our research has found consistently that the majority of them struggle to cover basic bills. Around a quarter of them say that they run out of money every month, which paints a clear picture of fragile finances. That means that it is easy, given a financial shock such as the washing machine breaking down or a delay in a benefit payment, to tip into debt.

The second big financial exclusion issue for single parents is a heavy reliance on borrowing to make ends meet. Even for regular payments for things like childcare, we find that single parents have had to borrow to cover those costs. That means that lots of single parents can end up in a cycle of debt, which can cast a long shadow, because it is inevitable on a low income that it is hard to make the repayments, so the interest builds up. That is the big picture. Rather than it being about budgeting on a low income, people know how they are spending their money down to the pounds and pence. It is really the lack of money that is the issue.

On the question of interventions, one of the big flagship projects is universal credit. It is meant to make work pay and ensure financial security for low-income families, particularly single parents. Although not many single families are actually on universal credit at the moment because of the way it is being rolled out—it is a relatively slow rollout—the forecasts show that more single parents are due to lose out rather than gain from universal credit because of the way in which the benefit will be withdrawn. There is a concern that lots of people will be trapped in relatively low-hours jobs that do not provide the financial security they need. A new wave of cuts are also due to come in, in particular a cut to the work allowance, which is the sum of money that you can earn before the allowance begins to be withdrawn. That cut alone is set to cost single parents around £800 a year. There is great worry about whether universal credit will really ensure stability for single-parent finances.

The other issue to touch on is the localisation of emergency welfare support. I am sure that Alison will expand on this, but single parents are finding that they have limited access to state-provided support in emergencies. That increases the reliance on other sources of income, whether it be payday lenders, home credit or food banks.

**Alison Garnham:** To follow up on what Sumi has just said, there was a lot of publicity about the proposed cuts to tax credits, which were rescued, if you like. It was decided that they would not go ahead. But the same has not happened with universal credit. The cuts have gone ahead in universal credit to the same extent as they would have done in tax credits. As Sumi says, work allowances have gone for many and the disregards for earnings are lower. It will be very difficult to say whether universal credit will make work pay in the way it was claimed originally. It is a much denuded version of universal credit than the one we originally anticipated.

On top of that, low-income families have seen significant cuts to benefits and tax credits. Some have been talked about more than others, such as the benefit cap and the bedroom tax, but the really big cuts have actually been made in the way benefits are uprated. The change from RPI to CPI is where huge savings are being made. You do not receive a letter saying, "By the way, you are going to feel significantly poorer and your money is not going to stretch very far", but people are feeling significantly poorer, because the value of their benefits is on a downward escalator while everyone else's income is starting to increase as wages begin to pick up.

Two-thirds of poor children live with working parents. When we talk about poverty today, we are talking about working families. The poverty figures show that child poverty rose by about 200,000 at the last count. The Institute for Fiscal Studies has said that child poverty will rise again by 50% by 2020. The net effect of all these changes is a predicted significant increase in child poverty and bigger struggles for these families.

Professor Jonathan Bradshaw has done some analysis for CPAG of where people sit in relation to the poverty line: in other words, how far below it they are—the poverty gap. Since 2008 they have fallen further below the poverty line to a quite significant extent – by 14%. Their incomes have fallen, so they live below the poverty line and even further below than they did originally. So there is even less income as well as more people falling below the threshold. What that deprivation means for children is things like not being able to afford hobbies, leisure activities or going on family holidays. But the most interesting thing is that markedly on the deprivation figure it is parents who are losing out and worse off on every single measure. That includes things like not being able to pay contents insurance, not being able to make any regular savings and not being able to replace furniture or one-off items. So we are talking about very significant deprivation for the whole family, but in particular it is the parents who are going without in order to protect their children; it is the obvious conclusion to draw from that.

If we look at wages, just last month we produced our annual cost of a child analysis, which estimates how much it costs to bring up a child to the age of 18. You will not be surprised to learn that it is a lot of money: at over £150,000 to the age of 18 just at a basic standard of living. Two parents working full time on the national living wage still do not earn enough to achieve that level of income. They are around £50 a week behind, and for single parents it is even worse as they are even further behind. That gives a hint of how people are struggling just to achieve a very basic and acceptable standard of living.



**The Chairman:** Have you any sense of how many of this cohort are in what we have as our definition of being financially excluded? In other words, how many do not have any accounts or access to accounts, so they are basically operating on a cash basis with all the increased costs that that involves?

**Sumi Rabindrakumar:** We do not have precise figures for that.

**The Chairman:** Even anecdotally, what do you think?

**Sumi Rabindrakumar:** Quite a high proportion would be running on a cash basis, particularly if they are reliant on benefits. That tends to be the way bills are managed, with a reliance on prepayment meters and so on. It would certainly be a significant proportion.

**Alison Garnham:** It is a very common experience not to be able to afford the basics, as is using prepayment meters. I appreciate what Sumi was saying earlier about how it is often assumed that this is a group that does not manage money very well, but actually I take my hat off to them. Most low-income families are better at budgeting than most of the rest of us. They do it by having cash economies, by keeping money in jars and knowing exactly what every penny is spent on, otherwise they would run out before the end of the week. It is probably the rest of us who are a bit more careless about we manage our money.

Q80 **Baroness Primarolo:** I think that the opening remarks have covered the clear message on the effects of the benefit freeze and cap on low-income households and lone-parent households. Alison, you talked about the study of those falling below the poverty line. Could we have that study? At this stage we are particularly interested in looking at the drivers of that as they fit in with financial exclusion. Obviously there are some increases, which the Government are pointing to, such as the increase in personal tax allowance and a forecast rise in the national living wage, but obviously there is a gap, a time lag, and we would be interested in your thoughts on that.

**Alison Garnham:** Obviously rises in the national living wage are great. We want people to earn more in wages, and in fact families themselves would rather have money from wages than from benefits. The problem is that those rises are not making up for the shortfall in what has been lost through benefit cuts. We had one huge swathe of cuts to the tune of around £21 billion a year, and on top of those a further £12 billion-worth are being legislated for. That is a huge amount of money to take out of the incomes of people at the bottom. Work done by the Resolution Foundation and the Institute for Fiscal Studies shows that the vast majority, around 80%, of the increased personal tax allowance measure goes to the top half of the income distribution and not to people at the bottom. So it is not a poverty reduction policy, it is more of a tax-break policy. That is either because people at the bottom do not pay any tax anyway, so increasing the allowance does not make any difference to them, or because if they do get an increase it is taxed away through benefit loss. They lose money through cuts in their tax credits or the universal credit taper, while lower housing benefit and council tax benefit means that they are left with very little of what they have been given. So it is not a well-targeted way of getting new money to that group.

**Sumi Rabindrakumar:** I should like to echo that. Gingerbread did some analysis of the whole package of reforms. Even taking into account the

national living wage and changes to tax allowances, single parents are still be worse off to the tune of around £1,300 a year, and it is the lowest-income working single parents who are losing the most out of all household types. They are not enough to make up for those losses.

**Alison Garnham:** There are other cuts that can affect people at the local level. The tapers I have described operate at the national level through tax credits, universal credit and housing benefit, but at the local level council tax support has been devolved. We have just looked at this in London and we see that there has been a 51% increase just in the past year in the use of bailiffs. This is happening to families who previously paid no council tax at all. They are now being asked to pay because council tax support was devolved, albeit with a 10% cut, but with a duty to protect pensioners. Most of the money is being clawed back from families with children because they are the only group left to get it from. Rather than being asked to pay 10% of the council tax bill, people are being asked to pay anywhere between 8% and 30%, so more of that cut is being passed on to these families with no preparation for it. There is no compensatory income supply to enable people to pay this new tax, but it is being recovered quite vigorously. We are working with and talking to local authorities about this. Lambeth, for example, has decided to stop using bailiffs in these cases, so important work is going on to try to improve the situation. Needless to say, however, some 300,000 people in London who never used to pay council tax at all are now in arrears.

**Lord McKenzie of Luton:** As I think you are aware, the Government have set their face against reporting on income data in the future on the basis that it is not a cause of poverty but a consequence of poverty, although I think that the data is still going to be collected. What sort of behaviours do you think that approach will result in? Do you support it?

**Alison Garnham:** We are happy with a broad life chances approach, which I think was what was envisaged, but we do not actually know what is going to happen because we have not heard what Theresa May's Government plan to do in this area. I think under the Child Poverty Act we had a very good set of indicators in that it was not just the headline income measures; we had relative income, absolute income, deprivation and persistence of poverty. That made up a very full set of indicators that were internationally recognised. These were the measures that academics advised the Government to adopt. Although the new ones being put in place on worklessness and educational attainment at the age of 16 are of course important to children's development—worklessness is strongly associated with poverty—they are not poverty indicators. They do not pick up the whole range of issues affecting low-income families and therefore they are defective in that respect. We know that the department was working on a wider range of indicators, but that work has not been published yet. It was due this autumn but it has not yet arrived.

I would say that whatever range of indicators they come up with, it will be pretty meaningless if we do not know what has happened to family income. We know from extensive academic work that it is low income that is associated with poor child outcomes; there is a clear causal relationship. If you improve family incomes, families spend more on fruit, vegetables and books and less on alcohol and cigarettes. We have that evidence for the UK. Low income is associated with poorer life chances and lower life expectancy,

being more likely to die on the road, being nine months behind in education and being more likely to suffer lifelong limiting illnesses. We have very strong evidence about all these things.

**Sumi Rabindrakumar:** I would echo that. Gingerbread supports a strategy to look at the broader issues related to life chances. It is critical that the indicators should look at poverty, which is lack of income. I would add that the additional indicator of worklessness risks losing sight of some of the real issues of the day given that worklessness is actually at a low level and it is in-work poverty that is now the critical issue. That is what is captured in the low-income data.

Q81 **Lord Holmes of Richmond:** Good afternoon. What impact is the six-week wait for the first universal credit payment having on claimants and levels of debt, and what can be done to ameliorate the effects?

**Alison Garnham:** A study has been carried out by the Association of Retained Council Housing, which looked at the households on universal credit, for which it is the landlord, as compared with households that are not on universal credit. It found that 79% of households on universal credit are in rent arrears compared with only 31% of other tenants, which is a pretty devastating finding. It puts that finding down to the six-week delay, which is surprising because I thought that it would be more to do with the direct payment of housing costs. However, they conclude that it is to do with the delay. People simply do not get any money for the first six weeks of the claim, so they are automatically in debt before they even start.

**Sumi Rabindrakumar:** As I have said, relatively few single parents are on universal credit, but learning from the experience of HMRC delays in paying tax credits, that would certainly have a significant impact on their incomes and their lives. We have lots of calls from single parents about weeks-long delays. For example, a call came recently where a single parent experienced a 12-week delay. It meant that she could not pay her childcare and because she was in a lower paid job, she felt that she had no option but to give up her work. Delay has a real and tangible impact. The other point to mention is that there seems to be something of a reluctance in some government departments to signpost single parents to short-term help.

**The Chairman:** A reluctance to do what?

**Sumi Rabindrakumar:** To signpost parents to where they can get help in the interim period. HMRC can signpost people towards hardship payments, but it does not always do that. The DWP and jobcentres have what is called the short-term benefit advance, but there is not much awareness, signposting or publicity around the availability of that support. We have had single parents in those circumstances directed to Gingerbread to deal with delays rather than to the state-provided support which is actually available.

**Lord Haskel:** Who is the “they” doing that?

**Sumi Rabindrakumar:** For tax credits it would be HMRC and for benefit payments like jobseeker’s allowance it would be Jobcentre Plus under the DWP.

**Alison Garnham:** Just to follow that up, there has been a significant fall-off in the proportion of people getting this kind of help. The previous system was

operated through the Social Fund. People could get something called an alignment payment. At the last count in 2012 around 834,000 payments were being made, but from 2013 onwards only 169,000 short-term benefit advances have been given, which represents a fall of 80% in the number of people getting this help when there is a delay in the payment of benefit. That can only be because people do not know that they can ask for it; there can be no other explanation. If previously they knew that they could ask for help from the Social Fund, there is no reason why the same number of people would not go and ask about the benefit advance. That brings up an additional problem. When they ask, are they being deterred in some way? Is there discouragement from doing that?

The same applies to hardship payments. This is where you have been sanctioned and you have no money. Work we have done jointly with the Trussell Trust, the Church of England and Oxfam on food banks shows that one third of people were there because of delays in payments for the reasons just described, and another third were there because of sanctions. Again on the hardship payments side, the problem is that the letters do not tell you that although you are being sanctioned you can apply for a hardship payment. There is no volunteering of information about the payments. If you want one you actually have to go in person to the office and have an interview. Barriers are being put in the way of people getting these payments. We think they should be considered automatically, particularly when there are children in the family rather than people having to run the gauntlet trying to find out about them in the absence of any information being volunteered.

**Q82 Lord Northbrook:** My question has been partially answered. How effective are the support services designed to assist claimants with the transition to universal credit? Is further support required, and might products such as jam jar and/or budgeting accounts be of use to claimants?

**Alison Garnham:** They might well be useful. Something I would highlight is the loss of advice services in the UK. Most people's first port of call for this kind of advice is a citizens advice bureau or the local authority welfare rights service. They have been significantly underfunded over the past few years, mainly because they are funded by local authorities, which have experienced significant cuts. We have seen these services close down altogether in many areas, and services such as the CABs providing less specialist welfare rights and debt counselling services than they used to. People are on a falling tide, if you like, in terms of the help that they can get with these problems.

**Sumi Rabindrakumar:** The DWP has just published some research on jam jar accounts and there seems to be some appetite among low-income households for that sort of account, but it is highly dependent on the costs such as whether the banks will charge fees and issues of flexibility.

**Lord Northbrook:** So these flexi accounts are not as flexible as they might be.

**Sumi Rabindrakumar:** Exactly. I would also echo Alison's point about local advice. One of the issues with the transition to universal credit is that there is also a push for local delivery in the form of co-location of local support with the jobcentre. Actually there is very little local advice to go alongside that where a local family can either negotiate or challenge the decision to ensure that they get the support they need.

**Lord Haskel:** Continuing with the theme of budgeting, of course housing benefit is the biggest payment that most families make. Concerns have been expressed that the payment of housing benefit directly to the claimant could lead to an increase in arrears, presumably because they do not know how to budget. Do you subscribe to this view, and can you see the conditions under which payments could be made directly to tenants in social housing as they are to those in private rented accommodation?

**Alison Garnham:** In a way I agree with the Government that it is claimants' money and so it should go straight to them, but many claimants would like it to be paid directly to their landlord, so we think "on request" direct payment should be available. The problem is that it is quite difficult to do that. You have to be accepted by someone in Jobcentre Plus as being the kind of person who is eligible, and then the request is passed on to a decision-maker who decides whether you can have a diversion of payment. It is by no means automatic that you will get this. It is causing enormous problems on the ground where universal credit is already in place. Many more people would like direct payment than are actually getting it at the moment. Also, the six-week delay is significant here. People are getting into arrears right at the start of their claim, so whether or not passing over their rent money enables them to manage budgeting it, they are already in arrears before they start. That is hugely problematic.

**Lord Haskel:** Is it not the case that if you are in arrears by two months, the payment can be made directly to the landlord anyway? Is this to encourage people to get into arrears?

**Alison Garnham:** I do not think that many people would like that. The insecurity and fear that goes with the arrival of bailiffs or other action by landlords is extreme and particularly upsetting for children. Most people would want to avoid that at all costs. I think that it is very unlikely.

**The Chairman:** It is fair to say that in Northern Ireland we do things slightly differently. We are very keen on paying the benefit directly to the landlord. We have retained that because the sky would darken on payment day with the vultures waiting to pounce on these families, particularly lone-parent families. So we have retained that process. Although technically and legally I think that a tenant still has the right to insist on it being paid directly, we certainly do not encourage it, so it is a slightly different approach.

Q83 **Lord Fellowes:** I gather that the Government are piloting in-work progression at certain jobcentres, which sounds a thoroughly good idea, but there is talk of linking in-work progression and benefit sanctions. Will that not look rather like giving with one hand and taking away with another?

**Alison Garnham:** We are really worried about this and how it will operate in practice. There is a huge cultural transformation going on here. In the past, when you got a job of 16 hours you moved to tax credits, where you were basically left alone for a year. Under universal credit, you will be treated much more like a benefit claimant who is still in receipt of monthly benefits. That is a big culture change; you are not left alone, and in fact the Government will impose on you and say that unless you take these actions to improve your earnings or your hours you could be sanctioned. The whole thing is extremely problematic. You described it as in-work progression. Everybody wants that. Everybody wants the skills training and the employment support for parents

that they need to be able to skill up and move up the hierarchy to get better paid and all the rest of it. That is really welcome. But the sanctioning side I cannot see being very helpful.

**Lord Fellowes:** It is not very encouraging, is it?

**Alison Garnham:** It is not, no. In fact, it sends completely the wrong message, in my view. People do not need much encouragement to try to improve their income. They will want to do it anyway. It is a bit like looking at jobseeker's allowance claimants. Ninety per cent of them leave benefit within nine to twelve months without ever coming into contact with the Work Programme. There is no difficulty about people not wanting to work; they clearly do, and they move into work off their own bat very quickly indeed. Once people are in work they will have a very similar motivation to do better for their families, but they need help and support.

**Sumi Rabindrakumar:** For us, the link between in-work conditionality and sanctions means that the claimant commitment becomes incredibly important, because that is what the single parent will have to sign up to in order to get universal credit. At the moment it is not very clear that that claimant commitment is robust and secure enough to recognise the barriers to work that a claimant, particularly a single parent, might face, because there are structural barriers such as the lack of flexible work and childcare and the need to balance work and care. That is where our real concern lies, particularly given the current evidence that single parents are already at risk of unfair sanctions; they are much more likely to have their sanction referral overturned. That already suggests that there is a lack of understanding about those single-parent barriers to work.

**Alison Garnham:** Can I make a further point in relation to budgets? One thing that also concerns me is monthly payment and assessment. The change to monthly payments is on the assumption that it is normal for people in work to be paid monthly. However, the Social Market Foundation recently looked at this, and of the people earning less than £10,000 a year only half are paid monthly; more than half are not. It is culturally very different for people to be paid monthly. In the DWP's own survey, about 40% of people were really worried that they would not be able to get to the end of the month, because they were used to budgeting on a weekly or fortnightly basis.

A monthly payment is a massive cultural change. Arguably it helps DWP administration, because the real-time earnings information from HMRC will be passed over monthly, but in terms of your entitlements, any change in the month is counted as if it happened at the beginning of the month, so any fall in your income is backdated for the whole of that month, so you will potentially be a major loser because of that alone. It is difficult to see how people will be able to budget to take account of that.

Q84 **Viscount Brookeborough:** Can you tell us something about credit unions and crisis loans, which have become more locally based? Is sufficient provision available, and what might be done to expand the supply of these or other forms of affordable credit? Credit unions presumably have to operate like banks, so they will not always lend if they do not see security in lending, so the two things are really totally separate.

**Alison Garnham:** You need to be a saver to be a borrower. That means that for a lot of the people in the situations that we are describing, where you have a huge gap in your income, it will not help you.

**Viscount Brookeborough:** You cannot be a customer.

**Alison Garnham:** No. Where they exist, they are hugely useful and welcome, but they do not exist everywhere. It is patchy. What is supposed to exist everywhere are the local welfare assistance schemes—

**Viscount Brookeborough:** —which came in instead of community care grants.

**Alison Garnham:** Exactly. The Social Fund, community care grants, crisis loans and so on were devolved to local authorities. In the first year, the funding was about £144 million. It then fell in the next year to £130 million, and it disappeared from local authorities' funding line, which we are really worried about, because unless it is earmarked for this there is a danger that it will disappear altogether. There was a bit of an altercation, and a legal test case, and the Government were made to carry out a consultation. We got this back, but it is less money and we now know that eight local authorities have stopped running a scheme altogether.

**Viscount Brookeborough:** We have been given a figure and told that local authorities spent less than 40% of their allocation, so this is the common policy of, "If you don't use it, you don't continue to get it". Why was it 40%? Where did the fault lie?

**Alison Garnham:** There are a number of reasons. The uncertainty about funding was one; they were scared to spend it because they did not know whether it would be continued.

**Viscount Brookeborough:** Were the applicants there, or were the applicants not properly informed?

**Alison Garnham:** I would say that the applicants were not properly informed. Many local authorities set their schemes up in a very restrictive way. They worked on the assumption that, "We'll have this money handed over to us. There will be hordes of people. We have to manage it and make sure that it does not get overspent". The reality in many cases was that they put application guidelines online, where not many people knew they existed. They put many restrictive rules in place, such as residency requirements—if you had not been in the area for a certain period of time you were not entitled.

**Viscount Brookeborough:** Was that legal?

**Alison Garnham:** No. In fact, it is being challenged. For example, if you are escaping domestic violence, you may well go over a local authority border. That is precisely the circumstance in which you want a crisis loan or a community care grant, but you are told that you cannot have it because you have crossed the border and you have not been resident. It is nonsense. This is part of the problem with localisation: that this kind of postcode lottery starts to arise. So we had residency requirements, and we had different rules. In some places they would not make cash payments at all and you could only get goods in kind, or there was a limit on how much you could get and you could only get £30 and you could not get another payment within a year.

There are myriad versions of this, because there are so many schemes around the country.

**Viscount Brookeborough:** Are you saying that the change from the Social Fund sounded good because it would be localised, but actually it has failed miserably because of the reduction in take-up, or for whatever reason?

**Alison Garnham:** Exactly. For whatever reason, take-up has been very poor, people have not spent the money, eight local authorities have closed it down, it is not properly advertised and it needs to be sorted out.

**Viscount Brookeborough:** So it is another central government effort that is not joined up and is not working.

**Alison Garnham:** Yes.

Q85 **Lord Shinkwin:** I know that you have both already mentioned financial fragility—Sumi, I think you said that single parents in particular are vulnerable to getting into a cycle of debt—and an increasing reliance on payday loans. Given that families with children tend to borrow more, do you think there are sufficient measures in place to mitigate the risk of debt becoming problematic? I am particularly interested to hear from both of you whether in your view the regulation of the payday loan sector has been successful and whether any other sectors, such as the rent-to-own sector, require regulatory intervention?

**Sumi Rabindrakumar:** I will leave aside the regulation point as it is not within our remit, but we would certainly say that not enough is being done to provide debt advice. We get a lot of calls to Gingerbread’s helpline about debt, but it is something that needs quite specialist support. There is not enough free or affordable financial advice available to single parents at the moment.

**Alison Garnham:** I am not an expert on the regulatory environment either, but what would be useful would be requiring local authorities to keep track of what is happening with their council tax support schemes and local welfare assistance schemes. Currently there is no requirement to keep statistics on who they are helping and in what circumstances people are getting help. Without that information it is hard to work out what is going on, on the ground. We have had to do our research through freedom of information requests, which seems a bit silly when authorities could be required to retain this information.

Q86 **Lord Harrison:** Is there a link between child maintenance payments and financial exclusion? Would reducing maintenance arrears assist in tackling financial exclusion? I suppose the obvious answer is yes—in which case, what steps would be required for such a reduction to occur?

**Sumi Rabindrakumar:** There is certainly a link between child maintenance and financial exclusion when maintenance goes unpaid. Single parents and their children often struggle. The cash goes towards food, clothing, rent and essentials. Even in the longer term, if payment arrears are collected, they can make a big difference to life chances. The money can go towards further education costs and so on, which certainly does have an impact. Our analysis shows that maintenance can lift one in five low-income single parents out of poverty, so this is a big issue.



Payment arrears in particular are a significant problem. Something like £4 billion remains uncollected, and while not all of it is recoverable there is obviously much more to do. Our concern is that there seems to be a lack of appetite in the DWP at the moment for strict enforcement action. That might be in part because of the big programme of reforms. A new child maintenance service is up and running, but the focus seems to be more on collecting maintenance now rather than debt collection, which is playing second fiddle. We would like to see some kind of strategy, perhaps underpinned by a clear public target for debt collection, to drive a concerted effort on enforcement.

The second issue is that missing maintenance is not just about arrears and unpaid money, it is also about maintenance that is being avoided. It is similar to tax avoidance. A parent might minimise their income so that they can reduce their payments, which is another issue. The DWP is not without resource here. There are new income fee charges under the Child Maintenance Service and it could make much better use of partnership working with people with expertise like HMRC on things like tax and income.

**Lord Harrison:** Alison, could anything extra be done to help?

**Alison Garnham:** One of the things that needs to happen is for the collection and enforcement powers to be used more effectively and more often. It is a worry that the new child maintenance scheme is already showing quite high levels of arrears when with a fresh start you would have hoped that there would be a really high collection rate. One of the things acting as a barrier to parents is the fees that are being charged. As Sumi said, they could be used more effectively, and it is a worry that barriers are being put in the way of parents pursuing formal maintenance and getting it collected.

One of the problems has been that in the mood of the new system, parents with care who already have arrangements in place to have child maintenance collected and enforced, perhaps through deduction of earnings, are being made to apply all over again under the new system. It has taken them years to get the payments in place and now they have to start all over again. If that was easy, it would have been easy the first time. That is putting barriers in the way of people getting maintenance more regularly. The point about child maintenance is that it is no use to you unless it is paid regularly. It is no good getting a lump sum here and there; you need a regular weekly payment so that you can build wages on top of it, add on child benefit and so on, and reach a decent standard of living. If it is not collected or it is collected only intermittently, it is enormously unhelpful for families.

Q87 **Lord Kirkwood of Kirkhope:** I would be interested in hearing what you think about the Money Advice Service, which is obviously a core interest of the Committee's work. We heard on Friday that rather than have two bodies flowing from the reformed Money Advice Service, there will now be a single financial capability unit, folding pensions advice into money advice. What do you think of the work the service has done, and are you supportive of it becoming a single body? The agenda is driving it in that direction in the future. Obviously there will be a consultation period, and I think that this Committee's recommendations may hit ministerial desks in time to have some influence on the response. I would be interested in whether you have any advice for the Committee in its deliberations on the current provision and the future of the Money Advice Service.

**Alison Garnham:** I must admit that I have not had time to confer with the sector about what it thinks about this move. I should like to do that and perhaps I could get back to you with something on that. We are much more familiar with the welfare rights networks. We host the National Association of Welfare Rights Advisers, which represents a sector that is dwindling in numbers as a result of lack of funding. The money advice sector is slightly different as it provides debt advice, although in some places it may involve the same people depending on where they work. I would have thought that putting something on a national footing is a good idea. I know that there is a proposal to link it to pensions advice. I am not quite sure what the connection is and why they would fit closely together. I am slightly puzzled by that. What would be enormously helpful would be to have a review alongside this proposal of what is happening to advice services in the country in general, looking at what access people have when they need advice on money matters. That would probably help in deciding what kind of service we need.

**Lord Kirkwood of Kirkhope:** Presumably that also relates to universal credit locally delivered.

**Alison Garnham:** Yes, exactly. Any new system has teething problems. We are really anxious to work with DWP to make sure that universal credit lands properly, because we do not want people to suffer poor consequences if it does not. People need to have places to go to help them. Our worry at the moment is that there will not be enough places for them to get help.

**Lord Kirkwood of Kirkhope:** Could we take up your kind offer so that if something transpires that you think is significant, you would send us a note? That would be most helpful.

**Alison Garnham:** Yes.

**Sumi Rabindrakumar:** Similarly, we are not in a position to comment on the structure of what the service would look like, but we are certainly pleased that there is to be a successor because, as I have said, there is such a lack of free and affordable financial advice, which is so important for single parent families, particularly post-separation. We are concerned about the impact of welfare reform being properly understood by the successor, because things like universal credit will have a great impact on single-parent finances.

Q88 **Lord Haskel:** To round off, in addition to the areas that we have spoken about today, are there any further steps that can be taken to tackle financial exclusion and increase financial resilience for low-income and lone-parent families?

**Sumi Rabindrakumar:** For single parents, beyond the welfare reform issues there are definitely broader structural issues relating to low pay, the lack of progression in work for single parents, the lack of good, flexible work and affordable, and accessible childcare. Those issues mean that single parents are really struggling, particularly when such an onus is being put on them to move into work. It is vital that they get sustainable and good work to ensure financial security for their children.

**Viscount Brookeborough:** This is a quick question. I may have missed this, but what is the number of single-parent families? Secondly, is a family with one parent in prison considered to be a single-parent family?

**Sumi Rabindrakumar:** There are nearly 2 million single-parent families. They make up about 7% of all households but a quarter of households with children. There are around 3 million children in those households. We define a single parent as someone with the main care of their child, when that child is dependent, so where they reside is not an issue.

**Viscount Brookeborough:** That means that families with one parent in prison are not counted.

**Sumi Rabindrakumar:** No, they are not.

Q89 **The Chairman:** Finally, in considering financial exclusion, where do you think the Committee should focus its attention?

**Sumi Rabindrakumar:** Obviously welfare reform and its implications are a big issue. There are practical issues to do with delays to payments, but there are also structural issues with how those benefits are set. In particular, we would look at universal credit and some of those cuts that really put single parents' finances in danger.

**Alison Garnham:** A number of changes need to be made to universal credit, including restoring the work allowance cuts, having proper earnings disregards, including for second earners in couples, and restoring the one for lone parents that has been cut. We also need to look at things such as monthly payments and the lack of payments to the main carer, which are going to be problematic for families. We need to look at the sanctions policy and make sure that people are considered automatically for hardship payments.

We need to look at the direct payment of housing benefit, where a claimant requests it. We need to reduce the delays in the payments of benefits. We would recommend changing the rules, such as that you have a six-week delay to claim universal credit, which is causing problems automatically. We need shorter periods for mandatory reconsideration. A number of people claiming employment support allowance are going without income for considerable periods because they are waiting for a reconsideration of a decision about whether they are incapable of work. That is taking a very long time at the moment and it needs to be sorted out.

We need to look at emergency assistance through local welfare assistance schemes and regularise that, making sure that councils all run one and that they are run along similar rules. That has been done in Scotland, for example, where there is a single scheme, which is working very well. There is also an issue about Jobcentre Plus providing support and advice, making sure that people know about short-term benefit advances and have access to telephones again in Jobcentre Plus offices, which they do not at present. Staff need to make their email addresses known so that, when something happens like a sanction, there is somebody you can talk to in order to explain your side of the story. If the sanction has been imposed for a trivial reason, that ought to be fixable very quickly with the provision of additional information.

Finally, on access to advice, we need to look at what is happening to advice services and to find a way of creating a funding structure for them.

**The Chairman:** I thank you both very much for an interesting evidence session. As I said, you will be sent a transcript. Please feel free to contact the

clerks if you are not happy with it. You indicated that you might wish to make further written submissions. We would be very happy to receive those. Thank you both very much.

## **Christians Against Poverty (CAP) – Written evidence (FEX0014)**

### **Summary**

Christians Against Poverty (CAP) is a nationally recognised charity that works with over 500 churches to help the most vulnerable people out of poverty across the UK. The services provided offer both practical and emotional support, are completely free and are available to all, regardless of age, gender, faith or background.

Through a network of 306 CAP Debt Centres, CAP offers a free face-to-face debt management service, with advice and ongoing support provided from head office. In addition to this, CAP is the largest provider of face-to-face adult financial education in the UK. There are currently 849 churches providing the CAP Money Course, a three week money management course, equipping over 11,500 people each year to budget, save and spend wisely.

CAP has also recently expanded to tackle more causes of poverty. To this end, CAP now operates 163 CAP Job Clubs, 71 CAP Release Groups to tackle life-controlling dependencies, and is piloting 36 CAP Life Skills groups to empower members with the essential skills and support they need to live on a low income.

### **Definitions and causes of financial exclusion**

- Financial exclusion and inclusion are inverse and not discrete concepts, and the discourse around them is often too distinct.
- The interaction between market factors and individuals' personal circumstances is an important dimension. Financial exclusion is closely linked to other forms of exclusion and problem debt, and different sectors of society inevitably experience financial exclusion in different ways.
- The Financial Inclusion Commission's definition of financial inclusion is also helpful as it captures the importance of having a longitudinal perspective.
- Those with disabilities or mental health problems, as well as learning disabilities, are not affected by specific issues with regards to financial exclusion, but are more likely to struggle with factors that lead to financial exclusion across the spectrum.

### **Financial education and capability**

- There are a substantial number of advisory services and financial education providers, but awareness and take-up is low.
- Despite the positive step to introduce statutory financial education in secondary schools, this does not go far enough to ensure all children receive adequate financial education.

- There are great general sources of advice available for adults, but those with low financial capability means that some need more support.
- CAP provides free face-to-face adult financial education through the CAP Money Course and is the largest provider in the UK. This is complemented by course materials for children, youth and students.
- CAP is piloting a new service, CAP Life Skills, to offer wider support for those who need more time and support than the CAP Money Course provides to get to grips with managing money on a low income.

### **Addressing financial exclusion**

- This interaction with wider exclusion means that there is no quick fix. All three sectors have a role to play to tackle financial exclusion, as well as wider deprivation.
- Banks and mainstream service providers have an important role in offering mainstream products that meet the needs of those at risk of financial exclusion and promote wide take-up.
- There has been good progress in the past year with the new Basic Bank Accounts launched in conjunction with HM Treasury, but these still fall short in practice.

### **Accessing affordable credit**

- While affordable credit is preferable, borrowing to meet essential living costs is rarely sustainable and there is a need for earlier intervention; equipping people to budget and save so they are less reliant on credit as a safety net.

### **Government policy and regulation**

- The role of central government is very important to bring players together. The government has taken a leadership role to some extent, but there has been little legislation and where concrete action has been taken this has missed key groups.
- Recent welfare reforms have undoubtedly exacerbated financial exclusion for some. Universal Credit has also increased the requirements for being financially included.
- Local authorities are doing a lot of great work to promote financial inclusion. However, support and funding from central government is essential.
- Additional regulation is needed, but this needs to come hand-in-hand with a culture that creates the right incentives.

### **Financial technology (Fintech)**

- Fintech has the potential to bring many exciting new developments. However, the extent that new technologies can lessen financial exclusion depends on the level of digital exclusion.

## **Definitions and causes of financial exclusion**

### **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?**

Financial exclusion is when hardship is caused in some way from being unable to access the financial products or services that are needed to take part in society. This could be due to a number of factors, including problems with financial markets, personal circumstances and financial capability.

Often the discourse around financial exclusion and inclusion is too distinct. They are inverse and not discrete concepts, representing opposite ends of someone's financial wellbeing scale. As a result, there are different levels of severity in financial exclusion. It is possible to be included in some ways but excluded in others at the same time. For example, lack of access to a bank account represents severe financial exclusion being a gateway to other financial services, in comparison to having access to everyday financial products but unable to get a mortgage.

The FCA's Occasional Paper on *Access to Financial Services in the UK* helpfully classifies the causes of financial exclusion into the 'maze', 'fog' and the 'void'. This emphasises that financial services can cause financial exclusion in a number of ways; being unable to access products (maze), struggling to understand and search for products (fog), or lack of products offered that meet needs or being excluded from suitable products (void). Both having access to financial products and the ability to use them are important elements to someone's financial wellbeing.

The interaction between these factors and individuals' personal circumstances adds another dimension. From CAP's experience of working with those in unmanageable debt, financial exclusion is often exacerbated or arises when circumstances change. For example, entering financial difficulty often means an individual's financial capability is diminished and existing financial products are no longer suitable or begin to cause detriment.

The Financial Inclusion Commission's definition of financial inclusion is also helpful as it captures the importance of having a longitudinal perspective. As well as having access to products, financial inclusion is to be able to prepare the future, to protect your financial wellbeing and have financial resilience. This means that pensions, insurance, saving, advice and financial education are all contribute to someone's financial inclusion.

## **2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

Financial exclusion is experienced by a wide variety of people, with some characteristics increasing the risk and meaning some groups are disproportionately affected. This includes; those on low incomes, over-indebted, pensioners, young people, and those with characteristics that make them more likely to be vulnerable. For many, financial exclusion can also be temporary, something they move in and out of as their circumstances change.

Those on low incomes are especially vulnerable to financial exclusion, being less financially resilient. Commonly perceived as unprofitable customers by mainstream financial services, they are often unable to access products that meet their needs, while at the same time targeted by marketing for more expensive sources of credit.

Remote communities certainly present a greater risk of financial exclusion through lack of accessibility, but the impact of this greatly depends on a number of factors, such as how digitally savvy a person is and internet speeds.

Different sectors of society inevitably experience financial exclusion in different ways. As highlighted by the recent FCA Occasional Paper on *Access to Financial Services in the UK*, different groups have different needs and barriers to being financially included. For instance, the experience of a person affected by physical barriers to accessing financial services is very different compared to someone who is financially excluded by their ineligibility for a financial service they require.

## **3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

Financial exclusion is closely linked to other forms of exclusion and problem debt, with the cause and effect working both ways.

- **Disadvantage:** is to be in an unfavourable position compared to someone else. As most products and services are designed for the typical consumers,



the needs of those who are disadvantaged in some way are typically not catered for.

- **Deprivation:** is to lack something that is considered necessary and can manifest itself in many different ways. Those experiencing deprivation are not set up to engage well with financial services; lacking monetary resources, support, confidence or even choice. As a result, this leads to disadvantage and other forms of exclusion, such as the poverty premium, creating a greater risk of financial exclusion as well.

The relationship between financial exclusion and problem debt is more wide reaching.

While problem debt commonly affects those disadvantaged or experiencing deprivation, and therefore financially excluded already, others become financially excluded as a result of

problem debt. From CAP's experience, this includes people who had been very confident and capable at engaging with financial services, but financial difficulty

*'I was in an abusive relationship, things got so bad to the extent that he kicked me out. I ended up curled in a ball on the floor with nothing, except a whole load of his debts. I struggled because I wasn't well enough to go to work, I was off for three months and I was suicidal. Thankfully I was referred to CAP. They took care of the paperwork and created a personalised budget for me. I also got a job at a bank, where I worked long hours and earned a promotion. I am delighted that with CAP's help I will be debt free in two and a half years.'*

**– Ros, CAP client**

means their needs change and exclusion occurs through stress, lack of money and diminished credit rating. This can then lead to other forms of exclusion and the 'poverty premium', such as restricting their ability to rent without upfront security deposits and the installation of a prepayment meter.

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

Those with disabilities or mental health problems, as well as learning disabilities, are not affected by specific issues with regards to financial exclusion, but are more likely to struggle with factors that lead to financial exclusion across the spectrum. Examples would be physical inaccessibility or confusing jargon. These factors may cause detriment to people with these characteristics disproportionately, but the impact entirely depends on the person's personal circumstances, capability and level of support.

## Financial education and capability

### **5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

There are a substantial number of advisory services and financial education providers, but awareness and take up is low. Half of CAP's clients wait over two years before seeking help with their debts and four in ten do so because they 'did not think anyone could help'.

As well as awareness, the cultural attitude to talking about money also limits uptake. Money is a taboo topic, something that is not talked about and therefore people are less willing to seek the help that they need. Yet, advice is often needed to get the best out of the fast-paced changing financial landscape that brings many challenges, as well as benefits, for consumers. Charities, businesses and government need to make positive strides towards financial transparency and fostering a culture where it is more readily seen to be acceptable to seek help and advice to manage money well. Key to this is bridging the gap, so that those who are in a comfortable position financially are also part of this cultural shift, to avoid a perceived stigma for those where money is tight and talking about money is needed to stay afloat.

Despite the positive step to introduce statutory financial education in secondary schools, the curriculum does not specify the content or quality of this education and teachers are not sufficiently equipped to deliver this. In addition to this, many schools are not required to follow the national curriculum. The move towards free schools and academies risks large groups of students not receiving any financial education. Moreover, as attitudes towards money are shaped at an early age, financial education in primary schools is also vital.

Raising awareness of voluntary organisations that provide financial education sessions in schools would be beneficial, but there also needs to be resources to help teachers understand the importance of financial education, the range of topics that should be covered and how to help children of all ages engage with financial issues. The content and expectations of the quality and frequency of this should also be standardised to ensure that all young people receive enough financial education to have the basic skills to manage their money well and navigate financial decisions later in life, as well as knowing that further help and advice is available should they need it in the future.

*'We found that the pupils had given money management little thought and were genuinely surprised and empowered by CAP Money Youth. We do find it hard to get into schools sometimes and it would be easier if the curriculum mentioned organisations that offer financial education. Money can still be a big taboo for families, and teachers often do not want to offend as they do not see it as a neutral topic and can be something of a divide in the class.'*

**– CAP Money Coach**

There are also great general sources of advice available for adults, such as Money Saving Expert. However, low financial capability means that some need more support. To do this, CAP provides free face-to-face adult financial education through the CAP Money Course and is now the largest provider in the UK. Courses are run by trained volunteers from local churches and offer an opportunity for delegates to take an in-depth look at their finances over several sessions. There are currently 849 churches actively partnering with CAP to provide the CAP Money Course and in 2015, 11,508 people attended a course.

While the main focus of CAP's financial education work continues to be adults, this is now complemented by course materials for children, youth and students, which are designed to lead on to financial education in adulthood as well. As well as CAP Life Skills, which is being piloted to offer wider support for those who need more time and support than the CAP Money Course provides to get to grips with managing money on a low income.

#### **CAP Life Skills**

Run as a community group meeting each week, CAP Life Skills look at the wider issues surrounding money management. This includes relationships, health and wellbeing (e.g. cooking on a budget) and organisational skills. Members can also take part in one-to-one coaching sessions to build a budget that will work for them in practice with the support of their CAP Life Skills coach. The groups aim to empower and support members to live financially healthy lives through developing the confidence and decision-making skills they need to survive on a low income.

### **6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

Financial education in schools provides the opportunity to give all children, regardless of background, a positive introduction to budgeting that can then be continued and built upon throughout their schooling and later life. However, it is unrealistic to expect children to remember everything they need to know in adulthood, for example how a pension works, and therefore life-long learning is needed. A key message of this early financial education needs to be that there is accessible budgeting and debt advice available later in life should it be needed.

To reinforce and complement this, there then needs to be general budgeting advice, promotion of financial resilience, as well as specific product information, streamlined with a consumer's journey across their lifetime. Important education should be provided at the point it is most relevant, for instance information about pensions when first entering work.

There is a role here for the financial services industry to facilitate this by providing tools, products and communications that are simple to use and understand, and also to raise awareness of advice at key trigger points, but using voluntary organisations that specialise in financial education means financial education is impartial, without commercial interest.



## **Addressing financial exclusion**

### **7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should government, the charitable sector and business play in tackling financial exclusion?**

It is important to recognise the role that wider deprivation and exclusion play in affecting access to and confidence engaging with financial services, particularly for those most excluded. Financial exclusion is not simply neglecting to take up services that are easily accessible to an individual and therefore 'personal responsibility' has a limited role. However, that is not to say that given the right level of support, individuals should not be expected to take positive actions once empowered to do so.

This interaction with wider exclusion also means that there is no quick fix. All three sectors have a role to play to tackle financial exclusion, as well as wider deprivation. Charitable organisations are perhaps best placed to get alongside and reach the most excluded groups, but government has near universal access to reach all affected. There has also been much good work done by local authorities through financial inclusion schemes and the Troubled Families Programme, for example. Furthermore, financial services have a vital role to provide affordable products and services accessible to all.

From CAP's experience of providing financial education, for the most excluded that face a wider set of complex issues, support needs to be provided over the longer term to have a transformative impact. This has led to the development of CAP Life Skills. Currently in pilot stage, these groups build community and equip those on low incomes with the skills and confidence they need to survive on a low income. See page eight for more information about CAP Life Skills.

### **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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

As a trusted brand, the Post Office has a very important role to play providing a face-to-face service for those who are excluded from or not confident with other access channels. However, it is important that accessing services via the Post Office is not a worse deal when these are typically used by low income consumers, and that branch closures do not further restrict accessibility.

There are also many other providers specialising in accommodating those at risk of financial exclusion, from not-for-profit hire purchase providers to Credit Unions. However, banks and mainstream service providers have an important role in offering mainstream products that meet the needs of those at risk of financial exclusion and promote wide take-up. These providers are also better

placed to provide services to less profitable customers and social tariffs, as they have a broader customer base.

There has been good progress in the past year with the new Basic Bank Accounts launched in conjunction with HM Treasury, but these still fall short in practice. Many CAP clients still find the application process difficult to navigate, branch staff are unaware of these accounts and the detriment caused when they are declared insolvent.

## **Accessing affordable credit**

### **9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

HCST credit is often used by those already financially excluded who are unable to access other more affordable forms of credit, but others prefer this type of credit for its speed and anonymity.

As those struggling with debt typically wait over two years before seeking help, the impact of the FCA's price cap on high-cost short-term (HCST) credit is still widely unknown. The main concern is that those now excluded from HCST credit because of the price cap will face detriment and turn to harmful unregulated borrowing.

Research conducted by CAP in 2013 found that 77% of those who took out a payday loan had used it to pay for food, 52% for gas or electricity and 36% for rent or mortgage payments. This clearly represents unaffordable borrowing and the price cap brings important protection from excessive interest and charges for many of the most financially vulnerable. However, it does also highlight the importance of offering alternatives for high-risk consumers now unable to get a loan so that they can make these essential payments.

While affordable credit is preferable, borrowing to meet essential living costs is rarely sustainable and there is a need for earlier intervention; equipping people to budget and save so they are less reliant on credit as a safety-net. There is perhaps also a role for budgeting loans provided by Jobcentre Plus to be extended for non-physical items to meet urgent priority bill payments.

## **Government policy and regulation**

### **10. How effective has government policy been in reducing and preventing financial exclusion? Does the government have a leadership role to play in addressing exclusion?**

The role of central government is very important to bring stakeholders together, especially to ensure markets provide for those where there is little incentive to do so due to profitability. The government has taken a leadership role to some extent, but there has been little legislation that CAP is aware of. There have been positive initiatives supported by government, such as the new Basic Bank Accounts, as well as much good work done by local authorities. Yet where concrete action has been taken, for instance the proposed Help to Save, this has missed key groups most at risk of financial exclusion, such as those on unemployment or disability benefits.

### **11. What has been the impact of recent welfare reforms on financial exclusion?**

Recent welfare reforms have undoubtedly exacerbated financial exclusion for some by reducing their income and increasing their risk of debt. There is also now less provision for crisis loans, which are a vital lifeline for those unable to afford or access other forms of credit.

Universal Credit has also increased the requirements for being financially included. For instance, by requiring claimants to budget monthly when some employers pay weekly. While budgeting support has been provided, it is concerning how low take-up has been and this has clearly not promoted financial inclusion. Even some of the extra accommodations, such as Alternative Payment Arrangements, which are paid one month in arrears, have caused detriment, by triggering the eviction process for some housing associations.

### **12. How effectively are policies on financial exclusion coordinated across central government? Is there an appropriate balance and interaction between the work of central government and the work of local and regional authorities, and the devolved administrations?**

Local authorities are doing a lot of great work to promote financial inclusion. This localised approach works well as financial exclusion can look different between locations and local authorities are able to bring together the many local organisations working to promote financial inclusion. However, support and funding from central government is essential, especially as financial exclusion tends to be concentrated in the most deprived areas. The success of local authorities' initiatives has also been limited by lack of coordination between their departments in some cases, for instance Council Tax collections, and with central government. It seems that local authorities have been desperately trying to mitigate the impacts of central welfare reforms, while at the same time their budgets have been increasingly squeezed.



**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? What balance should be struck between regulations and incentives for financial institutions?**

The Consumer Credit Sourcebook does cover provisions for vulnerable customers and seeks to ensure existing customers are treated fairly, but this does not address wider financial exclusion or encourage expansion to excluded groups. It is however, a topic that the FCA are currently looking into with the publication of their Occasional Paper on *Access to Financial Services in the UK* and some firms are addressing financial exclusion to gain reputational capital.

The most excluded are commonly the costly consumers in terms of customer service and risk profiles. Therefore, additional regulation is needed to ensure that the market accommodates them. However, this needs to come hand-in-hand with a culture that creates the right incentives to ensure this is done well. The new Basic Bank Accounts are an example of where high level intentions and policies in practice have been at odds and not fully address the issues faced by those financially excluded.

**Financial technology (FinTech)**

**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?**

It has been great to see new players enter the financial services industry in recent years and leading the way in innovation. FinTech has the potential to bring many exciting new developments where the major traditional players have been slow to move. With lower running costs FinTech might also present the opportunity to offer products to more costly segments of consumers where there has previously been a void. However, the extent that these new technologies can lessen financial exclusion will heavily depend on the level of digital exclusion, both lack of access and skills, that co-exists with financial exclusion. The Government certainly has a role to play in this landscape, continuing the extension of good internet access to all and enhancing digital capability.

*12 September 2016*

## **Church of England's Mission & Public Affairs Council and Church Urban Fund – Written evidence (FEX0025)**

The Mission & Public Affairs Council of the Church of England is the body responsible for overseeing research and comment on social and political issues on behalf of the Church. The Council comprises a representative group of bishops, clergy and lay people with interest and expertise in the relevant areas, and reports to the General Synod through the Archbishops' Council.

Church Urban Fund was established by the Church of England as a practical response to unmet need and has been active in local communities for over 30 years. CUF's vision is to see people and communities all over England flourish and enjoy life in all its fullness. It works through the Church of England's local parish networks, and alongside other faith-based and secular organisations, to bring about positive change in neighbourhoods.

### **Background**

1. In January 2014, the Archbishop of Canterbury established a Task Group on Responsible Credit and Savings in response to concerns about the damaging effects of payday loans and other forms of high-cost credit. The Task Group's objective was to harness the extensive networks and resources of the Church of England in support of a larger and stronger community finance sector.
2. Building on the work of the Task Group, the Just Finance Foundation was established in 2016 by the Church of England and Church Urban Fund, in order to implement the Archbishop's vision of a fairer financial system. The JFF is working with credit unions, churches, schools and other local organisations to strengthen the financial resilience of communities through improving local access to financial education, free debt advice services and responsible credit and savings opportunities.
3. The Foundation's two core initiatives are the **Just Finance Network** (previously the Church Credit Champions Network) and the **LifeSavers** financial education programme, both of which have been successfully piloted over the past two years. The first of these initiatives directly addresses the Select Committee's question about the role of the voluntary sector in tackling financial exclusion (Q7). The second of these initiatives addresses the need to strengthen the delivery of good quality financial education in schools (Q5). The remainder of this submission shares our learning from these two programmes to date and the implications for the Government's broader response to financial exclusion.

### **Just Finance Network – the role of the voluntary sector (Question 7)**

4. The Just Finance Network (previously the Church Credit Champions Network) mobilises churches to tackle financial exclusion in their local communities, working through area coordinators in partnership with credit unions and the money advice sector. The two-year pilot in Liverpool and London has been highly effective, engaging nearly 400 churches, training 450 people and recruiting over 3000 new credit union members.
5. The pilot received £371,000 in support with the majority of the funding coming from Lloyds bank and the Jerusalem Trust, with other grants from various Church bodies. By diverting new credit union members to more affordable sources of credit and increasing regular volunteering, the programme generated an estimated Social Return on Investment of at least 1:7, meaning that for every £1 invested in the pilot there has been a social return of around £7.
6. Following a process of engagement and training, the area coordinators have supported churches and individuals in a number of key activities:
  - Raising awareness of credit unions
  - Organising mass sign-ups to credit unions
  - Brokering payroll savings schemes with local employers
  - Recruiting skilled volunteers for credit unions
  - Establishing credit union access points in churches
  - Promoting school savings clubs
  - Signposting to debt advice and budgeting courses
7. This pilot project provided an opportunity to explore community-based responses to financial exclusion by local churches and their networks, through improving access to affordable credit, savings opportunities, budgeting and free debt advice. A process evaluation highlighted the following key features and benefits of this approach:
  - **Churches often have good local networks and through these, are well placed to understand and address needs in their local community. Additionally they have many of the resources needed to bring about change: ethical savers, solvent borrowers, skilled volunteers and buildings at the heart of the community.**
  - **Churches and clergy often have 'civic capital' that can be used to broker new and significant partnerships, such as payroll savings schemes.**
  - **By prioritising the importance of listening to local communities, the Network ensures that activities are responding to local needs and ideas. This brings benefits in terms of awareness-raising, engagement and community 'buy-in'.**
  - **Coordinators have built strong working relationships with churches and credit unions, enabling them to catalyse successful partnerships with potential for considerable impact.**

- **Credit unions and other community finance providers are often very keen to engage with community partners like churches and can benefit in terms of increased membership, increased volunteering (especially skilled volunteers), increased access to services and greater awareness of the sector.**
  - **Raising awareness of money and debt issues within the Church and more widely has contributed to raising the profile of credit unions, community finance providers and money advice services more generally at both a local and national level.**
  - **Churches – and church-linked charities - can help to break down the taboos around talking about money and therefore encourage more people to seek help and advice.**
8. The pilot has demonstrated that a bottom-up approach can create genuine and long-lasting partnerships between churches and community finance providers based on a shared interest in the financial well-being of the local community. It has proven the value of civil society organisations as key partners for credit unions, helping them to grow and innovate. It has also helped to increase awareness of money and debt issues in communities, creating a context where help and advice can be sought. This model for tackling financial exclusion through partnership with churches could potentially be applied to other community-based organisations.
9. Church Urban Fund is currently managing a national roll-out of this programme, to be known as the Just Finance Network, working through the infrastructure of their national Together Network and overseen by the Just Finance Foundation.

#### The role of the voluntary sector - case studies from the Just Finance Network

##### **1) Connecting Canterbury**

Connecting Canterbury is a partnership between Kent Savers Credit Union and the Together Canterbury - a joint venture of the Church Urban Fund and the Diocese of Canterbury. With a focus on providing holistic advice and signposting to key support services alongside a credit union access point, the project launched in January 2016 and is based on a 'community hub' model that was already operating in three other locations across Kent.

The aim is to ensure that there was somewhere in the city, every day of the week, where anyone who needed help or advice could access it. Provision is currently provided on four days of the week by three churches and one community centre, with plans to cover five days in the near future. The 'community hubs' are run by trained volunteers supported by the Together Canterbury Development Worker in partnership with other local support services, including debt advice organisations, NHS programmes, and food banks.

The churches' partnership with Kent Savers, which dates back to 2014 and the opening of the first branch at All Saints' Church in Murston, has helped to raise the profile of the credit union across the county, substantially increasing membership, scope and governance capacity. Church representation on the credit union board has contributed a grassroots perspective which has influenced key decisions, for example around digital banking. More recently, the credit union appointed a parish priest to act as the bridge between the board and all branches. For more information, see:

[www.connectingcanterbury.org](http://www.connectingcanterbury.org)

## **2) Tackling financial exclusion in Liverpool**

In Liverpool, the Network coordinator, Julia Webster, recently helped to facilitate the establishment of a new branch of a large credit union in an area of high deprivation where there were no local banking services. Prior to the establishment of the new branch, residents faced a 5 mile bus journey into the city-centre, costing £4.

At the invitation of the local priest, and building on her networks, Julia facilitated a meeting between two credit unions and a group of local residents in order to explore the possibility of working together to establish a new community branch, drawing on Big Local lottery funding earmarked for financial inclusion.

As a result of this meeting, one of the credit unions has now established an office on the estate that is open one day per week and signed up 230 new members in two months. They have also submitted a proposal to the Big Local fund to extend their opening hours. The other credit union is also working towards establishing a presence in the area.

## **3) Promoting payroll saving in London**

In London, churches have been at the forefront of promoting payroll savings schemes between employers and credit unions. These schemes carry huge benefits for employers, employees and credit unions alike, but it can often be difficult to get the necessary decision-makers in the room to create the momentum needed to get them off the ground. With the encouragement of the London Network coordinator, the 'civic capital' of churches and clergy has been put to good effect and, as a result, organisations such as Linklaters, St Paul's Cathedral and the Financial Services Compensation Scheme have all successfully started payroll savings schemes with London Capital Credit Union, giving their employees access to affordable loans and savings opportunities.

## **LifeSavers – starting financial education early (Question 5)**

10. The recent report of the APPG on Financial Education, 'Financial Education in Schools: Two Years – Job Done?', found that the provision of financial education remains patchy, inconsistent, and varying in effectiveness, and that there is a clear demand from teachers for further training and

support. Our LifeSavers programme is a response to the need to strengthen the delivery of financial education in primary schools, starting at an early age when many habits and attitudes around money are being formed.

11. The LifeSavers programme has three key elements:
  - a. School savings clubs set up in partnership with a local credit union and run by pupils under adult supervision, with children encouraged to save small, regular amounts of money.
  - b. Intensive support to schools – teacher training and resources - to help integrate financial education within the whole school curriculum.
  - c. A whole community approach involving parents and volunteers from the local church and community.
12. This approach helps classroom learning to be put into practice through participation in a school savings club and with the active support of parents and the wider community. LifeSavers is a partnership between the Archbishop of Canterbury's Just Finance Foundation and Young Enterprise, the UK's leading financial education and enterprise charity. Following a successful small-scale pilot in six primary schools, the programme is being extended to 120 church and community schools and at least 30,000 children over the next three academic years. It is being financially supported by Virgin Money, which means that we are able to offer it to schools free of charge. Additional funding from Government will make the resources and learning available to many more primary schools through a LifeSavers website and financial education consultancy support. The long-term goal is to be able to offer the LifeSavers programme to all primary schools in England.
13. The evidence report<sup>110</sup> and findings from the LifeSavers pilot evaluation report identified the following components of an effective financial education programme:
  - **Equipping teachers with the skills and resources to deliver financial education as part of a whole school curriculum is vital.** Lack of teacher confidence is one of the major barriers to strengthening financial education in schools, yet fewer than one in five teachers have received training in this area. The CPD training and classroom materials offered to schools participating in the LifeSavers pilot programme were extremely well-received by teachers and pupils, and have had a significant impact on teachers' confidence to deliver financial education, with 80% of participants saying they were now more likely to embed financial education in their teaching practice in the long-term. All of the teachers involved felt that LifeSavers was important for their school to do, and have been encouraged by the level of thinking and engagement from pupils (see box below for feedback from teachers).

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<sup>110</sup> 'Supporting young savers: The case for savings clubs in schools', The Children's Society (September 2014)

- **Giving children practical, real-life, experiences of handling money should be a fundamental part of children's financial education, alongside theoretical learning in the classroom.**  
The UK National Strategy for Financial Capability identified exposure to financial products as a key contributor to helping young people become financially capable. The school savings clubs set up as part of the LifeSavers programme, have been very popular, with around 40% of eligible pupils taking part during the pilot period. There is already evidence of educational benefits for young savers who are learning about the importance of saving and keeping money safe. Some of the deepest learning has been among the year 5/6 volunteers, who have responded enthusiastically to being given the responsibility for running the clubs and are reporting improvements in their maths and literacy skills, as well as softer skills such as communication, organisation and self-confidence, that will benefit them in later life.
- **Parents and carers also have a very important role in children's financial education, so community engagement is crucial to the success of financial education programmes.**  
Approaches, practices and skills which are discussed and demonstrated by parents and other significant adults reinforce the development of good habits and practices in relation to money. Savings clubs are a great way of engaging with parents and carers, encouraging them to be more involved in their child's broader education. Early feedback from pupils suggests that it is leading to positive conversations about money at home, for example about household bills, the cost of things, and the need to work to earn money.
- **Financial education is more effective when it is values-based, encouraging children to think about the attitudes and motivations that shape their understanding and use of money, rather than solely imparting knowledge and skills.**  
The LifeSavers programme introduces children to four core values (wisdom, generosity, justice, and thankfulness) that can influence the way we think about money in positive ways, and which are explored both through the classroom resources and a specially commissioned set of collective worship materials. Whilst it is too early to assess changes in children's underlying values and attitudes, we are encouraged that over 90% of teachers at these schools said they had a clear understanding of the values and approach of LifeSavers.

Feedback from teachers at the LifeSavers pilot schools:

*"The children's enthusiasm for the scheme has been infectious as they've already started to talk to their friends about the savings club"*

*"The holistic approach of the curriculum and it being a whole school initiative for us has meant we are seeing the impact."*

*"Teacher enthusiasm has been very high despite competing commitments."*

*"Training year 6 to run the savings club has been a brilliant opportunity for responsibility which they have risen to."*

*"It's exciting to see our children are thinking about their values with regard to money."*

*"Messages are going home to parents via pupils about importance of saving."*

*"My class have enjoyed saving and learning about money in such a constructive way. The lessons have been lively and full of discussion, really stretching the children to use their higher order thinking skills and empathy."*

14. Together, the evidence collected to date supports the case for a more cohesive and comprehensive approach to financial education in primary schools in order to ensure that all children are given opportunities to develop the knowledge, skills, attitudes and experiences to manage money well, starting as young as possible. We, therefore, support the recommendation in the APPG report that statutory financial education is extended to primary schools, alongside additional training and resources for teachers to deliver it effectively as part of a whole school curriculum.
15. We also support the need for more rigorous evaluation of financial education programmes, including a continuing role for the successor body to the Money Advice Service in developing an evidence hub for financial education and other financial inclusion interventions. In support of this objective, we have commissioned an independent evaluation of LifeSavers to monitor and evaluate the impact of the programme on children's knowledge, skills, behaviours and attitudes around money.

*13 September 2016*



Church Urban Fund and Church of England's Mission & Public Affairs Council – Written evidence (FEX0025)

## **Church Urban Fund and Church of England's Mission & Public Affairs Council – Written evidence (FEX0025)**

[Submission to be found under Church of England's Mission & Public Affairs Council](#)

## **Citizens Advice and Toynbee Hall – Oral evidence (QQ 112-121)**

Evidence Session No. 11

Heard in Public

Questions 112 - 121

Tuesday 25 October 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Joe Lane, Senior Policy Researcher, Citizens Advice, and Sian Williams, Head of National Services, Toynbee Hall.

Q112 **The Chairman:** Thank you very much for coming to give evidence. I am sorry if we have kept you waiting for a couple of minutes. While you settle down, if I could go through the formalities, first, welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. This meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website, but you will have the opportunity to make any corrections to that transcript where necessary.

I ask you both to start by saying who you are and whom you represent.

**Sian Williams:** I am Sian Williams. I am head of national services at the charity Toynbee Hall in the East End of London.

**Joe Lane:** I am Joe Lane. I am senior policy researcher at Citizens Advice, leading on debt and financial services policy.

**The Chairman:** I will kick off with the first question. The Committee is thinking long and hard about the leadership role that government should be providing in this area of addressing financial exclusion. How effectively do you think the Government are currently providing that leadership role? What more could be done to enhance that role? How far can the market be expected to serve people who are financially excluded?

**Sian Williams:** I start by apologising: as you can hear, I have the lurgy that is going around. I will try to speak slowly and clearly, but tell me if my voice is going.

**The Chairman:** I am afraid a number of our witnesses have been so afflicted. I am sorry about that.

**Sian Williams:** Yes—it is not a good week.

It is an interesting question. Obviously we have seen a change in the way that government leads on financial inclusion. If we go back to the previous Labour Government, we saw a heavy policy agenda around financial inclusion as an end in itself. That had the Financial Inclusion Taskforce, clear goals around achieving greater levels of banking, and very clear guidance from the Treasury to the banks, through the FSA at the time, around how to tackle that. We saw a dramatic movement towards people being banked.

We then moved to the coalition Government, and now to the Conservative Government, and we can see that financial inclusion stopped being an end in its own right and started to become, first, a phrase that people did not really want to talk about. That was partly because, as we lost the Financial Inclusion Taskforce, the role of financial inclusion in each government department became mainstreamed. That meant that no one knew anything. It is quite a specialist subject. When there was a team in the Treasury who were leading on it, they felt quite comfortable directing that work. They had a lot of research, and they could commission research through the task force.

Life moves on. Financial services change; people's needs change. It is not a static topic. You need to be able to have a body of evidence that constantly looks for the gaps, and why the gaps occur, and does not presume that any one particular sector is deliberately failing to address issues; it is simply that they do not necessarily know that those issues exist.

As you know, as a group of people, the Financial Inclusion Commission was set up primarily to tackle that gap. You have heard from the Financial Inclusion Commission. I am not speaking today on behalf of it but I am a commissioner. We called very strongly for a new government lead. The reason we said that was particularly because we saw in the past how a strong government lead and a strong government centre point for financial inclusion allows everyone to work together, allows people to focus on where the gaps are and to target research, and then to work with the industry, whether through legislation or regulation or through voluntary support and action, to tackle those gaps. We are missing that now.

In the last month we have seen some really interesting moves, which I absolutely applaud and encourage. We will come on to it, but the decision to re-look at the Money Advice Service successors and the pensions guidance, and particularly the statement that was put out by the Treasury saying that government Ministers are listening to the sector, is a fantastic statement. It is not just the fact that we are moving towards the idea of having a single body, but why. The sector was uniformly saying, "This particular solution is not going to work. We need to look at that again". The fact that that has been reopened shows that people in government are listening.

I would like to go further. We would still like to have a Minister for financial health.

**The Chairman:** Thank you very much.

**Joe Lane:** I echo some of those points. It is absolutely right that the challenge of financial inclusion is dynamic and constantly moving. You need specialists trying to address it at all times. That speaks to part of the question whether the market can address financial inclusion. Almost inherently, the answer is no. I think that the shape of the market will change, and it might be prodded in the right direction by various regulations, but the people who are financially excluded are those who are excluded from the market. In an ideal world, that group would be as small as possible, if not non-existent. We can keep working towards that, but it is important to acknowledge that the market will not address most people's financial exclusion situation.

As for where the Government are going, I think there are positive messages. The direction of travel looks right. There is an amazing opportunity now to get the new money guidance body right—what the single body does, how it works and how it commissions—and to get the provision of advice and guidance right. That is a big opportunity to close gaps in financial exclusion.

There are also huge steps that have not necessarily been taken, particularly around the idea of not just thinking about the financially excluded and how they can be brought back in, but how financial markets and creditors—other creditors we will come to, but including the Government—do not exclude the already included. We often think that there is an included group and there are those who are excluded, and how we can bring them into the house. The vast majority of people who do not have or do not use a bank account have done

at some point and, for some reason, they have been pushed away from that, whether by their treatment by a creditor or by a government creditor. There are huge steps that could be taken in the financial services sector, particularly in the way in which public bodies collect debts and treat people when they are in debt.

**The Chairman:** We will return to a number of those issues during the session. Thank you very much for that.

Q113 **Lord Harrison:** Joe, what was good about the Money Advice Service? If a new, phoenix-like organisation appears, what might happen to that to improve it?

**Joe Lane:** I do not want to rehash the evidence on the Money Advice Service, but I am sure that the Committee will be aware of the well-grounded evidence that the Money Advice Service did lots right, but there were correct concerns about value for money. What it did right was to commission debt advice services and work with the existing debt advice sector. That was not only through funding streams but through providing support services and accreditation services, and the development of its standard financial statement. There are big lessons to be learned from the positives of how it has worked with existing established brands that are already embedded in communities, delivering advice to improve and support those services.

In terms of what that means for the new body, it is clearly a single body and it is not simply going to be a commissioning service. It has an element of delivery. The lesson learnt from the reviews that we have had is that, where possible, it should support existing services and not look to replicate them. It should fill gaps. Where there is not an existing infrastructure or a well-developed free pensions guidance sector, for instance, there will be more of a need for delivery in filling those gaps than there would be in the debt advice or financial instability spaces.

The most important thing to take away from those reviews is that striving for a neat solution to a very complex problem is tempting, but that is the wrong direction to go in. That is partly wrapped up with the sunk costs fallacy. We have already spent hundreds of millions of pounds on creating a single point of entry and trying to create a brand, and now we have got part of the way there, so we should plough that furrow. It is important not to get sucked into that mistake and to recognise that consumers do not interact with those services. They come in looking for a single service and want to be signposted to where they need to go. They might do so through Citizens Advice or perhaps through Toynbee Hall, or through another charitable organisation. When they get to that place and they come to take advice, that advice needs to be supported. The experience that they get needs to be as uniform and as high quality as possible. In short, it should focus on commissioning services and supporting them to deliver high-quality advice where they can, and to look for and fill the gaps where they cannot.

**Lord Harrison:** Sian, you share Joe's enthusiasm for this new opportunity. Tell us more.

**Sian Williams:** I am lucky enough to sit on the financial capability strategy board, run by the Money Advice Service. I see from within the organisation a process of learning. For me, a measure of success would be that someone like

Joe or me, who are experts in the field, want to work at the new body. Someone comes to us and says, "Where would be the best place for you to put your passion and expertise?" We would say that it is in the new body, because we believe that it is setting the standard for excellence. To me, it would be a real mark of success to see people queueing for those jobs.

I look at what the Money Advice Service has been doing around building consensus in the sector, and by "consensus" I mean a willingness to sign up together instead of being in competition with each other. For example, we at Citizens Advice and Toynbee Hall are competitors, because we have to compete for funding by saying that my services are better than theirs or their services are better than mine. That does not really get us very far, because we need to be pooling knowledge and understanding what works, and then finding ways to leverage every single pound that we have to spend on this subject in the best possible way. I believe that that can only be through partnership. I see what the Money Advice Service is setting out to do through the third sector, particularly through its current "what works" fund. That is about sharing information and gathering evidence of what works and what does not work, so that we do not go on repeating things.

We are starting that process with the third sector and the delivery agencies. I want to see that expanded, primarily, to begin with, to the funders. That is normally the financial services sector at the moment. Many of the funders are still in competition with each other, because they still see the funding of this work as a brand opportunity. I know that they believe in the work, but the way that we have set up funding and commissioning is all around competition.

The third area that I want to see involves bringing in the wider sector. I am sure that we will go on to talk about this, but local government puts many people into debt recovery processes. So do utility companies. So do many other types of agency. However, we have not engaged those organisations deeply enough yet in thinking, first, about how they prevent people falling into financial difficulty in the first place, and, secondly, about how they can help their own staff, their own communities and their own partner organisations to be part of the solution rather than the problem.

How do we bring all this together so that we are having a national conversation about money that is engaging and empowering? In our own work at Toynbee Hall, we find every single time that, when you try and talk to someone and say, "If you get on top of your money, someone else will benefit", they switch off. If you say, "If you get control of your money, you will benefit", they switch on. I do not think that we have quite taken that to heart. We are still talking about money and people's financial education as something that is for the public good. Of course it is, but we need to craft this conversation and craft the entire industry around the idea that we are trying to help the person, their family, their children and their livelihoods. Once we get that right, every pound we put into this produces results. We can only do that in partnership, not in competition.

- Q114 **Lord Holmes of Richmond:** This builds on the previous question. Given the relationship between welfare and financial exclusion, is there merit in the new money guidance body also giving welfare advice alongside money guidance and debt advice? If so, how should these functions be put on a sound financial footing?

**Joe Lane:** Undoubtedly, financial exclusion and welfare issues are interrelated. Recipients of welfare are more likely to be excluded from traditional financial services. At a local citizens advice, the first thing that you would hear from an adviser, when people get into financial difficulty or any difficulty, is that it is very rarely an isolated problem. If somebody comes to us and they are having difficulty with their personal independence payment or with council tax, very regularly they will also have a housing, welfare or debt issue. Of the 400,000 or so debt clients we see each year, around half of them have an issue in another area. Around a quarter of them have a welfare issue.

An adviser would tell you that you cannot give effective debt, money or welfare advice without giving other types of advice. It is meaningless. If you contact someone's credit card provider and their council and sort out their affordable repayments on debts but you are unable to maximise their income by helping them to apply for benefits or to appeal decisions, you are not putting the person first and taking them from their difficult position where they come to you for help and sending them away in an improved position. That is essential, and that should be at the heart of how the new body looks to support services. That will look different in different places, depending on how different bodies, charitable organisations, financial services providers and bill originators such as utility companies can work together to ensure that people get that diverse service that they need.

Crucially, for the person, that needs to be as seamless as possible. It is almost irrelevant what it looks like behind the scenes, who funds it and what it is called. You do not want to be sending the person away saying, "Here is a website", or, "Here is a phone number". You want to be saying, "Here is an appointment. It is here tomorrow", or "It is here this afternoon", If it is a hand-off process, it needs to be smooth. If it can be, it needs to be delivered as the person interacts with the advice service.

In terms of funding those services, it is crucial that this opportunity we have to improve the provision of advice and guidance is not used as an opportunity to claw back any of the existing funding. The services out there are already overstretched. The people who come for debt and welfare advice are already more likely not to be seen because there is not capacity in the system. The funding needs to be maintained, and those services need to work closely together.

**Sian Williams:** That is an excellent question, and it is one that the powers that be who are making decisions about how to get government to join up departments will be wrestling with.

Toynbee Hall runs face-to-face debt advice for London and sees around 20,000 clients a year. Of those, 75% of people receive benefits in some form, including pension-related benefits; 15% of them have a welfare benefit issue when they first walk through the door; 15% of those 20,000 people say they have come because something has gone wrong with their benefits; 12% of them are there because they have had a benefit overpayment and they are now struggling with the clawback.

That is a clear link with people presenting for debt advice when what they are presenting for is some kind of problem between them and the welfare state—involving the way that the money has flowed and the lack of information or clarity about what they are entitled to and when—between them and the

Government. They have not gone and robbed DWP; they have been given the money by mistake and there has been a problem about how to get it back.

All of Joe's points are absolutely valid. When we think about people's money, then we are on the right track. Where it comes from is irrelevant. First, we need to help people to understand what they are entitled to, whether it is from benefit payments or from their employer. Secondly, we need to help people understand how to use that money to secure the things that they and their family need and want. Thirdly, when things go wrong, whether with a creditor, an employer, someone that they have bought a service or a fridge from, say, or with the Government, and they need to seek redress, we need to ensure that they have support, good information and appropriate redress opportunities around that.

For me, that goes through their whole life. It is not just when they are of working age or when they are retired. Those are not separate parts of life, so bringing together the entire journey for someone and their money in a 360-degree, holistic way makes absolute sense. I absolutely believe that the Government's stated goals around ensuring that welfare provides the right opportunities and support for people to be empowered and to take responsibility for their lives has to be bundled into an understanding that that is just one part of their money. Providing holistic guidance around money reduces the costs for government in every single way—both the cost of delivery and the cost of recovery.

**Q115 Lord Haskel:** You have spoken about support from the Money Advice Service, and you have been quite enthusiastic about it. The DWP has said that the rollout of universal credit will be accompanied by support for recipients that will be delivered by a variety of local providers. What has been your experience in your organisations? To what extent are people utilising this sort of support? Do you have any early experience to tell us about?

**Joe Lane:** It is obviously a little bit complicated, because universal credit has been rolled out in different areas to different people at different speeds. What we have seen so far is that, for each new starter in any quarterly period, around 5% of people being moved on to universal credit will come to a citizens advice bureau. That is aggregated across the country, so the relationship is not exact yet, and we will see how that develops as universal credit gets rolled out. We definitely know that people need support as they move on to universal credit. That is not only from the clients we see and the evidence that we have collected from them; it is also in surveys of people as they are told about universal credit. Around two-fifths of the people we surveyed said that they need support with almost every area of financial planning. When they moved into monthly payments, they needed help with how they budgeted, how they banked, how they worked and how they applied and managed their finances online. We know that there is a need for support.

In terms of the universal support that is offered at the moment and delivered locally, as far as I am aware, that is being trialled at the moment. An early evaluation has come back. Our feedback from local offices says that, where they have been involved in that process, they have been able to add to its effectiveness. Because it is done through local authorities, and given the framework on which local authorities do it alongside Jobcentre Plus, it does not necessarily say who they should involve locally—whether it is housing



associations or charitable organisations. That means that sometimes organisations that could help are being excluded. In those situations, the local citizens advice bureau will say it has seen someone who has gone for universal support but who, as we were saying previously, has come in with other issues that they have not necessarily had solved. That person has been given a type of support but, because it is not joined up, they are getting their universal support in one area, which helps them to apply for universal credit, but then they are coming in with a debt issue or a housing issue to get solved elsewhere.

There are issues around how that universal support is provided. It is absolutely essential. It is a very dramatic change to welfare. It could be catastrophic for lots of people if they are not supported as individuals and if safeguards are not put in place in the structure of universal credit.

In terms of linking up and helping people to build resilience and improve their financial capability, the model that financial capability provision is going down involves using points of contact to build people's resilience. They might not come and say, "Could you help me to develop my budgeting skills or to work on my own financial capability?" When you contact them, if they come for debt advice or universal support advice or if they approach a children's centre for the first time, whatever their point of contact is, those points of contact should be used to provide financial capability services. That should definitely be done through universal credit. That should be seen as one model of engaging people with financial capability work.

**Sian Williams:** We have had only a few clients, because universal credit has not been rolled out across our area yet. However, there are two points that I wish to make. First, I am encouraged by the DWP team's openness on the trials that it has had so far. It is engaging more people. We started off with those on the universal credit team being very open; then we lost them for a little while, while they had to put their heads down and get things out there. Now I think they are emerging again and they are asking. I would encourage that and support that. They are being open in saying, "These are the areas of our support that we do not think have worked. What do you think? Why do you think that is happening? How can we improve that?" I encourage that conversation to continue.

Secondly, ideally, if I could design it, what would it look like? When someone is moved on to universal credit, they would have a holistic, full-ranging conversation about their current ways of managing money and how they feel about it. Some of them will be very scared. It is a very scary process, because it implies not just their money but their homes, and homes matter, as we know. It would be a full-ranging, open, all-gloves-off conversation with someone who can be very discreet but trusted. The conversation needs to be one of support and empowerment, recognising that, for some people, "It will not be from this month to next month that I can make the transition, but actually I need some time". There would be a personalised plan to help people achieve that progress and that transition, with a recognition that, crucially, there will be some people in every generation and every age range now who might struggle with that transition over a longer period.

We may need to say that there are going to be some older residents who probably should not be shifted across to a different style of budgeting,

because it is just too late—let us just let people live their lives with dignity, security and safety. That might also apply to a small group of people across all age ranges, depending on skills and capabilities across their life skill set.

Crucially, however, we need to ensure that we do not, in another 10 years, have a young generation coming through who do not know how to use money, financial skills and tools in a way that allows them to make the kinds of decisions that they need to make for their future.

Investing in young residents and the children of residents is incredibly important right now. I say “residents”, because you have just had David Orr talking about the social housing sector. I did not listen to his evidence, but I can imagine what he said.

This cannot be a one-size-fits-all process. However well-intentioned the DWP’s processes have been, the lack of funding available for a personalised transition process is a real issue.

**Lord Haskel:** Many of the things that you have both said of course apply to both money advice services and universal credit. Is there any risk of duplication, or should the two be working together?

**Sian Williams:** They should absolutely be working together. It is one of the reasons why I am slightly reassured by what we have seen from the DWP’s universal credit team recently. They hosted a workshop supported by the Money Advice Service, co-hosting and looking at the evidence that they had collected. I want to see that continue. That is why I absolutely support the view that welfare payments, in terms of the payment that the state makes to you when you cannot earn your own living or when you have retired and you should be able to retire in dignity, are just part of your income. The entire conversation around your money—how your money comes in to you today and what you need to achieve with it, now and in the future—should be a 360-degree conversation covering all areas of your life, not just the fact that you are now receiving your benefit payment in a different way.

**The Chairman:** Lord McKenzie, did you want to come in earlier on?

Q116 **Lord McKenzie of Luton:** Excuse me, but it is on a slightly different point. Regarding the new services, and indeed the previously planned one, there is reference to money advice, but to guidance as well, particularly in relation to pensions. Is the demarcation between the two areas clear? Is it going to give rise to confusion?

**Joe Lane:** I think there is confusion for ordinary people. Someone will go to their parent, their friend or a bloke in the pub and they will call it advice. They do not hold that person liable, because they call it advice rather than guidance. There is a regulatory issue, and that needs to be clear. There is a consultation at the moment about how advice and guidance are defined.

The crucial thing is, first, that customers can get the help that they need. Services are both liberated and have clarity, in that they know that they can help people without becoming liable because they have accidentally overstepped the mark. That consultation is very important. For the service, what they would want from it is not necessarily where the line is drawn. There will be views on both sides of that, but the adviser who sits in front of someone has certainty that what they are providing will help the person and

will not fall back on them. They are trying to do a good thing, but, as with everything, there might be unintended consequences.

**The Chairman:** We need to press on.

Q117 **Lord Kirkwood of Kirkhope:** I was particularly struck by the Toynbee Hall evidence in relation to being more responsive to consumer needs and building the system around that. Reference is made to the concept of smoothing payments and request-to-pay systems, which I think would be helpful. The evidence seems to suggest that this needs government support. Does that mean statutory changes to regulations or laws, or does it mean extra money? Could you say a little bit about that? The Committee would be interested to follow through the meaning behind your written evidence.

**Sian Williams:** As you know, in the payment strategy forum, in the strategy that was put out for consultation, we proposed a request to pay. I am completely agnostic as to whether that is a feature in any particular kind of payment or a type of payment. I only care that people have an option to flex their payment.

Why does that matter? As we have written about in many different documents, including the strategy, income fluctuates, and it does so increasingly. As we look at patterns of work and the blending of incomes, whether that is caring responsibilities, education, work or welfare benefits, whether working age or in retirement, we are seeing an increasing number of people who cannot predict exactly how much money they will have each month or on which date they might receive it, with increasing numbers of people receiving that money in parcels.

That tells us that income is fluctuating for more and more people, often without any knowledge about how much money they will get. However, most bill payment methods still require people to pay quite statically—ideally monthly and on a fixed date, with very few mechanisms to flex that or to represent anything other than a sense that, if you do not try to do that and pay on a fixed date per month, you are somehow irresponsible. Actually, logic would tell us that responsible people would flex their payments to match their incomes so that they always had enough money to pay their bills and meet their needs.

When we look at payments, we can see that they are not changing in that way. It goes back to the question of how far the market can be expected to meet people's needs. The market is driven by some key principles. Mostly it is driven by the middle of the market or by the highest return on the market. When we talk to providers and ask why they do not provide this, they say, crucially, that they do not think there is a demand, or it is not in their gift. As we drilled down, we could see that it was because they were not having the conversation. There were ways to solve it, but they were not having the conversation.

We forced the conversation through the payments strategy forum—which was very exciting. Pretty much every member in the industry to whom I have spoken, first, now recognises the need for this kind of payment mechanism and, secondly, would like to see it. The sticking point comes next: who is going to pay? The next question that people tend to raise is, "But will this not mean that people just stop paying their bills?"

I am struck by those two questions. They come up every single time. The second one I find fascinating, because it is about infantilising people. It is about saying, "If you could get away with not paying, you would". Yet I look at our society, and that is not the evidence. The number of people who are constantly paying things that they could probably get away with—they are not trying to get away with not paying. Of course there is a small group of people for whom that will be true, but that will be true no matter what. The majority of people want to be able to manage their money, pay their bills and meet their responsibilities, and they want to be able to do it with confidence and minimum stress. It is simple. I just push that to one side and think, "That is an interesting question, but it is not one that I want to spend much time on".

On the point about how we are going to get it through and how we are going to ensure that you and I, and our colleagues and compatriots, can get this mechanism to pay, first, we must be able to build the system. Trying to cost that is incredibly difficult.

**Lord Kirkwood of Kirkhope:** Who is "we"?

**Sian Williams:** The industry. Of course, the industry only really puts money into where the regulator makes it put money. That is just a fact of life. I absolutely know, because it comes up in every single meeting—that the banks will say that they do not have the money to build new systems, because the regulator has told them where their money has to go over the next five, 10 or 15 years. Regulation drives all investment. It is as simple as that.

I would like to see the industry—"the industry" being the banks, the schemes and the wider payments industry—voluntarily build the system, but I am not yet seeing any evidence that it will. I am not, at this point, saying, please make it compulsory and legislate, but I want to hold that in reserve.

**Lord Kirkwood of Kirkhope:** But why not?

**Sian Williams:** I guess because I am an optimist.

**Lord Kirkwood of Kirkhope:** Really?

**Sian Williams:** Yes.

**Lord Kirkwood of Kirkhope:** I am a Liberal Democrat, so we are in different—

**Lord McKenzie of Luton:** We have not got time for that.

**The Chairman:** I call the meeting to order.

**Sian Williams:** If we have to legislate on everything where there is clear evidence that the country needs it, we are in a sorry state, but if that is what it takes, then please legislate. If it takes legislation to get an industry to deliver something that people obviously need now and will increasingly need in the future, then legislate.

**Lord Kirkwood of Kirkhope:** So, voluntary would be your first mode of progress.

**Sian Williams:** Yes, but not for any reason other than that I think you get more when an industry signs up to do something on a voluntary basis, because it is then engaged with it.

**Baroness Primarolo:** Are you suggesting that legislation would be held over the industry like the sword of Damocles? “You need to get here. Can we nudge you along?” I agree with you: if we had to legislate, we would probably get it wrong.

**Sian Williams:** The basic bank account situation is a really good example. The Treasury was very clear with the banks: “If you do not do this in a voluntary way that meets our needs, we will legislate. Legislation will be harder for you; voluntary will be easier for you”. It worked.

**The Chairman:** Is there anything that you wish to add briefly, Joe?

**Joe Lane:** People will be entitled to ask, “Is there enough competition in the payments industry?” Everyone likes the sound of this flexibility. Why is a payments company or a bank not coming forward and saying, “We have developed this. We are allowing you to be flexible. We paid for it and built it”? The fact that it sounds popular but no one is providing it begs the question whether the providers are competing.

I echo the point that we are seeing more and more people in inflexible work. That is our fastest-growing issue. Two big things that will come out if there is progress in this space are, first, would it stretch to government as a creditor, as we will talk about? You know how the Government behave as a creditor—would you be able to flex your council tax or your income tax? The second question, more broadly, is that it would not have to cause further exclusion. It would not have to be the case that some people can access a request to pay and some people cannot, and we are back here in three years saying that we have created another means of financial exclusion.

Q118 **Lord Empey:** Beating the drum once again on the issue of debt collection, particularly public sector debt such as council tax and public sector creditors in general, it is getting the balance right between the responsibility to collect debts on behalf of the public and, on the other hand, issues such as flexibility, taking people to court and forcing them to payday lenders and all that. Where do you think the balance should be? What more can creditors do? Have you seen or do you have any sympathy with Kelly Tolhurst’s breathing space Bill? In those sorts of areas we are getting conflicting evidence, and I know that the Committee wants to dig deeper to see whether local authorities and public sector creditors are being more aggressive or more difficult than others.

**Joe Lane:** Clearly there is a difference between private sector debts and government debts. It would be painful to see someone who had been found liable at an employment tribunal for not paying wages not having to pay the debt to the court because they were treated in the same way as someone who had built up unaffordable credit. Very simply, it is embarrassing and shameful that it is now better to owe credit to HSBC than to HMRC. If our public bodies are creating more problems for people in managing their money than much-maligned and often rightly maligned financial services, it is frankly shameful.

The vast majority of those people have been put in that situation because of unexpected or unintended circumstances that they have got themselves into. Very often it is government errors that have put them into those circumstances, and those people are being pushed into further problems and are being trapped in debt. They are being caused broader life problems by things such as bailiff enforcement.

I do not want to rehash the evidence that we have produced publicly on this—I will be happy to share that with the Committee—but we help far more people now with debts to government than those with debts to creditors, and our advisers would consequently rank consumer creditors far above government and public bodies in terms of how they deal with and communicate with them. It is literally the person on the phone when you ring them and say, “I have got someone in difficulty. What can you do?” It is about the way they treat them, their willingness to accept affordable repayments and their willingness to give them a moratorium if their circumstances change. There is a host of changes and a host of areas where government debt collection is a big problem.

There are some positive moves. A Cabinet Office group is working on how the Government collect debt as a whole. There is an opportunity in the Digital Economy Bill to improve data sharing between departments. At the moment, there is an ability for departments to get data from other departments. I think that should be required. Do not collect the debt if you can find out that the person owes a huge sum of money across lots of different departments, because they are not going to be able to pay.

It is a massive area. For around half of the people we see with government debts—and this is echoed across the sector—it is for the collection of council tax debts. It is very important to separate it. There are welfare change issues. The moves on council tax support and council tax benefit have caused some problems, but that is just one of the problems. Our largest issue among full-time working people is council tax debt. Those are not people who were in receipt of council tax benefit. It is just a collection practice issue. There are steps that can be taken, which involve the policies that councils have.

One area that could have an incredible impact on people’s lives would be to revisit the regulation of enforcement officers. Enforcement officers were regulated in 2014 in a bid to improve their behaviour. Since then, associated with the increasing problems with council tax, we have just seen an explosion in the number of people being poorly treated by enforcement officers.

In Lord Justice Briggs’s review of civil courts, as an aside, he said that, basically, it is a shambles, and it needs to be revisited. He called for a bespoke review, I think he called it, of physical enforcement. We would urge that to happen and for there to be improvements to that regulation. There are lots of areas where the Government can include debt collection, but, at the moment, the way that government collects debt is pushing far too many people into distressing situations that are avoidable.

**The Chairman:** I think you said that you could provide us with some further information.

**Joe Lane:** Absolutely I will.

**The Chairman:** We would be grateful for that. It is an area that we particularly want to delve down into. Thank you very much.

**Lord McKenzie of Luton:** Chairman, could that note cover the varying consequences of pursuing one form of debt collection rather than another for the future circumstances for the debtor? I am thinking about somebody who gets a county court judgment, which destroys their credit rating for a long time. Avoiding that can help individuals.

**Joe Lane:** Yes, indeed.

**Lord Fellowes:** Joe, you used the phrase “getting it right”. Is there a country that is getting it right that we should be looking at?

**Joe Lane:** That is a good question.

**Lord Fellowes:** Perhaps you could think about that and send it to us.

**The Chairman:** That would be extremely helpful. Thank you very much.

Q119 **Lord Northbrook:** Moving on to the area of financial resilience, how effective is government policy, such as the proposed Help to Save scheme, in building financial resilience, and are further policy interventions required? Do you think that employers, banks and other organisations are doing enough to enable those on the lowest incomes to save and to build their financial resilience? I see from your evidence, Sian, that Toynbee Hall suggested the creation of savings tools, not just savings vehicles, to prompt saving through.

**The Chairman:** I am going to ask for slightly shorter answers now, please.

**Sian Williams:** I will be quick. No, we are not doing enough. None of those groups that you mentioned in your question is doing enough, partly because not enough thought is given to it. There is an assumption that people do not save either because they do not have enough money or because they are too lazy to save—or there is enough out there and if only they switched on their brains they could do it. Actually, all the evidence shows us that we just do not understand saving at all. We do not understand how to switch someone’s savings motivation on or to turn it into something that works for them and speaks to them on an ongoing basis. We have got little chinks of light in our evidence, but we need to build that and work on that.

On Help to Save and schemes like it, we know that matched funding works well in savings schemes, because it rewards effort, but it has to be done in a way that is meaningful for people. We need to do a lot of work around the timeframes in rewarding people and allowing people to access that.

Joe used a phrase earlier about not excluding people in the way that we are trying to include. For example, for things such as lifetime ISAs, what if you cannot afford to start a lifetime ISA? We are exploring ideas around helping local councils to invest money into lifetime ISAs for people who cannot save and, therefore, they could share the rewards on that. It is about thinking creatively.

We talk about tools, because we absolutely understand that saving is a very tiring thing to do. You have to be constantly on it if you are going to make it work for you. We need to create tools that help me think, “If I have just saved a penny here, can I put it over there safely and securely and in a way that does not make me feel embarrassed or ashamed?”

**Joe Lane:** One stark comparison is to do with the fact that we know how important savings are for individuals—for their broad welfare and not only to avoid financial difficulties. Despite that evidence, I think the Government’s spending commitment to Help to Save was £90 million over the course of the Parliament, in comparison with their incentives to help better-off people save, such as the Help to Buy ISA, the savings allowance and increasing the tax-free savings in an ISA from £7,000 to £20,000. From a quick look over

Treasury documents, I think they have committed about £8 billion to that over the five years of the Parliament. Help to Save sounds nice, but if we really want to help people to save who do not have savings—the quarter of people who have negative financial assets—we could look more closely at how much we are prepared to spend on that commitment.

**Q120 Viscount Brookeborough:** On the Post Office and its connection with the issues today—we have read the evidence—what role do you think post office branches and the Post Office account play in addressing these, not only for people who may not have a bank account but where banks are closing? I have a quote from the Bank of Ireland, which is closing a branch with a site on the periphery, and its advice is, as well as the option for customers, to use a local post office for lodgement. Would you like to give your ideas on how the Post Office might help out and whether it might need reform in such a way that it could happen, because its offices are getting smaller anyway?

**Sian Williams:** Citizens Advice has a lot to say on this, so I will be very quick and simply say, first, that the Post Office card account needs to be transactional. We do not want to stop people using the post office for their banking, but we want to improve the service to them. Since DWP contracts for that, it has a huge amount of contracting power, and we would like to see that being used properly.

Secondly, the post office, particularly in communities that are out of town, provides a meeting point for people. We absolutely want to support that. We want the post office to be recognised as a place where people go and where they trust the information that they are getting. We do not want that to be compromised in any way.

Thirdly, there is a population that we are forgetting: the young people who live in out-of-town communities. If there is nothing to keep them there, they will leave. If there is nothing to keep young people in communities like that, those communities die.

We have to look to the future. Banks might not want to be there now, but a post office serves multiple purposes. We need to think about how the post office can be the delivery agent for a wide range of financial services and products, thinking almost like a small supermarket option. How legislation needs to change to understand that and support that involves understanding that it is perfectly possible to have different products provided within the same space in a way that is not somehow anti-competitive. Actually, you can have agents who are able—like a financial adviser—to provide people with a wide range of options, and you can do that through post offices. That changes the skill set in post offices, but I think that is an interesting option.

**Joe Lane:** We have recently published a report on this, so I will share that as well. Just to say something on it, you can separate the issues into the accounts themselves and how people use them, and the issue of physical access to bank branches or to the post office. Those two things are separate challenges in both those areas.

Post Office card accounts are incredibly popular for budgeting and accessing cash, and they are still around. Almost 3 million people use them.

The introduction of basic bank accounts should naturally diminish the demand for Post Office card accounts, but it will be interesting to see how that



develops. It is not a rule, but there is encouragement for people moving on to universal credit that they use a basic bank account where they have used a Post Office card account in the past. It will be interesting to see how that develops.

There is the branch issue. Separately, there is the account issue, about what basic bank accounts are offering people and how that affects the people who use Post Office card accounts. On that, the important development to monitor is how eligibility criteria around basic bank accounts develop as we go forward. Now, somebody has an entitlement under the Payment Accounts Regulations to the basic bank account. Will the eligibility criteria slim down to the extent that people are pushed into current accounts that they do not need or that are putting them into worse financial circumstances?

**Baroness Primarolo:** On the question of how they might be limited, would it be feasible to do it by value? What I mean by that is, for instance, if you save into a bank account and they are going to pay you a better interest for the credit balance in it, they limit it. They can do that. The banks are concerned that expanding post offices means that they have unfair competition, because people will go for that. Could you do all the products by value, but, by definition, these people have smaller budgets?

**Joe Lane:** I am not 100% sure of banks' feelings towards the perceived competition from post offices. Either it has happened or it is happening, but there are agreements between banks, allowing people to access their bank accounts through the post office. There are already agreements. You can already get a transactional account at a post office, but it is a paid-for account. The system is relatively complex already and, echoing what Sian said, that needs to be clarified in terms of the services that people access and where they do that, and ensuring that people have access to some sort of physical banking.

**The Chairman:** A final question from Lord Shinkwin.

Q121 **Lord Shinkwin:** I apologise: I am going to put you on the spot and ask you to answer this inside one minute each.

Sian, you said that you are an optimist and that the Treasury is now listening. Joe, you said that there is an amazing opportunity now to influence policy. In terms of the Committee's focus, what one recommendation would you like us to make to maximise the chances of government and other sectors listening and, crucially, actually changing?

**Sian Williams:** I would like you to recommend that the Treasury take a lead, appointing a Minister for financial health, and that that Minister should be able to direct the activities of Treasury, DWP, Cabinet, financial education, health, et cetera, in a combined strategy towards the financial health of the UK.

**Joe Lane:** My single recommendation would be that financial inclusion means building services for people as they are, and not to commit to the vague benefits of financial education. Financial education sounds nice, but the evidence for its impact is relatively limited, and it is obviously very much deferred. I think we need to focus on the markets that we have at the moment, the services that are available to people and how we provide money advice and guidance.

**The Chairman:** Thank you very much indeed. It has been a really excellent session. We are going to have a very quick five minutes in private to finish off.

## **Citizens Advice Redcar & Cleveland and Coast & Country Housing Limited – Written evidence(FEX0048)**

Helen Howson & Joanne Dunn

### **Definitions and Causes of financial exclusion**

**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?***

Broadly speaking yes we think this is a useful and easily understood definition.  
(1)

**2. *Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?***

(1) Rural areas are affected differently from urban areas. In rural and coastal areas (East Cleveland) public transport is infrequent and many locally based services have closed (local bank branches). Examples include the Loftus and surrounding areas which are 8 miles from Saltburn (nearest small town) , 14 miles from Guisborough (Market town) and 17 miles from Redcar (costal town). Other geographically remote areas include Boosbeck, Boulby, Hinderwell, Liverton and Liverton Mines and Easington. All areas are poorly served by public transport and often cut off during the winter months. People in these communities tend to shop locally where there is less choice and therefore ability to spend less. Broadband and internet access is less reliable in these areas which mean that payments made are more likely to be ad hoc. Some local libraries may offer internet access and this requires ID to access and some individuals will not have sufficient ID to access services. (2)

**3. *What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does debt play in financial exclusion?***

Those in debt are more likely to be reliant on food banks to subsidise low income. Families experiencing financial exclusion are more likely to be reliant upon accessing discretionary funding (such as DHP) and or accessing high cost credit and loan sharks. Poor credit as a result of debt problems often means that people are unable to access mainstream financial services and cost effective credit. This also takes away the ability to plan finances and to change behaviour in a positive way. Products in place to help people in worst case scenario situations may not be financially viable. An example of this is

not being able to afford home insurance. Financial exclusion impacts behaviour examples include not opening letters and being in a cycle of denial about problems and not engaging with support services. Well being – psychological, emotional and physically will be negatively affected. (3)

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

People with mental health problems are more likely to lead chaotic lifestyles and be residing in insecure/ temporary accommodation. A lack of skills and confidence to sort things out for themselves compounds financial difficulties. People with mental health and problems and especially those residing in temporary accommodation may experience financial exploitation from other residents and are generally more vulnerable to this kind of exploitation. Those impacted by disabilities are more likely to have expenses attached to medical problems and this is not always formally recognised by the benefits system (i.e PIP payments). People may be more reliant on informal networks and friends for financial advice and support with inconsistent outcomes. The link between informal support and outcomes needs to be better understood to show how more informal support may benefit those with mental health problems. (4)

**Financial Education and Capability**

***5. Are appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?***

It is positive financial and money skills are built into the curriculum. However, this needs to engage children and young people and be relevant to their lives. Real world practical skills could include the cost of mobile phones and internet charges. Preparing young people for leaving home in the future and financial skills they will need for this. Particular attention to leaving home and planning for life transitions needs to be linked to financial education and capability. Lack of numeracy is also needs to be detected and support given to allow young people and adults the skills to be financially literate. (5)

***6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?***

Employers could help with assistance in opening a basic bank and savings account could include a clause which means that employees need to opt out (similar to auto-enrolment). Ensuring advice is readily available to people who are experiencing life changes which may make them vulnerable to financial problems. Examples include separation, divorce, pregnancy and ill health. Advice needs to be tailored and bespoke to individuals and offered in a multichannel way i.e face to face, digital and telephone. Recognition of those who are struggling and need help now as opposed to prevention work within schools also needs addressing. There are many excellent online tools which assume access to the internet and literacy and numeracy skills which exclude by default those without sufficient skills. (6)

## **Addressing financial exclusion**

### ***7. What role should the concept of "personal responsibility" play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?***

The concept of personal responsibility is not in our view wide enough. Changes brought in by UC credit deny some people a choice to exercise personal responsibility. A number of Citizens Advice clients would like to be able to choose to have their rent paid directly to their landlord as they recognise that this is the easiest way for them to ensure their rent is paid. While we recognise that changes to UC may benefit and empower some people they are likely to cause problems for a significant portion of people. The most financially excluded include those with low literacy and numeracy and a new approach is needed to engage them. As part of a raft of measures we would welcome a review of UC and the impact of changes to payment patterns and how this impact the most financially excluded. There continues in our experience to be a gap in the most excluded accessing support often until crisis point. Communication within families (especially with children) has a large part to play in personal responsibility and having discussions about finance and affordability is key to being able to manage finances. (7)

### ***8. Are appropriate financial services and products available for those who are experiencing financial exclusion? What might be done to address any deficit? What roles should banks play in increasing access for those most at risk of exclusion? What is the role of the post office in providing access to financial services for such customers, and how might that role develop?***

Wider advertising needed for basic bank accounts as their availability is a major step forward. ID continues to be a major barrier to those needing access to a basic bank account. Clarity on requirements including some flexibility to help those most financially excluded. The Post office is a service who in the experience of Citizens Advice Redcar and Cleveland is trusted by many people accessing CA services. This could include a scheme to help people set up bank accounts who lack traditional ID and to work in partnership with other organisations to help resolve this significant barrier for the most excluded. This would also need to take into account poor levels of literacy and numeracy found in some of the most financially excluded. Services need to take into account the crisis situations and be more responsible. Front line crisis intervention pre-court action would be a step forward and allowing more time for an in-depth casework service to support the most vulnerable. (8)

## **9. Accessing affordable credit**

**What has been the impact of recent changes to consumer credit-market- such as the capping of payday loans on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

The capping of paydays loans is a welcome and effective way of helping those facing financial exclusion – especially with regards to restricting charges. (9)

Credit Unions have been of some use in this way. However, a number of local organisations have gone into administration undermining trust and confidence in their services. Take up has been low for both Coast and Country tenants and Citizens Advice Clients. Credit Unions need further support to ensure that they have appropriate banking platforms and are fit for purpose in making payments to creditors and that people are not receiving a second class service. (10)

## **Government Policy and regulation**

**10. How effective has Government Policy been in reducing and preventing financial exclusion? Does the Government have a leadership role to play in addressing exclusion?**

There have been many welcome changes such as capping payday loans and the recognition of education and advisory services to help people. Regulation of debt and financial advice available is also a big step forward which protects people from poor advice and incompetence. Government leadership is key to setting social policy agendas and ensuring that the prevention of financial exclusion remains on the agenda throughout the years. (11)

**11. What has been the impact of recent welfare reforms on financial exclusion?**

Welfare reform has removed some of the safety nets for the financially excluded. Crisis loans have devolved into a local discretionary welfare offer with mixed results. In the Grangetown area Citizens Advice Redcar and Cleveland have seen a sharp increase (2014-2016 over a 10% increase) of people seeking advice after accessing illegal money lenders. Evidence from Citizens Advice clients in the Redcar and Cleveland area shows that financial exclusion is becoming more extreme and hidden and demand for short term loans driven underground into the illegal money lending market. (12)

The gap in making a claim fro UC and receiving a payment also creates hardship for people and a number of people have told Citizens Advice Redcar and Cleveland that they will “not be bothering” to make a claim. A number of UC claimants have become reliant on local food banks and goodwill of friends and family to help them financially. Food banks in some rural and remote locations are in multi purpose buildings without privacy leading to stigmatisation. A local example is foodbank co-located in a community cafe and business and people having to walk through paying customers to access this help. (13)

We would welcome the return of a consistent and revised short term loan system for those experiencing crisis with appropriate referrals and support for debt advice. These needs to be evidence based and ensure fair access for people who need it. We recognise that local flexibility is positive and this needs to be balanced with a consistent message from Government about supporting the most vulnerable. Some aspects of welfare reform do not align with wider financial exclusion agendas, including the removal of consistent short term support and the benefit cap for large families. (14)

Discretionary Housing payments (DHP) are masking long term problems and lack of sustainability of accommodation for some people. Local Authority budgets are being stretched and Red car and Cleveland will face new challenges with the lowered benefit cap. People currently receiving DHP will be in competition with those facing the benefit cap. In rural communities people may be forced to move away from their family and support networks. Estimates are that 304 families will be affected but it is impossible to say how high this figure will be as peoples circumstances change. Grangetown has over 60% of families living in poverty and the impact of the lowering of the benefit cap means that this can only increase. Homelessness and those threatened with homelessness is increasing and often as a direct result of change to LHA and Housing Benefit. The restriction of Child Tax credits to the first 2 children post April 2017 will further hurt families. Regional differences in employment opportunities have not been sufficiently recognised by government (the Redcar area experienced the closure of SSI in September 2015, Redundancies at The Boulby Potash mine and the relocation of the HMRC). (15)

The extension of child care for 2 year olds for those on lower income is welcomed and will help people into work. However, this needs to be balanced with some flexibility for families to make their own decisions about childcare and individual family situations. (16)

The measure to make SMI payments a loan needs more detail. The Citizens Advice Redcar and Cleveland mortgage and rent rescue schemes shows that a number of people over the age of 65 and future older claimants will be impacted. The Government assumption behind the move to introduce this is that people are benefiting from large rises in equity. Evidence from people accessing our service shows that this is not the case and those faced with selling their home are often in negative equity, have little prospect of selling and have limited options of sustainable re-housing. A more in-depth look at regional variations and local housing markets and how people can be helped sustainably would be welcomed. (17)

**To what extent is the regulation of financial products and services in the UK tackling financial exclusion? Are their alternative or additional regulatory interventions required to address financial exclusion? What balance should be struck between regulations and incentives for financial institutions?**

Older retired people who are unable to remortgage their home after the end of an interest only term in the Redcar area are a significant problem. While

lenders must consider the FCA's principle 6 this is often of limited help when lenders have gone out of business and or people are simply unable to sell their homes. Further regulation and a Government backed scheme would help those trapped customers who are facing homelessness in later life. Customers subject to mortgage mis-sold mortgages (apart from the Ombudsman) have little recourse and further regulation is required. Affordability checks and more in-depth examination for mortgages is positive but does not help those retrospectively and this ought to be addressed. Regulation and incentives are positive for financial institutions as insufficient regulations has allowed for reckless lending in the past. We would support the development of more niche products and Government backing to help the most financially excluded. (18)

*14 September 2016*



## **Citizens Advice Rossendale – Written evidence (FEX0043)**

### Definitions and causes of financial exclusion

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?

**Financially excluded people are excluded from accessing mainstream financial services and products which other people may take for granted. These financial services and products include bank accounts, loans on favourable terms, appropriate insurance products, and availability of non-fee charging ATMs. These products and services are open to people who enjoy financial inclusion, and financial exclusion can be regarded as the inverse of financial inclusion.**

**At Citizens Advice Rossendale, we see many clients who are financially excluded. Factors that make financial exclusion more likely include: poverty, debt, isolation, a lack of financial capability knowledge and skills. Living on a low income in a deprived and disadvantaged community makes it less likely that desirable financial services and products will be easily accessible.**

2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?

**People on low incomes, both in employment and not in employment, are often affected by financial exclusion especially if they lack financial capability knowledge and skills.**

**For example: A single mum on a low income may want to buy a new washing machine to replace one that has just broken. With 2 small children she may consider a washing machine to be a necessity. Some years ago, she would have been able to request a crisis loan from the Social Fund. Nowadays crisis loans have been abolished; she may find there is some financial support available from her local authority but any scheme is discretionary and she would not necessarily receive help. As she is on benefits and has a low income, she will not usually be offered a loan from a bank on a favourable rate. (Also of course, the smallest loan banks offer is usually around £1000 –which is more than the woman needs for a washing machine, even if the bank were open to lending to her). If the woman is aware of Credit Unions, she might approach the Credit Union for a loan. The woman may find that the Credit Union cannot loan money to her unless she already has a CU account and has demonstrated a commitment to regular saving. If she is already a Credit Union**

**member, she may be offered a loan but the APR is likely to be higher than a bank loan. If unaware of Credit Unions, the mother may consider other sources of credit. She may approach a 'rent-to-own' shop like BrightHouse or PerfectHome. She may find such shops welcoming and convenient: the washing machine will be delivered to her home address and the machine will probably also be plumbed in for her. The cost of the washing machine will be paid through relatively small, 'affordable' weekly payments which may be attractive to someone on a low income like her. When the woman finally pays off –and owns- the washing machine, it will have cost her far more than if she had been able to buy the machine outright. This woman may also have been able to get a loan from a Payday loans company or a doorstep lender. The terms of such loans will be less favourable than a bank loan would have been, meaning the woman would pay back more money than she would have done with a bank loan.**

**People living in isolated and remote communities may not have easy physical access to financial services such as banks; if they have no internet service or are able to access it only via a mobile phone they may not be able to access online financial services easily either.**

**People in poverty in rural communities are often unable to 'shop around' as there may only be 1 (expensive) shop in close proximity, travel costs may be prohibitive, and initiatives to promote financial inclusion may not happen in their locality.**

3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?

**There is a relationship between financial exclusion and other forms of exclusion and disadvantage. For example, an individual without access to digital services and skills in digital capability will be unable to access the internet and unable to utilise online information to research, for instance, what would be the optimum way of paying off credit cards with varying APRs, or would be unable to access price comparison websites such as Gocompare.com or Confused.com to find the cheapest, most appropriate house insurance or energy provider. Without access to digital services, the individual may find it harder to become (and remain) financially literate, as much of this kind of information is available via online sources such as Moneysavingexpert.com or the Money Advice Service. Some people who are reasonably well-off may not have regular access to digital services, but this may not be considered problematic by them if they have enough money to pay bills and fund their lifestyle.**

**A jobseeker who is claiming Universal Credit may have a bank account, but be reluctant to set up direct debits to pay bills including rent, for instance, due to worries about incurring bank charges if the UC payment is credited to his account late or is for less money than expected, as sometimes happens. People who are disadvantaged by very tight incomes –as single people on UC or Jobseeker’s Allowance are—risk accruing problematic debt if they incur unexpected or unbudgeted-for charges. Citizens Advice Rossendale worked with a client on UC who felt it necessary to withdraw a month’s rent money in cash from an ATM (over 2 days due to cash machine limits) in order to be able to pay her rent with cash (rather than by direct -debit). Regularly withdrawing hundreds of pounds from an ATM may have safety implications. If the jobseeker has to use a fee –paying ATM due to there being no free ATMs in the area (and the prohibitive cost of transport to access a free machine), she will lose money every time she withdraws money from the ATM, and be further disadvantaged.**

**There are many bank closures occurring in disadvantaged areas. In recent years, Rossendale has seen a number of banks closing branches. For eg, Bacup has recently lost Barclays and NatWest banks and their free-to-use ATMs. There is no HSBC bank in the whole of Rossendale— the nearest HSBC branches are in the neighbouring towns of Bury or Rochdale, both over 10 miles away.**

**Some people may be living in such straitened circumstances that they do not have surplus money to think about for example, buying contents insurance for their home. Such individuals may reasonably assume that they are so over-indebted that money cannot be found for contents insurance, especially if they consider they don’t have possessions of value, anyway. Of course, if these people’s homes were burgled or their property flooded, they might regret the lack of insurance but this may be seen as a moot point if they simply did not have the money. Citizens Advice Rossendale works with many individuals with little ‘spare money’.**

**The credit rating of people who are over-indebted may be poor and this often means that any further loans or borrowing will be at high rates, or on unfavourable terms, and total amounts to be repaid will be higher, often leading to further debt and the possibility of defaults and non- payment.**

**People with problem debt may be encouraged to use pre-payment meters to pay for gas and electricity. Whilst PPMs can help people to budget, people usually end up paying more for their energy. Standard credit meters usually offer a better deal than PPMs as there is a broader range of tariffs and discounts for direct –debit**

**payments. Fuel poverty is an issue for a number of Citizens Advice Rossendale clients: individuals may 'self- disconnect' from their pre-payment meter as they do not have sufficient funds to put money on the meter after the emergency credit has been exhausted.**

**People with problem debt such as Council Tax debt may find further costs added to their debt after court action. If bailiffs are used for enforcement, claimants face extra charges. This will exacerbate the problem debt and not promote financial inclusion.**

**Citizens Advice Rossendale works with many clients with problem debt, and through debt advice helps clients explore the options open to them (such as a DRO for example) and helps clients to consider the implications of debt remedies— including how they might affect an individual's credit rating and access to future credit.**

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

**Recent research (New Policy Institute) suggests that many households which include someone with a disability or long term health condition live in poverty. Lack of banks and free cash machines in close proximity to people's homes may cause obvious difficulties for people with physical or mental disabilities, especially if they cannot afford to run a car or pay for other transport to access banks in other locations.**

**People with long-term health issues and disabilities may not have the physical or mental energy to 'shop around' for best deals and may, for example, find it is more convenient to apply for a loan from a doorstep lender who will call at their home every week for a payment (in the same way that the doorstep lender already calls at other houses in the neighbourhood) rather than try to research 'a better deal'.**

**Individuals with learning disabilities and other vulnerable individuals may struggle to comprehend the nuances of various financial products and may, for example, value a financial relationship with someone who is friendly and chatty, even if that person works for an organisation that might not be providing the most affordable financial product.**

5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?

**The government needs to demonstrate a genuine commitment to Financial Capability education by making it an integral part of the curriculum from primary school and all through the school years. Funding and resources need to be made available to support schools in providing financial capability education, especially if schools consider that they require the expertise of external agencies.**

6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?

**More longer-term secure funding needs to be given to agencies, such as Citizens Advice, who provide financial capability work, to ensure they can offer this work consistently and in a planned way. Just as car owners know their car has to have a yearly MOT, people should be encouraged to review their financial commitments on a regular basis by high profile advertising and adequate funding for financial literacy and capability work. People could be offered support with financial capability and budgeting at different milestones in their life such as the birth of a baby or retirement.**

#### Addressing financial exclusion

7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?

**Personal responsibility is of course important in addressing financial exclusion. The general public is encouraged to exercise choice in buying financial products and services, ensuring that by reading terms and conditions carefully, and by comparing similar products and services, such choice is *informed*. However, appropriate support needs to be available for people who, for whatever reason, struggle to identify or access optimum financial services and products. Such support could be provided by trusted community agencies.**

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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?

**Many people experiencing financial exclusion have Post Office Card Accounts, which are designed to accept payments from government departments, and welfare benefits can be paid into these accounts. With no overdraft facilities, no charges and no credit checks post office card accounts are attractive to many financially excluded people. However, direct debits cannot be set up from post office accounts, and therefore people with such accounts are currently unable to access discounts for paying by direct debit on energy costs, for example. To withdraw money from this type of account, the individual has to take their card to a post office or a post –office branded ATM and the card is not a debit card.**

**Basic bank accounts are very useful for individuals who may not be offered a current account. However, basic bank accounts do not appear to be well advertised and therefore people who might benefit from them are not necessarily aware of them. Bank customers are currently being encouraged to switch current accounts via 'switching offers' which include cash payments of around £100 from some banks. There are no such 'sweeteners' for basic bank account switching.**

**Credit Unions can be a very useful community resource for people who may not have access to a bank account. As well as providing loans, Credit Unions promote savings, even of small amounts, which can help people who do not have much surplus income to build up a small savings pot. However, Credit Unions are often run mainly by volunteers and therefore may have limited opening hours and community presence. If Credit Unions were given more funding their role in tackling financial exclusion could be strengthened.**

Accessing affordable credit

9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?

**The capping of payday loans means that no borrower will now pay back more than twice what they borrowed, for example, due to spiralling interest charges and fees. Some applicants may find themselves turned down for pay- day loans if they are assessed as being unable to repay the debt. People without savings and resources need appropriate support if they face a financial emergency or crisis. Illegal money lenders target vulnerable people with limited options for accessing affordable credit.**

Government policy and regulation

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

**The government could consider setting up a financial guidance service, similar to Pensionwise, giving people the opportunity to explore issues of financial inclusion and capability.**

11. What has been the impact of recent welfare reforms on financial exclusion?

**Citizens Advice Rossendale works with many people for whom Welfare Reform has had many detrimental effects.**

- **Many people on disability benefits have had benefits cut or reduced.**
- **The end of Council Tax benefit and the introduction of local Council Tax Support schemes means that many working-age people, even those on very low incomes, pay some Council Tax. People who struggle to pay their Council Tax and build arrears can find themselves subject to enforcement action, with additional costs, very quickly.**
- **Out-of-work-benefit rates have been frozen or reduced, whilst essential expenses- such as rent costs due to housing benefit shortfalls, gas and electricity prices- have risen dramatically.**
- **Universal Credit, with its 6 week wait for first payment, can cause claimants without savings or resources great financial hardship. If a claimant has previously been in temporary, low-waged employment and paid weekly, it is difficult to imagine how a final weekly paycheck could be stretched to cover the 6 week wait for the first UC payment. This delay in payment can lead to rent arrears or debt issues where previously people managed to avoid them.**
- **Many people have had their benefit entitlement stopped altogether, or sanctioned, for an alleged misdemeanour, often leaving them bewildered, scared, and without food in the cupboard or gas to heat their home.**

**How could an individual be considered anything other than financially excluded if their pressing concern is not access to the right financial products and services, but rather access to the fundamental necessities: money to be able to buy some food or to top up the pre-payment meter and reconnect to the electricity supply?**

## **Citizens Advice York – Written evidence (FEX0036)**

This written evidence has been completed by Citizens Advice York, an advice provider in York offering free, independent, impartial, confidential legal advice in areas of social welfare law, including welfare benefits, debt, housing and employment. Citizens Advice York saw 5,593 clients between April 2015 – March 2016, with 16,425 issues of which 4,500 related to debt and 430 relate to Financial Capability. It is worth noting there are likely to be many more issues relating to Financial Capability but this code has not been consistently used by our advisers. Due to the time and resource limitations we have focused our attention to specific questions rather than address them all.

### **3. The relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt place in financial exclusion?**

There is a link between digital exclusion and financial exclusion as people require broadband connection, as well as the skills, understanding and time to access the internet in order to obtain the best deals for fuel, phones, internet, TV, insurance etc. and to be able to switch where better deals are available. Those who are digitally excluded, for a variety of reasons, including rurality, as well as those at an educational disadvantage, can end up paying more than they need to for many services which can result in problem debt and deprivation.

There is a clear link with financial exclusion and deprivation, for example, a client attempted to make a claim for Employment Support Allowance but was told he was unable to because he did not have a bank account. Consequently the client was unable to buy any food and had to obtain a Food Bank Voucher. It was unclear whether the client was unable to open an account because he lacked the capability to do so, or because the bank prevented him from doing so. There is limited information on the government website about how to claim a benefit if you do not have a bank, building society, or credit union account.

Problem debt places a central role in financial exclusion as our evidence demonstrates that 75% of the clients we saw with financial capability issues (such as budgeting, managing money, getting the best deals, being able to maximise income) also had debt issues.

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

There is a clear correlation between problem debt and those with disabilities or health conditions as 25% of clients who had an Employment and Support Allowance (ESA) issue also had a debt issue and 6% of those with an ESA issue also had a financial capability issue (as per introductory note this is likely to be higher if the coding was used consistently). Similarly 22% of clients with a Personal Independence Payment (PIP) issue also had a debt issue and 7% of those with a PIP issue had financial capability issues. 23% of all clients, for



whom we have profile information recorded, reported having a mental health condition, this rises to 35% for those clients with debt issues.

Other profile information also demonstrated increased likelihood of having a debt issue as 36% of all clients (any issue) had dependent children, compared to 43.2% of clients with debt issues. Significantly 57% of clients with debt issues reported living in social housing, compared to 37% of our clients overall. Similarly 53% of clients with financial capability issues also reported living in social housing.

There are qualitative examples of the interlinking nature of financial exclusion, debt, mental health and ethnicity. For example, one client who was a single parent and living within the travelling community, was unable to read and write and suffering from mental health issues. They had been seeking employment but due to their vulnerability and ethnic identity they experienced repeated rejection from employers, consequently they were reliant on benefit as their only income. The client was paying £70 a week in electricity costs which was more than they received in Child Tax Credits. They had accrued multiple debts as they did not have sufficient income to meet their family's need. Additionally they were unable to afford basics such as food and utilities or "extras" such as clothing, birthday presents and school uniform. They explained that this impacted negatively on them and they experienced reactive depression as they felt they were failing their children's needs. The only way the client could manage was by taking out further credit despite knowing they couldn't maintain the agreed repayments. This also demonstrates that financial exclusion impacts on social exclusion, both of the parent and children, and on health and wellbeing.

**7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

The government and local authorities should continue to invest in the charitable sector to provide financial capability and debt advice and this should also provide funding to target particular 'vulnerable' groups, those who are in other ways excluded including those who are disabled / have long term health conditions, carers, care leavers, ex-offenders, migrants, asylum seekers and refugees, those living in disadvantaged areas, BME community and so on. Prevention should also be a focus to ensure that financial capability education is offered from an early age. The concept of 'personal responsibility' must come into play at some point, but cannot be assumed, in particular for 'vulnerable' groups, those without access to, or a full understanding of a range of financial products. More prevention and intervention should be provided, both in schools and continuing so that individuals know how to maximise income, check benefit entitlement, open bank accounts, compare and obtain the best deals, negotiate repayments

and where to seek help from, should their circumstances change and they fall into debt.

We are also concerned about the charges for Debt Relief Orders (£90) which clients usually cannot afford. Citizens Advice York frequently asks other charities for this money so that clients are able to address their debt issues directly. Support should be strengthened to ensure that all clients are able to access the money required to obtain a Debt Relief Order to enable them to take personal responsibility and access this as an option to deal with their debts

Charities such as Citizens Advice York play a huge role in promoting personal responsibility and we have assisted the Travelling community in York to manage electricity costs by providing energy comparison and fitting timers to the immersion heaters. For example, one client reports a reduction from £70 weekly electricity bill to £10. This extra income has allowed the client to regain responsibility of their finances. It has alleviated the stress placed on them and as they are no longer worried about calls from debt collectors. They have regained some personal independence and are no longer left in the vulnerable position of asking to borrow money. The client is now in a position in which they have agreed to accept assistance to manage their physical and mental health.

**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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

Earlier this year Citizens Advice York undertook face to face research to explore whether banks were offering basic bank accounts to those who were at risk, or already suffering from financial exclusion. Despite 9 major retail banks in the UK having agreed with the Treasury to provide new basic bank accounts to "consumers in financial difficulty" to reduce financial exclusion from 1 January 2016, we found that (at least locally in York) this was not necessarily the case.

Although the bankruptcy law changed in October 2015 to remove the barrier to banks offering undischarged bankrupts current accounts, at least 2 out of 12 banks/building societies that we visited said they were unlikely to offer a customer a basic bank account if they had an undischarged bankruptcy or had been approved for a Debt Relief Order. 9 out of 12 banks were unlikely to offer a basic bank account to customers who had unauthorised overdraft or debts to that particular bank. Half of the banks we visited were unlikely to offer a basic bank account to a customer who often uses their authorised overdraft and has debts to organisations other than that particular bank.

Although none of the banks were likely to refuse a basic bank account to someone who has recently arrived to work in the UK from another EU member, there is uncertainty following Brexit and what this will mean for the financial sector. More generally there may be an issue with what kind of ID is accepted in

order to open an account as one bank did not accept water bills, another did not accept letters from Jobcentre Plus etc. It may be difficult for those who are further marginalised, for example, those with no fixed abode, to open a basic bank account.

Many of the basic bank accounts did not have the function to set up direct debits from the account which is problematic as most of the best deals for fuel, mobile and Internet, require direct debits to be set up and many other methods, such as pre-payment meters for fuel, are more expensive.

We recommend that banks and building societies should offer a range of products and to reduce financial exclusion, at the least a basic bank account should be available to customers who are facing financial difficulty. The ID required to open an account should be as varied as possible and reasonable adjustments made where customers may not have this ID.

### **9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

Nationally Citizens Advice has produced a [report](#) looking at the state of payday lending since the Financial Conduct Authority introduced a cap on payday loan interest rates and fees in Jan 2015. The report finds that payday lenders are trapping customers who are unable to repay their loans because they have not undertaken credit checks. We recommend that companies should request a budget sheet and offer appropriate credit / accept reasonable repayments based on this budget and that this should be reviewed upon any change of circumstances.

This report finds that nearly 40% of payday loan firms have left the market and Citizens Advice nationally has helped people with 45% fewer payday loan problems. In York payday loan issues have decreased by 56% on a relatively small sample of 121 issues in 2014/15 to 53 in 15/16, however, there is no data available to identify those customers who have been refused credit since the rules were tightened or those who have since turned to illegal loan sharks to obtain credit. More research should be undertaken about the actual impact of recent changes to the consumer credit market.

### **11. What has been the impact of recent welfare reforms on financial exclusion?**

Welfare Reform has had a negative impact on financial capability; the ability to understand and plan finances and apply this to individual circumstances.

The Removal of the Spare Room Subsidy (Bedroom Tax) and the localisation of Council Tax Support has pushed many clients into debt; a consequence of financial exclusion. Since the introduction and localisation of Council Tax Support, Council Tax arrears have gone from the fourth highest debt issue in 2012/13 to now the top debt issue dealt with by Citizens Advice York

with over 300 additional issues in 2014/15. In 2015/16 we saw 683 Council Tax arrears issues (15% of all debt issues) compared to 202 fuel debt issues for example (4.5%). Rent arrears accounted for nearly 11% of all issues. Debt relief orders accounted for nearly 18% of all debt issues.

There is clear correlation between recent welfare reforms and financial exclusion, for example, 35% of those with financial capability issues also had Council Tax arrears, 21% of those with financial capability issues also required charitable support in the form of finances and 21% of those with financial capability issues also had rent arrears with local authorities or ALMOs. Anecdotally these arrears often included the shortfall of Housing Benefit paid to those deemed to be under-occupying although our statistics do not provide this technical breakdown.

It is clear that Welfare Reform has increased levels of Council Tax arrears in York and many of these clients have other debts, for example 20% of those with Council Tax arrears also had fuel debts, 25% of those with Council Tax arrears also had water debts and 46% with Council Tax arrears also had rent arrears to local authorities or ALMOs.

The consequences of Welfare Reform reach wider than financial exclusion and can result in worsening health issues, reduced confidence and financial capability, as well as social exclusion and isolation. For example, a client lost their job and incurred Council Tax and rent arrears. They applied for Universal Credit but due to the inbuilt delay for payment of over a month the client was being pursued by their housing provider and bailiffs for these rent arrears. The client had existing mental health issues which were worsened by the increasing debt and bailiff action and the client attempted suicide. We find that the inbuilt delay to receive Universal Credit reduces a client's financial capability because they often have no money or social network to maintain them during this time. This can have a negative effect on confidence, health and wellbeing and increase their number or level of multiple debts.

In addition to the issues around Welfare Reform, the precarious nature of employment, including zero hours contracts, bogus self employment and so on, means that individuals can fall into problem debt very easily. For example, a client whose hours were reduced from 30 to 17.5 was unable to find any other work to boost his income. Subsequently he was in rent arrears and at risk of losing his home and building up other debts. Low income and insecure employment puts many people at the risk of financial exclusion as [Citizens Advice research](#) shows that 70% of people are never able to put money aside for savings, meaning that a sudden loss in income could plunge individuals into multiple debts, particularly those lacking a social network to maintain them. One client in York said that as she is self-employed, Working Tax Credits were a lifeline, because she did not have the certainty of a steady income and had no safety net as she didn't have any family, and she is unable to get a mortgage because she is self-employed. With the proposed changes to Universal Credit and subsequent reduction of income many are likely to face<sup>111</sup> this is of significant concern.

Thank you for considering this response.

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<sup>111</sup> <http://www.ifs.org.uk/publications/8135>

Citizens Advice York – Written evidence (FEX0036)

*14 September 2016*

## **Civil Court Users Association (CCUA) – Written evidence (FEX0103)**

### *Background*

- The Civil Court Users Association (CCUA) is an organisation working with the Ministry of Justice, Her Majesty's Courts and Tribunals Service and other stakeholders to deliver an improved court service.
- CCUA members issue more than 85% of all civil proceedings for the recovery of debts.
- The CCUA did not initially seek to submit evidence to the Committee's inquiry, as we did not interpret the terms of reference as relating to debt enforcement.
- Debt enforcement was discussed during the course of oral evidence, and we are grateful to the Committee for allowing us the opportunity to submit written evidence in relation to this.
- The CCUA is aware of written evidence submitted by the Civil Enforcement Association, also in relation to enforcement, and will not seek to replicate the regulatory context provided in the evidence.

### *Enforcement regulations*

- In the oral evidence session of 25 October 2016, Joe Lane, Senior Policy Researcher at Citizens Advice stated that 'Enforcement officers were regulated in 2014 in a bid to improve their behaviour.'
- As noted by Joe Lane, new regulations on the enforcement of debt were introduced in 2014. They introduced:
  - fixed and transparent fee structures;
  - protections for the vulnerable (such as the inability to apply certain fees if potential vulnerability could have, but was not, identified); and
  - higher standards of training.
- Judicial oversight is a key aspect of the enforcement regime. An enforcement agent must demonstrate their competence to a judge, who will certificate them (effectively licence them to operate as an agent of the court). Consequently, complaints can be made direct to the courts, and poor conduct is subject to their sanction, including permanent revocation of the ability to operate as an enforcement agent.
- The actions of enforcement agents are also subject to the scrutiny of Ombudsmen such as the Local Government Ombudsman, soon to be replaced by the Public Services Ombudsman, and industry trade associations.
- Joe Lane stated that, since the regulations had been introduced, 'associated with the increasing problems with council tax, we have just

seen an explosion in the number of people being poorly treated by enforcement officers.’

- The Ministry of Justice has not yet published its assessment of the reforms, but it is understood that complaints to CCUA members who provide enforcement services have significantly reduced since the regulations were introduced. The Local Government Ombudsman has also publicly recognised a significant reduction in complaints.
- The regulations prescribe the content of statutory enforcement notices. The notices must all include contact details for sources of free and independent debt advice, including Citizens Advice.
- An increase in contact with advice organisations since the 2014 regulations is believed by CCUA members to be a positive effect of the regulations.
- Joe Lane agreed to provide the Committee with further evidence on the points he made regarding enforcement.
- The CCUA would ask the Committee to explore the basis of evidence submitted to it in order

to assess whether there has been an increase in complaints about enforcement, or an increase in inquiries.

#### *Lord Justice Briggs’ review of the civil court structure*

- Joe Lane commented on Lord Justice Briggs’ report on the civil court structure (published August 2016), stating in relation to enforcement ‘that, basically, it is a shambles, and it needs to be revisited. He called for a bespoke review, I think he called it, of physical enforcement.’
- Having been involved in this review, we feel it is important to highlight to the Committee that Lord Justice Briggs’ review was on a very different subject to the recovery of debt owed to government, or enforcement more widely.
- Lord Justice Briggs examined the civil courts. Debt owed to government such as council tax or criminal fines is dealt with by the criminal courts.
- In limited cases, such as the recovery of unpaid library fines, former tenant arrears or housing benefit overpayment, a local authority could choose to pursue a debt through the civil court.
- However, this is a rarity. One reason for this may be that, whereas unsuccessful enforcement through the criminal courts does not cost government anything, unsuccessful enforcement through the civil courts does incur a cost to the creditor (a minimum of £110).
- Collection of debt owed to government is therefore not generally a civil court matter. This is reflected in the CCUA’s membership, which comprises private sector creditors and other civil court users, but no public sector creditors.
- Lord Justice Briggs’ comments on enforcement related to the civil court County Court bailiff service, used by private sector creditors. Lord Justice

Briggs noted that this particular service had been subject to 'unchallenged' criticism.

- He described this particular enforcement service as being 'gravely afflicted in its quality by delays and under-performance'. Consequently, Lord Justice Briggs recommended that a bespoke review of enforcement be undertaken.
- The CCUA would therefore suggest to the Committee that Joe Lane's remarks do not reflect Lord Justice Briggs' assessment of the enforcement system in England and Wales.

### *Conclusion*

- The CCUA thanks the Committee for agreeing to accept its submission to this inquiry.
- The CCUA would be happy to provide any additional context regarding the enforcement system, or Lord Justice Briggs' report, if the Committee would find that helpful.

*20 February 2017*



## **Civil Enforcement Association (CIVEA) – Written evidence (FEX0095)**

1. This document sets out the Civil Enforcement Association's (CIVEA) submission to the Lords Financial Exclusion Committee's inquiry to consider financial exclusion and access to mainstream services.
2. The submission – which is focussed on responding to oral evidence given by other organisations regarding the enforcement industry on Tuesday 25 October – is separated into three key sections:
  - An overview of the civil enforcement profession – the work that CIVEA's members undertake and the success of recent regulatory reform.
  - Responding to concerns around complaints in the enforcement industry.
  - Responding to differences of opinion surrounding the conclusions of Lord Justice Briggs' Civil Courts Structure Review report.

### **An overview of the civil enforcement profession**

3. The Civil Enforcement Association (CIVEA) is the association representing over 2,000 enforcement agents operating throughout England and Wales. CIVEA represents Enforcement Agents (EAs) that enforce civil debts on behalf of local authorities and Her Majesty's Courts and Tribunals Service. There are two other types of enforcement agents operating in the County Court and High Court – public sector County Court Bailiffs (CCEAs) and private sector High Court Enforcement Officers (HCEOs).
4. CIVEA's members enforce a wide variety of debts, including council tax, business rates, commercial rent arrears, magistrates' court fines and parking fines – collecting over £650 million of unpaid taxes and fines for local authorities each year at no cost to the public bodies that utilise their services.
5. With £2.5 billion of council tax remaining outstanding in England and Wales – equivalent to the annual staffing costs of all public libraries – the work that CIVEA's members undertake is becoming increasingly important, particularly as local government finances come under further pressure.
6. The public value of effective enforcement goes well beyond the collection of revenue, as enforcement action can be an important trigger for people to seek much needed debt advice and support, and the profession has strict safeguards in place, to ensure that the vulnerable are provided with the right protection. CIVEA's members seek to secure payment from those who *won't* pay, not those who can't pay and their best practice measures to identify and support vulnerable people reflect this aim.

*The TCE reforms – background and impact*

7. An efficient, flexible and effective enforcement system is of vital importance, and in 2014 the sector underwent wide-ranging reform to ensure the regulatory framework met these criteria. The array of archaic, ad hoc and sometimes conflicting rules on enforcement were replaced with a clear and straightforward framework developed as part of the Tribunals, Courts and Enforcement (TCE) Act 2007 and amended through the Crime and Courts Act 2013. Its key features included:
- **A clear, three-stage enforcement process:** Ensuring debtors are aware of how the process will develop if left unresolved, with a fee structure which incentivises debtors to make payment in the compliance stage, before a door-step visit.
  - **An extended compliance stage before goods can be seized:** Providing debtors with a minimum of seven clear days, allowing additional time to make payment and breathing space to seek advice.
  - **A transparent, fixed and capped system of fees for all debts, taxes and fines:** Ensuring that debtors are aware of how much they will be paying at each stage of the enforcement process.
  - **An enhanced and compulsory certification process for enforcement agents:** Including mandatory training and competency requirements, to ensure all enforcement agents meet the required standard and have the expertise required to handle vulnerable debtors.
  - **A simplified process for taking control of goods:** For those cases that do escalate, the new regulations have streamlined the process for goods to be seized, with a clear and transparent list of items that can and cannot be taken.
8. The new regulations have seen a reduction in complaints, improved best practice throughout the profession and provided much needed clarity to debtors. The success of the reforms has also been recognised by leading advice sector organisation, Citizens Advice, within its *State of Debt Collection* report published in January 2016, Citizens Advice ranked local government council tax collection (as undertaken by CIVEA's members) second in its best practice league table with a satisfaction rating of 69% – significantly outperforming the Department for Work and Pensions on 47%.

## Complaints

9. We were concerned to learn of the evidence given by Joe Lane, Senior Policy Researcher, from Citizens Advice during the Committee's 11<sup>th</sup> Oral Evidence session, saying he believed complaints regarding enforcement agents had risen since the introduction of the Tribunals, Courts and Enforcement Act. CIVEA has arranged a meeting with Mr Lane for January 2017 to discuss Citizens Advice's complaints statistics, so we can fully understand the reasons behind their findings of an increase in complaints.

10. Although we cannot comment fully until after our meeting with Mr Lane, we would provisionally say that from our experience, some advice sector organisations may classify an enquiry on the topic of enforcement as a complaint. An increase in enquiries regarding council tax enforcement doesn't in itself necessarily correlate to an increase in complaints, and we are conscious that it may more accurately reflect increased indebtedness and cuts to Council Tax Reduction Schemes.
11. CIVEA's understanding – from our own complaints data – is that complaints regarding CIVEA's enforcement agents has actually decreased since the introduction of the reforms. Our members operate a robust and comprehensive complaints process to ensure that debtors are given an effective route for redress and that any disputes are dealt with swiftly and fairly. In the first instance, CIVEA advise that the debtor gets in touch with the relevant enforcement agent and their firm in order to raise initial queries or complaints. Debtors are then encouraged to refer the matter to CIVEA if they are dissatisfied with the response they receive – with the association's Director General undertaking a detailed report and judging whether the complaint should be upheld. If the complainant is not satisfied with the outcome, they have an option to appeal the decision. CIVEA's complaints process is self-regulated, and in principle the association and its members are not opposed to an independent government funded regulator to oversee this process.
12. From our complaints data we found that during the period 1<sup>st</sup> December 2015 – 28<sup>th</sup> November 2016, CIVEA received a total of 223 complaints. 85 of these were resolved by the association and 86 were referred back to member firms to be considered in further detail. Of the remaining 52 cases, 30 did not fall within CIVEA's remit and 22 are pending completion. It is also important to note that these figures come against the backdrop of around 4 million instructions each year – demonstrating that only a very small number of the cases handled by CIVEA's members are subject to complaints.
13. CIVEA is not alone in concluding that complaints have reduced, as Andrew Hopley at the Local Government Ombudsman (LGO) supported these findings, stating in *Enforcement News (Winter 2015)* that the number of complaints received by the LGO regarding enforcement action "has dropped" and most of the complaints received were "along the lines of 'they knocked at the door and charged £235' – which as we know is legal".

### **Lord Justice Briggs' Civil Courts Structure Review conclusions**

14. In July 2015 the Lord Chief Justice commissioned Lord Justice Briggs to undertake a review, into the structure and judicial processes of the Civil Courts, to coincide with a programme of reform by Her Majesty's Courts and Tribunals Service (HMCTS). The final report was published in July 2016.

15. Lord Justice Briggs' key recommendation regarding enforcement was to create a unified enforcement platform, which would end the current system of separate enforcement agents for different civil courts or judgements and create a more consistent and efficient approach. While he concluded that to make a recommendation on the structure of the proposed unified enforcement platform "goes way beyond the scope of this review...and beyond both the time and resources available", he added that "if progress is made towards either the unification or harmonisation of enforcement processes, it would be wholly unsatisfactory to provide only for physical enforcement by state-employed bailiffs on the County Court model, for as long as their service continues to be, as is unchallenged, gravely afflicted in its quality by delays and under-performance".
16. The evidence of Lord Justice Briggs' review doesn't appear to support Mr Lane's description during the 11<sup>th</sup> Oral Evidence Session, of the enforcement industry being a "shambles" that "needs to be revisited". We believe that Mr Lane may in fact have been referring to the very specific criticism of the public sector County Court Bailiff system.
17. In our view, Lord Justice Briggs sought to call for a bespoke review of the enforcement system in order to assess the best structure and best practice that should be included in a unified enforcement platform, an outcome he identified as desirable but which fell beyond the scope of his Civil Courts Structure Review.
18. CIVEA engaged with the process of the review, submitting written evidence and meeting with Lord Justice Briggs in May 2016. CIVEA also shared with Lord Justice Briggs some of our industry best practice, across two key areas in particular, that we hope would be reflected in any future enforcement system or platform:  
  
*Protection for the vulnerable*
20. Ensuring that vulnerable people are provided with the right advice and support is a responsibility that CIVEA's members treat with the utmost seriousness. We have excellent working relationships with a range of advice sector organisations, and a variety of measures to assist vulnerable people including welfare teams, third sector protocols, vulnerability training, multiple contact channels, and a variety of payment methods.
21. Our members take a considered and common-sense approach, following comprehensive guidelines, to allow them identify the range of people who may be considered vulnerable. If the debtor is considered a vulnerable person, enforcement agents are not permitted to enter the property or take control of goods if there is nobody else present, building on the provisions

included within the National Standards for Taking Control of Goods, which require all agents to be trained to recognise vulnerable debtors and report any concerns directly to the creditor.

*Consistency in process; flexibility in approach*

22. Building on the success of the TCE reforms, CIVEA's members continue to take a flexible approach. We understand that different circumstances require different approaches, and agents always take into account the needs of the debtor, often exceeding the minimum amount of time required to notify them of the need to take action to provide them with the opportunity to seek advice and consider their options.
23. Furthermore, CIVEA's members do not wish to enforce debts upon those people that are unable to pay, and so will regularly refer the case back to the client, update them on the circumstances and await further instruction. This flexibility is crucial when dealing with those debtors that are in arrears with several different creditors.

*15 December 2016*

## **Clinks – Written evidence (FEX0026)**

### **About Clinks**

1. Clinks is the national infrastructure organisation supporting voluntary sector organisations, working with offenders and their families. Our aim is to ensure the sector, and those with whom it works, are informed and engaged in order to transform the lives of offenders and their communities. We do this by providing specialist information and support, with a particular focus on smaller voluntary sector organisations, to inform them about changes in policy and commissioning, to help them build effective partnerships and provide innovative services that respond directly to the needs of their users.
2. We are a membership organisation with over 500 members, including the voluntary sector's largest providers as well as its smallest. Our wider national network reaches 4,000 voluntary sector contacts. Overall, through our weekly e-bulletin Light Lunch and our social media activity, we have a network of over 15,000 contacts. These include individuals and agencies with an interest in the Criminal Justice System (CJS) and the role of the voluntary sector in the resettlement and rehabilitation of offenders.
3. Clinks welcome this important and timely call for evidence on experiences of financial exclusion. We have focused our response on the questions of most relevance to the work of our members and the experiences of their service users. This response is based on Clinks' existing knowledge, combined with intelligence gathered from prior research and engagement with our members. Where appropriate we have grouped our responses to the questions. We have adopted the Joseph Rowntree Foundation's broad definition of financial exclusion "*the inability, difficulty or reluctance to access appropriate, so-called mainstream, financial services.*"<sup>112</sup>

**Written by Nicola Drinkwater, Policy Officer, Clinks. September 2016**

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<sup>112</sup> Joseph Rowntree Foundation (2008) *Financial inclusion in the UK*, Online: <https://www.jrf.org.uk/report/financial-inclusion-uk-review-policy-and-practice> (last accessed 05.09.2016)

## **Executive summary**

In this submission we highlight several issues and recommendations based on existing research and consultation with the voluntary sector, summarised below

- a. **Having contact with the CJS exacerbates and contributes to peoples' experiences of debt, poverty and financial exclusion.**
- b. **Proactive action is needed** - to support effective rehabilitation it is important that the Government takes proactive steps to ensure that having contact with the CJS does not have a detrimental impact on, or contribute to, someone experiencing financial exclusion.
- c. **Tailored support for families** - the family of people in contact with the CJS are particularly vulnerable to experiences of financial exclusion and it is essential that they receive tailored financial support and advice to meet their needs.
- d. **Respond to the distinct needs of those in contact with the CJS** - people in contact with the CJS are not a homogenous group and experience unique needs; it is essential that support to address financial exclusion is tailored to meet these needs.
- e. **Engage strategically with voluntary sector organisations** - as well as delivering financial services, voluntary sector organisations have substantial knowledge and expertise about the local communities they work in, the service users they work with and the strategies needed to meet their service users' needs. It is important to engage with them strategically.
- f. **Bridge the finance gap** - many people leaving prison are entitled to receive benefits but, upon release, can wait up to 14 days for their benefit claims to be processed. To bridge the finance gap all prison employment and benefits advisors need to initiate core benefit applications at least three weeks prior to a prisoner's nominated release date.
- g. **Reverse the decline of Release on Temporary Licence (ROTL)** - ROTL is an important part of the resettlement process, but there has been a significant decline in its use since March 2015. There needs to be an explicit objective to reverse the decline in the use of ROTL to support resettlement and rehabilitation.
- h. **Deliver resettlement services at the earliest opportunity** - those serving longer prison sentences are particularly vulnerable to experiences of financial exclusion and need to receive resettlement services as early in their sentence as possible.
- i. **Increase transparency of rehabilitation services** - it is difficult to determine what financial support people in contact with the CJS are

receiving. To help increase transparency, it is important that Community Rehabilitation Companies and the National Probation Service publish full details of their supply chains on a quarterly basis.

## Response

**Inquiry question 2: Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

**Inquiry question 3: What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

1. There is a complex relationship between experiencing financial exclusion and having contact with the Criminal Justice System. Many people have experienced financial exclusion prior to having contact with the CJS and for some it is a contributing factor to their offending. There is also evidence to suggest that having contact with the CJS can exacerbate experiences of financial exclusion.

## Experiencing financial exclusion prior to having contact with the CJS

2. Research by the Prison Reform Trust and Unlock found that "*a substantial proportion of people sent to prison were already experiencing extreme and persistent financial exclusion*"<sup>113</sup> They conducted research into the impact of imprisonment on individuals' finances. They surveyed 144 people in prison, interviewed 47 of them, and surveyed 24 former prisoners and 29 families of people with convictions. They found that
  - 30% of people in prison had no bank account and of these, 31% said they had never had one. 85% of people interviewed in prison who did not have a bank account said they had tried to get one without success.
  - More than half of people in prison said that they had been rejected for a bank loan and 8% said they had tried to borrow from a loan shark, which is 10 times higher than the average UK household.
  - Almost two-thirds of people interviewed in prison said they struggled to pay bills, or were in real financial trouble, before coming to prison.

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<sup>113</sup> Prison Reform Trust and Unlock (2010) *Time is money - financial responsibility after prison*, Online: <http://www.prisonreformtrust.org.uk/Publications/vw/1/ItemID/46> (last accessed 05.09.2016)



- One in four people surveyed in prison had been threatened for a debt while in the community. People who had borrowed from a loan shark were four times more likely to have been threatened over a debt.
3. Clinks is a founding member of the Making Every Adult Matter Coalition, formed alongside Homeless Link and Mind. The Coalition aims to improve policy and services for people facing multiple needs. People experiencing multiple needs experience different problems at the same time, including mental ill health, homelessness, drug and alcohol misuse, family breakdown and CJS. People with multiple needs are particularly vulnerable to financial exclusion. Evidence from a recent study into destitution in the UK found that over half of people who were destitute and experiencing complex needs had faced financial problems in the last twelve months. A similar proportion had experienced problems with the benefits system.<sup>114</sup> A recent report by the Joseph Rowntree Foundation highlights that those experiencing multiple and complex needs face significant barriers to escaping poverty.<sup>115</sup>
  4. A recent report, 'Hard Edges'<sup>116</sup>, shows that poverty is an "*almost universal*" complicating factor for people experiencing multiple disadvantage. Multiple disadvantage is defined as experiencing homelessness, substance misuse issues and having contact with the CJS. The report found that there is an association between prevalence rates of multiple disadvantage and areas of the country where poverty tends to be concentrated.
- *Women's' experiences*
5. Prior to having contact with the CJS, many women have long histories of experiencing financial exclusion, including long-term poverty and debt. As highlighted by Dr Laura Caulfield "*there is no debate that financial problems are a criminogenic need for female offenders, and it is well established...that women typically carry many financial burdens prior to imprisonment.*"<sup>117</sup>
  6. Compared to their male counterparts, women in contact with the CJS have different offending histories and experience unique needs. For example, the majority of women who enter the CJS have committed acquisitive

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<sup>114</sup> Joseph Rowntree Foundation (2016) *Destitution in the UK*, Online: <https://www.jrf.org.uk/report/destitution-uk> (last accessed 05.09.2016)

<sup>115</sup> Joseph Rowntree Foundation (2016) *We can solve poverty in the UK: a strategy for governments, businesses, communities and citizens*, Online: <https://www.jrf.org.uk/report/we-can-solve-poverty-uk> (last accessed 07.09.2016)

<sup>116</sup> Lankelly Chase Foundation (2015) *Hard Edges: Mapping severe and multiple disadvantage*, Online: <http://lankellychase.org.uk/multiple-disadvantage/publications/hard-edges/> (last accessed 07.09.2016)

<sup>117</sup> Caulfield, L. (2012) *Life histories of women who offend: a study of women in English prisons*, Online: <https://dspace.lboro.ac.uk/dspace-jspui/bitstream/2134/10178/2/Thesis-2012-Caulfield.pdf> (last accessed 05.09.2016).

crimes that are often bound up with their domestic situation.<sup>118</sup> As highlighted by the National Offender Management Service "women may be under pressure as parents, or from partners, to provide for their families and thus may perceive theft/ fraud or sex work as means of survival."<sup>119</sup> This is supported by a Joint Inspectorate report that states female offending is typified by crimes including benefit fraud and shoplifting which can be driven by a woman's need to support her family.<sup>120</sup>

7. Further to this, Clinks' research report 'Who Cares', demonstrates that experiencing financial exclusion can cause women to have contact with the CJS.<sup>121</sup> One of the projects involved in the research said "*they get into loads of debt with other things as well, because their budgets are on such a fine line anyway. So then you've got fourteen quid a week, and what happens is you then get the payday loans coming in and then it's just the TV licence doesn't get paid, council tax doesn't - then court.*" Due to women's unique needs, it is essential that they receive gender-specific services to address their experiences of financial exclusion.

#### *People from Black, Asian and minority ethnic (BAME) communities*

8. People from BAME communities are overrepresented at every stage of the CJS. Outcomes for BAME individuals after release from prison are less positive than those of non-BAME individuals.<sup>122</sup> This disproportionality is caused in part by the multiple and cumulative disadvantage BAME people face throughout wider society.
9. BAME households are three times more likely than white households to become homeless<sup>123</sup>. Those from BAME backgrounds, particularly Black and Bangladeshi people, have the highest unemployment rates.<sup>124</sup> A recent report by the Equalities and Human Rights Commission highlights that, across Britain, people from ethnic minority backgrounds are more

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<sup>118</sup> Clinks (2014) *The nature of the relationship between debt and women's offending*, Online: <http://www.clinks.org/briefings> (last accessed 05.09.2016)

<sup>119</sup> National Offender Management Service (2012) *A distinct approach: A guide to working with women offenders*, Online: <http://www.justice.gov.uk/downloads/publications/noms/2012/guide-working-with-women-offenders.pdf> [last accessed 05.09.2016]

<sup>120</sup> HM Inspectorate of Probation (2011) *Equal but different? An inspection of the use of alternatives to custody for women offenders*, Online: <http://www.justiceinspectorates.gov.uk/hmiprobation/inspections/equal-but-different-an-inspection-of-the-use-of-alternatives-to-custody-for-women-offenders/> (last accessed 05.09.2016)

<sup>121</sup> Clinks (2014) *Who cares? Where next for women offender services*, Online: <http://www.clinks.org/resources-reports/who-cares-where-next-women-offender-services> (last accessed 07.09.2016)

<sup>122</sup> Clinks and the Black Training and Enterprise Group (2015) *The Young Review: improving outcomes for young black and/or Muslim men in the Criminal Justice System*, Online: <http://www.youngreview.org.uk/reports> (last accessed 07.09.2016)

<sup>123</sup> See: <http://www.poverty.org.uk/81/index.shtml> [last accessed 27/06/16]

<sup>124</sup> Joseph Rowntree Foundation (2015) *Ethnic minority disadvantage in the labour market: Participation, skills and geographical inequalities*, Online: <https://www.jrf.org.uk/report/ethnic-minority-disadvantage-labour-market> [last accessed 27/06/16]

likely to live in poverty compared to white people, indicating they are more likely to experience financial exclusion.<sup>125</sup>

10. During recent Clinks consultation events with our members to inform our submission to the 'Review of BAME representation in the CJS', voluntary sector organisations told us that fully addressing the causes of disproportionality in the CJS would need to start in the community, with a commitment to providing good quality services and positive opportunities to address the disadvantage faced by BAME people.<sup>126</sup> Routes out of poverty, affordable housing, and access to good schools, access to community services and meaningful employment opportunities were all identified by participants as key needs in BAME communities.

### **The Criminal Justice System exacerbating financial exclusion**

11. Having contact with the CJS can exacerbate and lead to someone experiencing financial exclusion. Indeed, the Prison Reform Trust (PRT) and Unlock highlight that, *"when someone is convicted of a crime, the impact on their finances can be extreme. The loss of liberty is the most severe form of punishment in the UK but with it come many unintended financial consequences. The criminal justice system can increase financial exclusion, and reduce personal responsibility, creating problems with housing, insurance, employment and family relations, and thus contributing to a greater risk of reoffending."*<sup>127</sup>

12. According to research conducted by the PRT and Unlock, 40% of people in prison and 64% of former prisoners felt that their debts had worsened during their sentence. Two thirds of people interviewed in prison who had debts said they owed over £1000 and one in three said they owed money for housing. This is supported by research carried out by the Department for Work and Pensions which found that almost three-quarters of prisoners surveyed said finance, benefits and debt were a very significant need on release, second only to accommodation.<sup>128</sup>

13. The PRT and Unlock's research also found that more than four in five former prisoners surveyed said their conviction made it harder to get

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<sup>125</sup> Equalities and Human Rights Commission (2016) *Healing a divided Britain: the need for a comprehensive race equality strategy*, Online: <https://www.equalityhumanrights.com/en/publication-download/healing-divided-britain-need-comprehensive-race-equality-strategy> (last accessed 05.09.2016)

<sup>126</sup> Clinks (2016) *Response to the review of black, Asian and minority ethnic (BAME) representation in the Criminal Justice System*, Online: <http://www.clinks.org/responses> (last accessed 07.09.2016)

<sup>127</sup> Prison Reform Trust and Unlock (2010) *Time is money- financial responsibility after prison*, Online: <http://www.prisonreformtrust.org.uk/Publications/vw/1/ItemID/46> (last accessed 05.09.2016)

<sup>128</sup> Department for Work and Pensions (2010) *Investigating the Prisoner Finance Gap across four prisons in the North East*, Online: <https://www.gov.uk/government/publications/investigating-the-prisoner-finance-gap-across-four-prisons-in-the-north-east-rr715> (last accessed 05.09.2016)

insurance and four-fifths said that when they did get insurance, they were charged more. Being unable to obtain insurance can act as a barrier to accessing mortgages and many forms of employment and self-employment, which in turn can have a negative impact on an individuals' rehabilitation and desistance journey.<sup>129</sup> It is essential that steps are taken to ensure that contact with the CJS does not have a detrimental impact on an individuals' finances and that people can have access to high quality support and advice in relation to experiencing financial difficulties

- *Impact on families*

15. The families of people in contact with the CJS are particularly vulnerable to experiences of financial exclusion. As highlighted by the Joseph Rowntree Foundation, family members often incur direct costs when their relative is in prison as they send money, clothing and electronic goods into prison to support them.<sup>130</sup> In some cases, the person imprisoned is the main breadwinner and this can have significant financial implications for their family. Research by PRT and Unlock found that two-thirds of families said their debts had increased since the imprisonment of their relative.<sup>131</sup>

16. As well as providing direct financial support, family members of someone in prison may also take on the caring responsibility for their relatives' dependents. This can create additional costs. There is evidence to suggest that barriers to employment are magnified for those caring for prisoners' children.

17. Retaining family ties is key to supporting many people on their desistance journey, but family visits can be financially draining for people visiting their relative. Wendi, whose partner is serving an Imprisonment for Public Protection, told Clinks about the impact this was having on her finances. She estimates that her partner's imprisonment has cost her around £19,000 in the last 10 years.<sup>132</sup>

18. Families visiting their relative in prison may receive some financial support to help meet the costs.<sup>133</sup> People eligible for financial support are those over 18 and claiming one or more benefits - Income Support, Income-based Jobseeker's Allowance, Employment and Support Allowance, Universal Credit, Tax credits or Pension Credit. However, this is paid in

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<sup>129</sup> Desistance is the highly individualised process where someone may offend and reoffend before they stop altogether.

<sup>130</sup> Joseph Rowntree Foundation (2007) *Poverty and disadvantage among prisoners' families*, Online: <https://www.jrf.org.uk/report/poverty-and-disadvantage-among-prisoners-families> (last accessed 07.09.2016)

<sup>131</sup> Prison Reform Trust and Unlock (2010) *Time is money- financial responsibility after prison*, Online: <http://www.prisonreformtrust.org.uk/Publications/vw/1/ItemID/46> (last accessed 05.09.2016)

<sup>132</sup> Clinks (2016) *Family snapshot; the partner of a prisoner on an indeterminate sentence*, Online: <http://www.clinks.org/community/blog-posts/family-snapshot-partner-prisoner-indeterminate-sentence> (last accessed 08.09.2016)

<sup>133</sup> Ministry of Justice (2016) *Staying in touch with someone in prison*, Online: <https://www.gov.uk/staying-in-touch-with-someone-in-prison/get-help-with-travel-costs-to-prison> (last accessed 07.09.2016)

retrospect and taxis are only paid for in exceptional circumstances. This is particularly challenging for those who have physical disabilities or older people. It is also important to note that many prisons are in rural areas that are difficult to reach via public transport and public transport often run limited services on Sundays.

19. Where financial support exists, this is often focused on the needs of the person in prison, rather than on the needs of their family. It is imperative that the families of prisoners receive tailored financial support to minimise the financial impact of having a relative who is in contact with the CJS.

- *Accessing benefits and the finance gap*

20. As highlighted in Clinks and Homeless Links' recent joint response to the Work and Pensions Select Committee Inquiry into support for ex-offenders, it is essential that people leaving prison are able to swiftly access the financial support they need.<sup>134</sup> Discharge grants are available to prisoners over 18 who have served a custodial sentence of more than 14 days in prison and do not have savings of over £16,000. This grant, of £46 in England and Wales, is available immediately on release. As well as this, an additional grant or discretionary payment of £50 can be paid to an accommodation provider to help a prisoner secure a release address. Upon release, all prisoners should receive a travel warrant, or payment of their fares to their destination.

21. In 2013, just over a quarter (27%) of people had a job on release from prison indicating that, for many prisoners, benefits provide essential short-term financial support. On release, where eligible, prisoners are able to access benefits, including Jobseeker's Allowance, Employment and Support Allowance or Universal Credit. Many prisoners also require accommodation support. 15% of newly sentenced prisoners report being homeless before custody and 12% of prisoners depending on Housing Benefit to help with their rent before custody.<sup>135</sup> However, entitlement to Housing Benefit ends for all prisoners expected to be in prison for more than 13 weeks. This results in a significant percentage of people being unable to hold on to their tenancy whilst they are in custody, often resulting in the loss of this accommodation.

22. To support individuals to make a claim for Jobseeker's Allowance as soon as possible on release, there should be a Freshstart team in every prison, who work to arrange an appointment for the prisoner with Jobcentre Plus. This appointment should take place within a day or two of discharge. As the meeting at Jobcentre Plus does not take place until the person has left prison, they will not receive any of the benefits they are entitled to

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<sup>134</sup> Clinks and Homeless Link (2016) *Response to the Work and Pensions Committee inquiry into support for ex-offenders*, Online: <http://www.clinks.org/responses> (last accessed 05.09.2016)

<sup>135</sup> Table 8, Ministry of Justice (2015) *National Offender Management Service annual report 2014/15: Management Information Addendum*, London: Ministry of Justice

immediately on release, but will need to wait until the claims are processed.

23. The time this will take differs depending on the type of benefit claimed and how easy the claim is to process. Local authorities should process Housing Benefit and Council Tax Support claims within 14 days, but in reality this often takes longer. The statistics for October to December 2014/15 showing that, on average, claims took 22 days to process. The Department for Work and Pensions aim to process claims for Jobseeker's Allowance in 10-14 days and Employment Support Allowance in 10 working days.<sup>136</sup> Waiting up to 14 days for their benefit claims to be processed can lead many prisoners to experience a finance gap that according to the Prison Reform Trust and Unlock can "*contribute to the high risk of reoffending immediately post-release.*"<sup>137</sup> **We support their recommendation that the finance gap is bridged with "all prison employment and benefits advisors required by the Department of Work and Pensions (DWP) and the MoJ to initiate core benefit applications at least three weeks prior to a prisoner's nominated release date."**

- *Release on Temporary Licence (ROTL)*

24. Release on Temporary Licence (ROTL) is an important part of the resettlement process. ROTL can help prisoners gain training and work experience, enabling them to build up their skills and in some cases, secure stable employment on release. Many voluntary and private sector organisations provide valuable opportunities for volunteering, training and employment for people on ROTL. 62% of respondents to a recent Clinks and Prison Reform Trust survey told us that they, either now or historically, provided volunteering placements, with 74% providing work placements and 47% providing training placements.<sup>138</sup> However, the survey revealed that the recent changes to ROTL policy (Prison Service Instruction 13/2015) introduced in March 2015, have resulted in a significant reduction in the numbers of prisoners accessing ROTL. 68% of organisations said prisoners reported difficulties in getting applications for ROTL approved. **We recommend an explicit objective to reverse the decline in the use of ROTL for resettlement and rehabilitation, so that the manifest willingness of employers and other organisations to help is not squandered.**

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<sup>136</sup> Turn2Uas (2016) Claiming benefits- how long does it take to process a claim?, Online: <https://www.turn2us.org.uk/Benefit-guides/Beginner-s-Guide-to-Benefits/How-long-does-it-take-to-process-a-claim#guide-content> (last accessed 11.06.2016)

<sup>137</sup> Prison Reform Trust and Unlock (2010) *Time is money- financial responsibility after prison*, Online: <http://www.prisonreformtrust.org.uk/Publications/vw/1/ItemID/46> (last accessed 05.09.2016)

<sup>138</sup> Clinks and the Prison Reform Trust (2016) *Inside out: the role of the voluntary and private sector in providing opportunities for rehabilitation for people on temporary release*, Online: <http://www.clinks.org/briefings> (last accessed 7.09.2016)

## The impact of Transforming Rehabilitation

25. Due to the Transforming Rehabilitation (TR) reforms, Community Rehabilitation Companies (CRCs) are now responsible for providing resettlement services to prisoners in the last three months of their sentence. According to the Target Operating Model published by the MoJ, resettlement services “*may include providing direct support in custody and post release in ... financial advice.*”<sup>139</sup> CRCs can also choose to deliver additional resettlement services in pursuance of payment by results. However, the extent to which they are choosing to do this is currently unclear.
26. There are eight CRC owners that operate over 21 Contract Package Areas (CPAs) in England and Wales. This makes it unlikely that there will be consistency in terms of the resettlement support prisoners receive, as different services are likely to be commissioned by the different CRCs in each CPA.
27. Clinks, in partnership with the National Council for Voluntary Organisations (NCVO) and Third Sector Research Centre (TSRC), are monitoring the voluntary sector’s involvement in TR. 23% of respondents to our second survey, results published in May 2016, said their main beneficiaries were people with a particular financial need including poverty. 33% said that their beneficiaries also included this group. When asked what impact TR had had on their service users, 27% of those whose main beneficiaries were those experiencing a particular financial need said the impact on their service users had worsened.
28. Findings from the survey also demonstrate a lack of transparency in terms of the work that supply chain partners are delivering and how they are being resourced to deliver it. This makes it difficult to determine what financial support prisoners and those serving community penalties across England and Wales are currently receiving. **We recommend that CRCs and the National Probation Service publish, on a quarterly basis, full details of their supply chains, including the names and company/charity numbers of tier two and tier three providers, the amount of funding passed down to sub-contractors and, where appropriate, the contribution that these organisations have made to Key Performance Indicators.**
29. It is important to note “*those prisons that are not designed as resettlement prisons will not have resettlement services.*”<sup>140</sup> Non-

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<sup>139</sup> Ministry of Justice (2014) Target Operating Model: Version 3- Rehabilitation Programme, Online: <https://www.gov.uk/government/publications/rehabilitation-programme-target-operating-model> (last accessed 13.04.2016)

<sup>140</sup> Ministry of Justice (2014) Target Operating Model: Version 3- Rehabilitation Programme, Online: <https://www.gov.uk/government/publications/rehabilitation-programme-target-operating-model> (last accessed 13.04.2016)

resettlement prisons are where long-term sentenced prisoners serve the majority of their sentence. **We recommend that people in prison are able to access resettlement services, including financial support, at the earliest opportunity. Being in prison can exacerbate someone's experiences of financial exclusion, especially if they are serving a long sentence.**

**Inquiry question 8: What role should the concept of 'personal responsibility' play in addressing social exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should the Government, the charitable sector and business play in tackling financial exclusion?**

30. Voluntary sector organisations working in criminal justice are diverse, both in terms of their size and the services they provide. Clinks has a Directory of Offender Services, an online directory that lists 935 voluntary sector organisations working with people in contact with the CJS. 256 of organisations on the database say that they work to support people with finance, benefits and debt.<sup>141</sup>

31. As highlighted in Clinks' state of the sector report, the majority of these organisations work locally and have a turnover of less than £1m.<sup>142</sup> When working to determine what the most appropriate support is for people experiencing financial exclusion, it is essential that the Government takes steps to engage with these organisations and their clients. It is important that these organisations are not only consulted as delivery organisations but are involved as strategic partners.

- *Working to prevent people in contact with the CJS experiencing financial exclusion*

32. To support effective rehabilitation it is important that the Government takes proactive steps to ensure that having contact with the CJS does not have a detrimental impact on, or contribute to, someone experiencing financial exclusion. As people in contact with the CJS are not a homogenous group and many experience unique needs, it is essential that support to address financial exclusion be tailored to meet the needs of these groups.

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<sup>141</sup> Clinks' Directory of Offender Services can be accessed here: <http://www.clinks.org/directory> (last accessed 05.09.2016)

<sup>142</sup> Clinks (2015) *The state of the sector: key trends for voluntary sector organisations working with offenders and their families*, Online: <http://www.clinks.org/eco-downturn> (last accessed 05.09.2016)



33. As highlighted by Unlock, having access to banking for someone in contact with the CJS, especially before release from prison, can support their rehabilitation and reintegration back into society.<sup>143</sup> Having a bank account is essential for benefit or wage payments and can allow for interest to be accrued on savings. In 2014, Unlock ended a 9 year project that developed access to banking for people on release from prison, which culminated in 5936 bank accounts being opened. Clinks supports **Unlock’s recommendation that all prisons that release people directly into the community should have a system in place that enables people to open a basic bank account before they are released. Alongside this, prisons that have people with a long time left until release should have a system in place which enables people to set up a suitable savings product.**

### **Inquiry question 11: What has been the impact of recent welfare reforms on financial exclusion?**

34. As has been demonstrated, many people in contact with the CJS are entitled to and rely on financial support and have been particularly vulnerable to the Government’s welfare reform programme. Clinks’ state of the sector report shows that the needs of organisations’ clients are changing and becoming more severe, with 71% of organisations saying that the variety of their clients’ needs had increased in the last financial year.<sup>144</sup> When asked about the impact of recent policy changes on their clients, a respondent stated that *“changes in policies around benefits [is] driving people in to food and fuel poverty whilst in a period of being sanctioned.”*

35. Clinks has recently published two case studies of organisations providing gender specific support to women in contact with the CJS. Both studies highlight that service users are experiencing increased financial exclusion due to welfare reform. The case study on the Nelson Trust’s Women’s Centre<sup>145</sup> shows *“people are getting poorer and some of the recent housing legislation [like the spare room subsidy] has meant that people are really struggling around finding decent accommodation”*. The case study on the Anwim Women’s Centre<sup>146</sup> shows *“there are more complex needs, I think - more issues with benefits, sanctions and homelessness.”*

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<sup>143</sup> Unlock (2014) *Unlocking Banking*, Online: <http://www.unlock.org.uk/policy-issues/specific-policy-issues/bank-accounts/> (last accessed 05.09.2016)

<sup>144</sup> Clinks (2015) *The state of the sector: key trends for voluntary sector organisations working with offenders and their families*, Online: <http://www.clinks.org/eco-downturn> (last accessed 05.09.2016)

<sup>145</sup> Clinks (2016) *Nelson Trust Women’s Centres in Gloucester and Swindon*, Online: <http://www.clinks.org/resources-case-studies/working-women> (last accessed 07.09.2016)

<sup>146</sup> Clinks (2016) *Anawim Women’s Centre*, Online: <http://www.clinks.org/resources-case-studies/working-women> (last accessed 07.09.2016)

36. Clinks report 'Who Cares', highlights that welfare reform has exacerbated the financial exclusion many women in contact with the CJS face.<sup>147</sup> One project said *"They [service users] are phoning and saying, 'I haven't eaten for two days. Can somebody help me?' This is not the experience we have had in the last six years. The only things that have changed [to account for this] have been the Government's policies."* Debts attributed to benefit cuts were specifically noted as impacting on women, with women increasingly turning to payday loans to ease their debts.
37. The families of people in contact with the CJS are particularly vulnerable to financial exclusion. As the Joseph Rowntree Foundation state *"criminal justice and social welfare policy combine to impoverish, disadvantage and exclude prisoners' families, and their children in particular. At the root of their poverty is the reliance on welfare benefits, levels of which remain below the Government's own poverty level. Foreign national families may not even have recourse to public funds."*<sup>148</sup>
38. People experiencing multiple and complex needs are often the most marginalised in our society and have been particularly vulnerable to welfare reform. A report by the Joseph Rowntree Foundation found that, for those living in the UK with complex needs *"the 'shock' factor of benefit delays and sanctions loomed large for most in this group, often precipitating their move from a position where their basic necessities were just being met to one where there are not."*<sup>149</sup> This is supported by the Making Every Adult Matter Coalition (MEAM) which found that changes to benefits and being sanctioned are not only having a negative impact on the finances of people experiencing multiple needs, but are also causing stress and having a detrimental impact on their mental health.<sup>150</sup>
39. When asked, many people experiencing multiple needs felt that Jobcentre Plus and work programme providers did not fully understand what multiple needs are or how to support people experiencing them.<sup>151</sup> We support MEAM's recommendation that **the Department for Work and Pensions should ensure Jobcentre Plus and Work Programme providers can provide appropriate, flexible and personalised**

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<sup>147</sup> Clinks (2014) *Who cares? Where next for women offender services*, Online: <http://www.clinks.org/resources-reports/who-cares-where-next-women-offender-services> (last accessed 07.09.2016)

<sup>148</sup> Joseph Rowntree Foundation (2007) *Poverty and disadvantage among prisoners' families*, Online: <https://www.jrf.org.uk/report/poverty-and-disadvantage-among-prisoners-families> (last accessed 07.09.2016)

<sup>149</sup> Joseph Rowntree Foundation (2016) *Destitution in the UK*, Online: <https://www.jrf.org.uk/report/destitution-uk> (last accessed 05.09.2016)

<sup>150</sup> Making Every Adult Matter (2014) *Voices from the frontline*, Online: <http://meam.org.uk/publications/> (last accessed 05.09.2016)

<sup>151</sup> Making Every Adult Matter (2015) *Solutions from the frontline*, Online: <http://meam.org.uk/publications/> (last accessed 05.09.2016)

Clinks – Written evidence (FEX0026)

**support to help people with multiple needs move towards independence.**

*13 September 2016*

Coast & Country Housing Limited and Citizens Advice Redcar & Cleveland – Written evidence (FEX0048)

**Coast & Country Housing Limited and Citizens Advice Redcar & Cleveland – Written evidence (FEX0048)**

[Submission to be found under Citizens Advice Redcar & Cleveland](#)

## Competition and Markets Authority – Supplementary written evidence (FEX0092)

Dear Lady Tyler,

Following our hearing with your committee on 29<sup>th</sup> November, I promised to send you further details of our analysis of customer characteristics in some relevant market investigations, as well as a reference underlying my comments about our understanding of customers' rationale for choosing to use a payday loan. These details are provided below, along with sources of additional information.

### Customer characteristics (payday loans)

The first written follow-up which the committee requested related to the demographics / characteristics of payday loan customers from the CMA's investigation, the final report of which was published in February 2015.

The report includes our finding that the median net income of an online payday loan customer was broadly similar to that of the wider UK population, and significantly higher than that of high street borrowers. Overall, the distribution of payday loan customers' incomes was somewhat narrower than that for the UK population – with fewer individuals with particularly low or particularly high incomes, as shown in Table 1 below (reproduced from Table 2.1, paragraph 2.22 in the final report):

**Table 1: Distribution of net annual income**

	<i>Net annual income – percentile (£)</i>				
	<i>10th</i>	<i>25th</i>	<i>Median</i>	<i>75th</i>	<i>90th</i>
UK*	8,800	11,700	17,100	26,300	39,000
All payday	9,200	12,000	15,600	21,600	28,800
Online	9,600	12,400	16,500	21,600	29,400
High street	7,000	10,200	13,400	17,900	23,200

Source: CMA analysis of transaction data (September 2012 to August 2014); HMRC, Survey of Personal Incomes (2010/11).

Paragraphs 2.17 to 2.24 provide details on payday loan customers' experience of credit or financial problems. Within the past five years, 38% of customers reported that they had experienced a bad credit rating, 35% had made arrangements with creditors to pay off arrears, 11% had experienced a county court judgment and 10% had been visited by a bailiff or debt collector. In total,

52% of customers reported having experienced one or more of these debt problems in the last five years.

We also investigated the demographics of payday loan customers, the details of which are included in Appendix 2.3 of the report. Here, we found that payday loan customers were more likely to be male and in full-time work than the population as a whole, to be younger than average and to live in larger households.

*Key sources:*

CMA's payday lending market investigation final report:

[https://assets.publishing.service.gov.uk/media/54ebb03bed915d0cf7000014/Payday\\_investigation\\_Final\\_report.pdf](https://assets.publishing.service.gov.uk/media/54ebb03bed915d0cf7000014/Payday_investigation_Final_report.pdf)

Appendix 2.3: Demographics:

[https://assets.publishing.service.gov.uk/media/54ebb75940f0b670f4000026/Appendices\\_glossary.pdf#page=30](https://assets.publishing.service.gov.uk/media/54ebb75940f0b670f4000026/Appendices_glossary.pdf#page=30)

### **Reasons for choosing to take out a payday loan**

Questions were asked at the committee hearing about why customers use payday loans, particularly for those customers for whom other, cheaper, credit options are available.

Paragraphs 38-39 of the summary to our report noted that it was relatively common for payday loan customers to use other forms of credit. However, as noted above, we found that a significant proportion of payday loan customers have experienced credit repayment problems in the past. The evidence that we saw suggested that many customers would be constrained in the extent to which credit would be available using alternative products at the point at which they take out a payday loan.

Customer research at the time suggested that customers taking out a payday loan did not generally consider other credit products to be a close substitute – only 6% of respondents to our quantitative survey reported that they would have used another credit product had they been unable to take out a payday loan. Partly this was due to the fact that many payday loan customers did not have credit alternatives available to them when taking out their payday loan, either because they did not have access to these forms of credit at all, or had used up (or 'maxed out' on) their available credit facility.

In addition, we found that some customers preferred payday loans because of the convenience, speed or discretion associated with these products, or because of a negative perception of alternatives such as a concern that spending on credit cards could more easily get out of control. For example, in our quantitative survey of payday lending customers, the main reasons given for favouring payday loans were that the alternatives were not as convenient (45%) and that they could not get the money as quickly (31%). Meanwhile, another contemporary survey highlighted that 63% of high street payday loan customers and 54% of online payday loan customers agreed with the statement: 'I use this

type of loan because I am less likely to get into difficulty using it compared with a credit card or overdraft’.

*Key sources:*

CMA's payday lending market investigation final report:

[https://assets.publishing.service.gov.uk/media/54ebb03bed915d0cf7000014/Payday\\_investigation\\_Final\\_report.pdf](https://assets.publishing.service.gov.uk/media/54ebb03bed915d0cf7000014/Payday_investigation_Final_report.pdf)

Chapter 5, Market definition and the constraint from other forms of credit, CMA payday lending market investigation final report:

[https://assets.publishing.service.gov.uk/media/54ebb03bed915d0cf7000014/Payday\\_investigation\\_Final\\_report.pdf#page=168](https://assets.publishing.service.gov.uk/media/54ebb03bed915d0cf7000014/Payday_investigation_Final_report.pdf#page=168)

### **Customer characteristics (PCA overdrafts)**

As we discussed overdraft customers during the hearing, I thought you would also find useful some information on the customer characteristics of PCA overdraft customers.

Our analysis was based on a combination of banks' transaction data, and a customer survey conducted by GfK on our behalf. In particular, we investigated whether differences exist between overdraft users and non-users, as well as between users of arranged and unarranged overdrafts, and between light and heavy users.<sup>152</sup>

Paragraphs 6.207-6.208 of our report stated that overall, our analysis did not find large differences in demographics between customers who do not use an overdraft and those who use unarranged overdrafts. There are, however, differences between those who use arranged overdrafts only and the other two groups: customers who only use arranged overdrafts tend to be wealthier, more likely to have a degree and more likely to be financially literate. We found that heavier overdraft users have a higher income on average than lighter users.

Some of the more detailed findings in this respect were:

- Arranged-only overdraft users are generally more likely to have a high income (net inflows of >£2,500pm), and less likely to have a low income (net inflow of <£1,250pm), than customers who do not use overdrafts at all and those who use unarranged overdrafts. We also found that customers who do not use overdrafts at all are more likely to have a low income compared with customers who use any type of overdraft.
- Our analysis shows that customers who use arranged overdrafts only are more likely to have a degree-level education compared with non-users and unarranged overdraft users. They are also more likely to be financially literate.
- When we look at demographics by intensity of use of overdrafts, we found that customers in the heavy users group are less likely to have a low income (27%), compared with light users (34%).

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<sup>152</sup> Light overdraft users used an overdraft for eight or fewer months in the past year, whilst heavy users used an overdraft for nine or more months.



*Key sources:*

CMA retail banking market investigation final report:

<https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

Appendix 6.5: PCA overdraft customer characteristics:

<https://assets.publishing.service.gov.uk/media/57a9c57a40f0b608ab00000c/retail-banking-final-report-appendices-1.1-to-6.9.pdf#page=576>

Full GfK survey results:

[https://assets.publishing.service.gov.uk/media/56dd6e3f40f0b60376000014/PCA\\_survey\\_-\\_data\\_tabulations\\_prepared\\_by\\_GfK.pdf](https://assets.publishing.service.gov.uk/media/56dd6e3f40f0b60376000014/PCA_survey_-_data_tabulations_prepared_by_GfK.pdf)

### **Customer characteristics (home credit)**

Although it was not specifically discussed in the committee hearing, I thought that it might be useful to also provide experience and analysis on customer characteristics in home credit from the CC's market investigation from 2004-2006.

In this market, more so than those discussed above, the CC's market investigation found that users of home credit were largely drawn from a specific demographic segment of the general population. Paragraph 5 of the summary stated that home credit customers were more likely than the population as a whole to be female, to be under 35, to have young families, to fall into socio-economic groups D and E, to live in a low-income household and to live in housing rented from a local council or housing association. We did not find that these characteristics had changed much in the recent years up to the time of the investigation. We found that the majority of home credit customers had at least one other credit option, though for some, home credit was the only available source of credit.

*Key sources:*

Summary of CC's home credit market investigation [archived]:

[http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep\\_pub/reports/2006/fulltext/517\\_summary.pdf](http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep_pub/reports/2006/fulltext/517_summary.pdf)

Chapter 2, description of the product, CC home credit market investigation [archived], pages 20 onwards:

[http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep\\_pub/reports/2006/fulltext/517\\_section2.pdf#page=20](http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep_pub/reports/2006/fulltext/517_section2.pdf#page=20)

I trust that this is helpful. Please do not hesitate to get in touch if you would like any further information.

**Adam Land**

Senior Director of Remedies, Business & Financial Analysis

*6 December 2016*

## **Competition and Markets Authority – Oral evidence (QQ 185-192)**

Evidence Session No. 19

Heard in Public

Questions 185 - 192

Tuesday 29 November 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); Bishop of Birmingham; Viscount Brookeborough; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond, Lord McKenzie of Luton; Lord Northbrook; Lord Shinkwin.

## Examination of witnesses

Adam Land, Senior Director, Remedies, Business and Financial Analysis, Competition and Markets Authority; Professor Alasdair Smith, Chair, Retail Banking Market Investigation, Competition and Markets Authority and Bill Roberts, Remedies Director, Lead for the Open API remedy, Competition and Markets Authority.

Q185 **The Chairman:** Thank you very much for coming. I know some people have had disrupted journeys; I hope yours were not too bad. I will go through one or two of the formalities first, if I may. Welcome to the evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website; a transcript of the meeting will be taken and is published on the Committee's website, and you will have the opportunity to make any necessary corrections or amendments to that transcript. Thank you very much indeed, again, for coming. When we ask our questions, if all three of you do not feel the need to come in because it is not something particularly relevant to your area, that is fine.

**Professor Alasdair Smith:** We will try hard to have one person one question.

**The Chairman:** It helps us to keep to time. On the other hand, if one of you wants to come in on a supplementary point then please do so. I will kick off. I would be interested in your views about how the open banking standard, which is due to be fully introduced in 2019, should help to address financial exclusion, and your views on whether the right support is in place from all parts of the industry to ensure that the open banking standard works effectively. Who would like to take that one?

**Professor Alasdair Smith:** I will ask Bill to respond to that, but with one brief preface. We believe that the open banking programme is going to have a transformational effect on the way banks work for all customers, including financially excluded customers. I will let Bill elaborate on that.

**Bill Roberts:** We think open banking will help in two basic ways: it will help customers get a better deal for themselves, because they will be able to make a more informed choice, and it will help lenders make better decisions about who they are going to lend money to. Taking consumers first, consumers who are able to use the tools that open banking will facilitate will be able to help themselves find, for example, a more suitable current account for themselves. Consumers who are less able to use those tools can be helped by an adviser who will be able to look through one lens at all their accounts, the different credit cards they may be juggling, store card accounts or current accounts, to help them see where the money is coming from and where it is going to, and advise them. Thirdly, there will be applications which will be able to warn people when their finances are heading for trouble, and perhaps even, in some cases, avoid them making expensive mistakes by going, for example, into unarranged overdrafts.

Open banking will also help lenders, particularly in the context of consumers with thin credit files—people who do not have much credit history. There are already applications out there which use your transaction history as a way of

scoring credit, and they will work better with open banking, so that will help people in two sorts of ways.

**The Chairman:** Thank you very much. Adam, did you want to add there or not?

**Adam Land:** No, that is fine.

**The Chairman:** Could I pursue that a little bit? The Committee has received evidence from various people who have said that previous competition measures by the Competition Commission have had little effect on inclusion in the market. Could you say a bit more about how these new measures will differ and how they are likely to lend themselves to greater financial inclusion?

**Bill Roberts:** I do not know which measures people are referring to that have not had that effect. I can only comment on the open banking measures, which release a huge amount of power. The one reason why people are so worried about confidentiality in the context of open banking is that transaction data is so rich. Because it is so rich it is extremely powerful, and unleashing that power through applications or to advisers, we believe, will have a very large effect, including on people who are financially excluded.

**The Chairman:** Have you done any work testing that proposition specifically in relation to financially excluded people, or is it something you think would, as a by-product, help them?

**Bill Roberts:** We have not done any research particularly with financially excluded people. We have done a lot of research which would have included people who are financially excluded. We have also talked to interest and pressure groups and specialist people, such as the Money Advice Service, on how these tools could be adapted or developed to help financially excluded people.

**Adam Land:** I guess if you look at open banking it is essentially a platform. We are creating some infrastructure. We came into the issue of open banking, primarily, by looking at competition for current accounts and at various ways in which we could have more competition for current accounts. As we researched it further, we saw so much more potential for the remedy we were putting in place to have wider positive social impact, and I think a lot of people have identified those benefits off the back of our investigations. There are a lot of people who are interested in developing applications, or you have people, such as the money and mental health group, who are thinking about how you could apply these tools and how those applications could be developed. Our initial focus was in some ways quite narrow, but as we have found out more and developed the remedy, we can see it has a lot of potential to bring benefits in lots of other ways. That probably answers your earlier question to some degree. Where we were looking at things such as in-home collected credit, we were looking in quite a focused way at remedies targeted at that slice of the market. I think they have had a positive but not a transformational impact on financial inclusion, whereas this is operating on a much larger scale. We are looking at personal current accounts, which are mass market products, so there is scope for people to develop applications that fit in with this. The incentives for companies out there to engage with this remedy is of a different order of magnitude from some of our earlier ones.

**The Chairman:** Scale is key here.

**Adam Land:** Scale is important if you are looking for commercial entities to make investments off the back of one of our remedies. This creates many opportunities for the scale and breadth of application.

**The Chairman:** Thanks very much. I am sure we will pick up a number of those points as we go through the questions.

Q186 **Lord Haskel:** Thank you for those general points about open banking, but I wonder if you could be a bit more specific and tell us how the open banking standard will help customers switch their current or savings account. What measures are going to be put in place to help encourage or nudge customers to switch and, more importantly, get the banks to co-operate?

**Professor Alasdair Smith:** There are a number of parts to the proper answer to that question. We have a very good current account switch service that operates very efficiently and makes it very easy to switch. It operates easily and reliably, but not many customers currently use it. The existence of a switch service has not transformed switching. Fundamentally, that is because it is very hard for a bank customer to work out whether it is sensible for them to switch. This is the fundamental problem in banking competition. If you want to know whether it is a good idea for you to switch your account, you need to look at the charges and rewards to your own account, which are often quite complicated, and at a different but complicated set of information about a competitor's account or, indeed, a different account with your own bank. Whether it is worth while switching from one to the other depends on how you use your bank account, how much you keep in your bank account balance, how often you go into overdraft, and so on. It is virtually impossible for a human being, however intelligent and numerically smart they are, to do that calculation properly.

Open banking makes tools available to consumers that say, "We have looked at your account and we see that switching to an interest-bearing account with your current provider would be a much better deal for you". Our research shows there are a lot of customers who would save not vast sums of money but £100 a year or, if they are an overdraft customer, maybe £200 a year, and they do not switch. They do not switch because some of them think it is hard to switch, which is not generally true, but mostly they do not know how much they would gain from switching. It is not that open banking will make switching easier, but it gives customers the information they need to be much more intelligent customers than they are at the moment.

**Lord Haskel:** The banks know. Is there any way of the banks giving them a hint that they should switch?

**Professor Alasdair Smith:** One of the things we are requiring banks to do is to give prompts to customers from time to time about switching. Particularly for customers going into overdrafts, we are requiring the banks to give them notice in the morning, "You are going into overdraft at the end of business today unless you do something", and we know that that kind of prompt has a big effect on customer behaviour. The FCA did research that shows customers can save 24% by responding to that. As far as switching is concerned, we are going to require banks to give prompts to their customers from time to time that say, "You should shop around". One prompt might be that at the end the

year the bank says, “Do you realise you have clocked up £500 in overdraft charges with us? You ought to shop around to see if somebody else can give you a better deal.”

**Lord Haskel:** Do people who want to switch feel trapped if they have an overdraft and they want to move?

**Professor Alasdair Smith:** Yes. Our research shows a lot of customers with an overdraft think, “If I have an overdraft I can’t move; I’m stuck with my current bank and another bank won’t want me”, which is paradoxical because customers with overdrafts are among the most profitable customers to banks because the charges are so high. They are very attractive customers. The banks need to look quite carefully at them to make sure that they are not going to default on their expensive loans, but we want to get banks which operate a switching scheme to make it more friendly to customers with overdrafts so that they know before they switch that the bank they are switching to is going to give them an overdraft—they get that information in advance—and how much money they can save by switching.

**Viscount Brookeborough:** You said “shop around”. That is, surely, the problem, in that it is not like wanting a book that a bookshop does not provide and you go to the next one down the road. How can one make it easier? When you use the phrase “shop around” or “switch”, how is a person who has a simple bank account, lives in a terraced house and works 9 to 5 going to be encouraged and, indeed, where would they go? A one-stop shop?

**Professor Alasdair Smith:** If that customer in the terraced house has home insurance or motor insurance, most of them now shop around on price comparison websites. Rather than giving your information to a broker or to the insurance company that you have dealt with in the past, you give your driving information to a price comparison website and they then give you a list of offers. At the moment, that does not work for banking because, as I said earlier, the banking product is so complex, but when open banking is implemented it will be as easy for ordinary customers to shop around for banking products as it is for them currently to shop around for insurance products.

Q187 **Lord Northbrook:** I wanted to probe the rationale behind the CMA’s proposal to require each bank to set its own maximum monthly charge for unarranged overdrafts rather than imposing a regulated cap, as was imposed for high-cost, short-term consumer credit.

**Professor Alasdair Smith:** First of all, we think that getting the banks to tell customers the maximum they can pay in a month in unarranged overdraft charges will be an important signal to customers that overdrafts can be expensive, that they need to do the best they can to manage their own finances because they are at risk of incurring high charges; it also sends them a signal that, “This is what my current banking provider could charge me. Is someone else offering a better deal on overdrafts?” Indeed, many people have said, “Why are you letting the banks set their own charges, because that is effectively requiring the banks to give information but it is not restricting what the banks will do?” We think that competition among the banks will put pressure on banks to keep their overdraft charges under control.

Regulating the charge has obvious attractions because it would mean that we would have control over the maximum that people would pay, but it also has risks. It has the risk, first of all, that the bank is no longer responsible for its overdraft charges. Those of us who have had unexpected overdraft charges in the past know it is an unpleasant experience; you feel very angry. Quite often you would phone up your bank and say, "Look, why are you charging me £25 for being, by mistake, £10 overdrawn last week?" The bank has to account for itself and say, "These are our charges; that is what we are doing; we are behaving well towards consumers". One risk with regulation is that a customer who is unhappy with unarranged overdraft charges complains to the bank and the bank says, "We are doing what the CMA told us to do. It is not our responsibility; go and complain to the CMA." There is something positive about getting banks to take responsibility for their own charges. Also, with any regulation you have to worry about the risk that when you regulate a charge, you might get people withdrawing from the market or being less willing to offer this service. That is the general issue we have been concerned about and we are happy—indeed, we have asked—for the FCA to look further at what can be done with overdraft charges. We regard what we are putting in place as the beginning of the story, and the FCA is going to look further at overdraft charges.

Let me make one point in that context about financially challenged customers. At least one charity, which does very good work with individuals with debt problems, has said the CMA should simply have regulated the charge at a much lower level than banks currently charge. I think it is probably right that if you want to do something with regulating overdraft charges for financially excluded customers, you would probably be looking at a monthly maximum that is much lower than the monthly maximums that banks currently charge. For those banks that currently advertise their maximum monthly charges, they are of the order of £90 or £100 a month. I suspect that very few poor households hit that £100 ceiling, but if you are getting two £25 charges in one month and you are a low-income family, that is a big problem. To use a monthly cap to address the problems of low-income households, the cap would have to be pretty low. Then you would have the risk that many other customers would find that this product, which is expensive but is valued by many customers—the ability to have an emergency loan from your bank in the form of an unarranged overdraft—might become much less available than it is at the moment. An example is someone who is in danger of going into an unarranged overdraft because their energy bill is going to be paid as a direct debit, and the bank says, "We are not paying your direct debit because we are not willing to extend you an unarranged overdraft". I suspect many customers, though they dislike paying an unarranged overdraft charge, would dislike even more having their energy bill not paid, with all the consequences that flow from that.

I am sorry, that is a very long answer, but it is an important issue and a big issue. I am not saying that a regulated cap would be the wrong thing; I am saying a regulated cap is something you would enter into only after looking very carefully at how it might affect different income levels of bank customers. We are very happy that the FCA is going to look at this, but we did not think it was a step we were in a position to take at this stage.



**Lord Northbrook:** Will you monitor the situation and see how it works out in, say, a year's time?

**Professor Alasdair Smith:** We will, although that will be in conjunction with the FCA. The FCA is doing further work on quite a number of our remedies to make sure that they are designed in the most effective way. Overdraft charges are the most problematic area in personal current account banking, not just for the financially excluded but for a whole range of customers. We think it is absolutely right that both we and the FCA do further work in looking at this and monitoring how our remedies work and how they should be further developed if they do not have as much impact as we, at the moment, expect them to have.

**The Chairman:** Do you have anything to add?

**Adam Land:** I think that is fine.

Q188 **Lord Harrison:** Professor Smith, regarding your statement at the beginning that open banking will be "transformational", you have not convinced me yet. I think there is a very big gap between what is proposed and the customer understanding the opportunities. Let me table the question I am meant to ask, which is, what are the implications of open banking and, more generally, the trend towards digitisation of services for customer privacy and data security?

**Professor Alasdair Smith:** I will ask Bill to answer your main question, but let me respond to your first question by saying that open banking is based on a technology called open API—open application programming interfaces. That technology has transformed many existing customer services. Many people now rely on their smartphones to tell them when the next bus is coming, where the best quality Indian restaurant is within half a mile, how to get there, how customers rate it, and so on. Open banking promises to give us a different kind of relationship from the one we currently have with our bank. Among the things that might happen would be that a customer does most of their financial transactions through an application on their mobile phone that is not their own bank's, but that of some third party that has carefully managed access to their bank account. It monitors your bank account and perhaps sends you a message saying, "It looks like your current account is going into overdraft tomorrow, so we have moved some money from your savings account into your current account". Or it sends you a message saying, "Your current account is going into unarranged overdraft and that is going to be an expensive experience for you, but the emergency lending service—not with your own bank but one you have signed up for—is going to push £100 of emergency borrowing into your current account this afternoon for half the cost that your bank would charge you." Your whole banking relationship changes. Your relationship with your existing bank might become more distant than it currently is, and you get access to financial help and advice of a kind that you simply do not have at the moment.

**Adam Land:** The only thing I would add to that is that people who are not currently banks will be able to transform and improve the service of financial and banking advice and support you get. The banks are going to have to respond to that; they are not going to want to sit there and say, "There are these people who are telling my customers how they can manage their money better. What am I doing? I am just sitting here keeping their money safe."

The banks will have to think, “I want to be offering a better service to my customers so that they can stay in the game”. In the same way as retailers have had to respond to online competition to offer a better service, you can see that some banks will respond positively to this challenge and, similarly, will want to enhance the customer’s experience, save the customer money and help tackle financial exclusion. It is difficult at this stage, because the applications we are looking at are a year to a year and a half down the line, but the potential to see in banking markets what has happened in numerous retail markets is very large indeed.

**Lord Harrison:** You have both been fertile in broadening the area of people who know about banking, which means that, Bill, you are going to give a marvellous answer to my question.

**Adam Land:** Thank you very much. Bill, over to you.

**Professor Alasdair Smith:** Indeed, I was very conscious, as I was speaking to you, that I was illustrating the motivation behind your question by talking about digital applications, and your question was, are we imagining that customers are now going to have to rely on digital applications? Bill.

**Bill Roberts:** Follow that, I think, is the challenge. If I could say something very specifically about the second part of your question, which was to do with security, yes, we are absolutely aware of that. If anything is going to undermine this remedy, it will be that people simply do not have confidence in these tools when they appear. They may say to themselves, “Hang on. Does this mean sharing my transaction data, my current account information? I don’t like the sound of that so I am not going to do it.” Yes, we are fully aware of that, as are all the providers and fintech companies we have talked to.

The approach we have taken is to say that the measures we put in place should be risk-based. Clearly, the risk varies, first of all, with the kind of data you are talking about and, secondly, with the functionality of the tools that you are using. To take the data point first, we are requiring the banks to make available through open APIs what you could describe as open data by the end of March next year. This is data that relates to, for example, the location of ATMs and whether they are accessible, for example, by disabled people—what height they are. That is not confidential information; that is in the public domain already. We have given them until the end of March to release that.

When you start talking about transaction data, bank account data, that is a completely different kettle of fish. When you also, on top of that, look at some of the functions that APIs can perform, not just reading your bank account data but taking money out of your bank account, that starts to become seriously risky. We are requiring the banks to provide different levels of security for those different levels of risk. For the lowest levels of risk we have given them the shortest amount of time; for the highest levels of risk we have given them over a year—18 months, basically—to get this together. They do not have to develop the tools they will need to do that; the tools for authentication, security and encryption are all readily available; you just need to choose, not quite off the shelf, the particular authentication protocols you are going to use and apply those. I have to say that everybody who is involved in this project is fully aware that if the public lack confidence in the

security of these measures, they will not be used, and the huge investment that the banks are being forced to make in implementing this will be lost.

**Lord Harrison:** Thank you very much.

**The Chairman:** Can I follow up on a couple of points that were made there? First of all, you were talking a lot about the new apps being developed. The Committee has taken a strong interest in the whole issue of digital exclusion and the overlap between financial exclusion and digital exclusion, and of course the two are not synonymous but there is an overlap. My first question is, what sort of thinking have you been doing, as you have been focusing on new apps, about how that is going to impact on people who are digitally excluded? Secondly, you talked about people perhaps having a more distant relationship with their bank in the future. A lot of people I talk to—and I think I would include myself—rather hanker after a closer relationship, so that you do not always have to ring a call centre and speak to a different person every time, which is rather different from the relationship one used to have with one's bank. Could you give a quick response to both those points?

**Professor Alasdair Smith:** Adam, do you want to address the first one?

**Adam Land:** Yes. You have summarised it well, in that digital exclusion and financial exclusion overlap but they are not the same thing. Particularly, mobile technology—mobile phones—has changed the pattern on digital exclusion. I think we were criticised earlier for relying on websites when you could only do that on a laptop, whereas now mobile phones are a much more broadly based communications tool and a way of accessing the internet among people. We totally recognise that there will be some people who are either uncomfortable with technology or are not there. We will not have a perfect answer to everything but we would say, first—a point that Bill made earlier—for people who are not comfortable using digital technologies for open banking because they do not feel they have the capability, we see the benefits of open banking as being an opportunity for advisers, using the tools that open banking is providing, to sit down with a client with a tablet or in front of a laptop and take them through how they can use the tools to manage their money. We would see that as an opportunity.

The second point I would make is that there are measures in our remedy package which are not solely digital. One area we are doing a lot of work in is service quality. We are going to require banks to compare service quality using, essentially, the same metrics and the same survey and then to communicate that in a very public way to all customers, both in branches and online. With that measure, people who are not online but go into branches would be able to see who is offering the better service and how their provider compares. Also, you cannot fake that, so those benefits would go to all customers whether they are digitally savvy or not. We would not say we have emphasised the digital side of our remedies, partly for the point Lord Harrison was making—that we have a selling job to do there—but there are also measures there which we are looking to benefit all customers.

**Professor Alasdair Smith:** As far as distance from your bank is concerned, I did not mean that it would be compulsory for all customers to step further away from their bank. The fact is many customers are choosing to have a more distant relationship with their bank than customers used to have. For example, many younger customers do not use bank branches at all—not all of

them; some do but many do not—and are happy to deal with their bank entirely through a mobile phone application. Many of us prefer a closer relationship with our bank, and that is still possible. The fact that I have a mobile phone app, which I use a lot, does not stop me going into my branch if that is a helpful thing for me to do. In the same way, the kinds of tools I talked about in response to Lord Harrison’s question are not compulsory tools for everyone to use; they are tools we think many customers will find useful. Clearly, there are some aspects of the increasing digitalisation of banking, in particular the closure of bank branches, which cause problems for people who value their close relationship through a local branch. That is the way the banking industry is changing, but hopefully there will still remain the personal contact for people who value it.

**The Chairman:** Thank you. That has been an important point for the Committee.

Q189 **Bishop of Birmingham:** Sticking with banks, the overview of the retail banking market commented on the ability of challenger banks, or new entrants, to gain market share, noting that there is quite a slow take-up. I wondered how the measures created to facilitate switching might help the performance of challenger banks, and whether any element of this part of the market would help increase financial inclusion.

**Professor Alasdair Smith:** On the first part, yes, we think that increasing switching will make life easier for challenger banks. Indeed, our analysis suggests—and some of the smaller banks have told us this—that low levels of switching are one of the biggest barriers to entry. The existing banks do not have to work very hard to hold on to their customers; most of us stick with our existing bank and do not shop around even when it would pay us to do so. Therefore, a bank that comes along with a higher level of customer service or innovative products builds up its customer base quite slowly. I can think of at least two of the smaller banks who told us that in spite of introducing very attractive products, their market share has moved quite slowly. There are real benefits to competition from newcomers who bring innovation to the market, if customers are more responsive to innovation and to service quality. That is one of the things we have not talked about so far. Customers are not very well informed about the service quality of different banks, and there are significant differences. Making more information available about service quality, which we are going to do, will also be an encouragement. Those entering the market with new deals that they think will be attractive for customers are going to be rewarded for their innovation faster than they are at the moment.

**Bishop of Birmingham:** May I ask a supplementary, which may not have come in somewhere else? You talk about more information, but has the CMA given any guidance about the quality and communication skill of that information—rather than the solid blocks of very small-print, extra information that is often provided about starting up or switching—or the level of interest that we were talking about earlier?

**Professor Alasdair Smith:** We are certainly aware of that. For example, one of the things that has been done in the past in an attempt to improve banking competition is to require the banks to provide annual statements of information, and all the evidence is that we all bin them. You get this piece of

paper from your bank at the end of March showing your charges during the year, you look at it for five seconds and think, "I can't be bothered". The FCA's work shows it has had no impact on the market. Whereas if a bank sends you a mobile phone alert at 10 am saying, "You have until 4 pm to sort out your unarranged overdraft or you are going to be hit by a £20 charge overnight", lots of customers respond to that. The design of remedies is very important. In quite a lot of the areas where we want to implement remedies, we are asking the FCA to look carefully at what remedies will be most effective by shooting just the right level of information at customers so that they respond to it.

**Bishop of Birmingham:** Excellent. Thank you very much.

Q190 **Lord Fellowes:** You will have heard there was quite a bit about payday lending on the radio this morning, but I do not think it answered my question, which is: to what extent have the recommendations and remedies identified in the CMA investigation into payday lending been implemented?

**Professor Alasdair Smith:** You are the best person to answer that, Adam.

**Adam Land:** I will answer that. I worked on the payday lending case before banking. The thing for the Committee to have in mind when they think about payday lending remedies is to look at the totality of what was done in the payday lending market over the past three to four years by ourselves and the FCA. If you look back to about 2012, 2013, then, essentially, it was like the Wild West. The market had been growing at this incredibly rapid rate for four or five years, with very light-touch regulation—in hindsight, too little regulation would be the view. The first thing that was necessary was to clear up the market and get rid of the worst behaviours in the market. That was done, essentially, by the FCA and I think they tackled irresponsible lending and tightened up lending criteria. There was this big problem with what they called "roll-overs". You would take out a one-month loan, you would roll that over for another month and then another month and another month so, essentially, you would be taking out a six-month loan but at one-month rates. They sorted that out and made a difference there. Then there were concerns about what are called continuous payment authorities, where you give the lender the authorisation to go to your bank and keep coming back to see if they can make the payment. Very bad practices had evolved in the market, and that was the first thing that needed to be done.

Then, obviously, you had the price cap, which is in the news today, as you say. Parliament decided to introduce that to put a safeguard around prices and to deal with broader issues around affordability and the cumulative cost of that borrowing. That is the context in which our remedies pretty much take all that as given. We are saying, "You have a price cap; that makes the worst case slightly less worse, which is a positive, but we want to make sure you have some scope for competition beneath the cap so that you can get better outcomes for customers". There is still demand for short-term lending, so it is a matter of getting competition there. That is the context of our remedies.

In terms of your question, there are about five or six areas where we have either made recommendations or taken action ourselves. The first thing we did, and what we said was the most important thing for competition, was around improving the comparison sites that are available for customers. If customers are going to take out a payday loan or a high-cost loan, at least

take out a cheaper one, was the view. When we looked at the comparison sector, it was terrible, in the period we were looking at, so we recommended that the FCA authorise comparison site providers and put in place clear ground rules to make sure their customers are able to make a proper comparison. They have now introduced those rules, which I believe are coming into place on Thursday. That is a tick, essentially. They did a lot of research to fine-tune the rules, which is why it took a year or so to do, but they are now coming into place.

A second area we introduced ourselves is what is called a summary of cost of borrowing. The issue there is that each individual payday loan might be quite small; the amounts you are borrowing might not be huge and even the interest—it is not trivial for the people concerned—is not huge, but people pay more than they are expecting if they incur late fees and so on, and if you take out three or four loans in a year you can find you are spending a significant amount on interest. This is just coming into place so I cannot tell you about the impact, but we are requiring lenders at the end of each loan to tell customers about the outturn of the loan and about the running total of their spend on interest and charges over the year. That is in place and is something we have done.

We highlighted some broader areas for the FCA to look at, and I think it is not quite as clear-cut. Action has been taken in those areas but they have taken it across a broader canvass, so it is not quite as simple an answer. One area we were very concerned about was what we call lead generators. These are brokers. People google “payday loans”, a number of names come up, some of them would be Wonga and other payday lenders, and others would be brokers—essentially, lead generators. They look exactly like a payday lender but in fact they are taking your details and marketing the customer to whoever was the highest bidder for that customer. We said that is completely non-transparent; people think they are going to a lender or to a price comparison site and, in fact, they are a lead and they are being auctioned around the market. We required much clearer disclosure of this side of the market, which the FCA has done. I also note that the FCA, in its report this morning, has tightened up more broadly on brokers in that area using its regulatory powers. That is a positive story.

The FCA is taking some further action on a couple of remedies aimed at widening access to other forms of credit. That is an important aspect of remedies around financial inclusion, which are to do with real-time data sharing and what we call “soft searches”, so you can search for a product without leaving a black mark on your credit rating. The FCA has been taking action there. We talked earlier about operating on a larger scale, and those are issues that apply to the financial services sector and work done there. That is all good.

One area where, possibly, I would like to see more done—I am sure this will be looked at in the review the FCA has announced today—is late fees and charges. That is the most opaque aspect of charging for any of these products and for payday loans. We now have quite a tight price gap, in my opinion, on the 80p per £100 daily rate for a payday loan, but we were definitely concerned that there was less visibility and less competitive pressure on what you pay if you are late. That is probably still an area for more work, in my view.

**Lord Fellowes:** The market in payday lending has contracted. Is that a good sign, or is it just fewer people paying a higher price, or what?

**Adam Land:** We were talking about this on the way here. It is very hard to interpret that number. It is pretty clear that there was an oversupply back in 2012 and 2013; people were lending irresponsibly, I think would be the word, so some people were getting loans who should not have had loans for their own good, and that was part of the impact assessment that the FCA did when they introduced the price cap. You can see that that is an impact. Generally, one of the risks of introducing a price cap is that you create a gap between supply and demand. You restrict supply because people are not there. That is always a risk. Looking at the document the FCA published this morning, they are clearly alert to that and I think they are taking a lot of interest in seeing where are people going if they are not getting a payday loan. Are they not borrowing? Are they going to illegal lenders? That is a very important issue. I would not pretend to know the answer, but it is clearly a very important issue.

**Lord Fellowes:** Thank you very much.

**The Chairman:** I know Viscount Brookeborough wants to come in. Could I ask for a very brief answer to this, please? Just to understand your relationship with the FCA, because we are seeing them next week, for example, would you have been consulted on the review beforehand and had a chance to feed in your thoughts? Is it broadly a good thing and will you be working with them jointly? What is your relationship?

**Adam Land:** Yes, we work closely with the FCA and consulted them pretty extensively through our investigation. They now have competition powers and consumer powers, so we see our role as very much complementary to them. We have done one-off, large investigations where we create partly the evidence base they can then use as a standing regulator. We are putting in place remedies, but the long-term home for a lot of these issues will be the FCA because they can return to the issue. It is a close working relationship.

**Viscount Brookeborough:** Has any analysis been done of the customers who go for payday loans? Clearly, there are two groups: those who do not have bank accounts, who would have absolutely nowhere to get the money; and those who have bank accounts, but their bank is not giving them enough information and enough of a service in order that they go to a bank where the loan would be more secure and at a lower interest rate? Do we have an analysis?

**Adam Land:** We do quite a lot. It is a few years old now. I will try to be brief. We found a big difference in demographics between high street payday lenders and online payday lenders. If you look at online payday lenders at a high level, it is not completely atypical or as different from the rest of society as I had expected. You certainly do not have the very richest and you probably do not have the very poorest, but you have quite a spread of society using online payday lenders such as Wonga. High street payday lenders reflect much more the communities in which the shops are located, so that is a much lower income demographic—less likely to work, and so on.

**Viscount Brookeborough:** Is it the inability to communicate with their banks that forces them into that? Secondly, you have said that some of the people who go to them are wealthier. Why on earth do wealthier people go to payday lenders when they can go to their bank?

**Adam Land:** When payday lenders came along they were very good at technology and marketing. They caught on to the fact that a lot of people engage with financial services using their mobile phones. We are getting there six years later, but they were very clear about that and there was a convenience aspect to that, particularly with the online lenders. People thought, "I would like to be able to get a loan quickly because I need it this weekend; I do not want to go to a bank manager". There are quite a number of reasons. Other people liked the fact that a payday loan was a fixed-term loan for a fixed amount, and people were worried about credit cards where you have an open-ended line of credit. You have an expert in this area in the room as well, but when you look at the research there is quite a diverse picture in terms of people's motivations for payday loans. It is best not to have a single model, but I think it is important to get the idea that, certainly, when we looked at the online market, it was quite a broad cross-section of society.

**The Chairman:** Thank you very much. We are going to have to press on a bit now.

Q191 **Lord McKenzie of Luton:** I have some questions about basic bank accounts. We have heard evidence that perhaps the banks could do more to promote these. How would you rate the success of the agreement on basic bank accounts between the Treasury and the major banks? What more might be done to promote them and how do you see, if at all, the role of the Post Office and Post Office accounts in all of this?

**Professor Alasdair Smith:** I have to preface my answer by saying we did not focus our inquiry on the basic bank account, which is a regulated product that is there for a good reason. It is not a product the banks make money out of. Our focus was on the competitive part of market. Clearly, the basic bank account is an important product for those customers for whom a conventional current account with overdraft facilities is not available. It is important that it be promoted and that customers for whom it is a useful product know about it. Once again, I have to go back to open banking and say one of the things that open banking might do is raise awareness of basic bank accounts for those customers for whom it is the best product. Equally, for customers who have a basic bank account but could actually move to a more attractive and flexible product, the whole business of more information and more switching applies to them as well. There is scope for opening up the market for this product.

**Lord McKenzie of Luton:** Why do you think the agreement only covers the nine largest banks and not a number of the newer institutions; the ones you were referring to earlier—again, perhaps including the Post Office?

**Professor Alasdair Smith:** I think you would have to ask the Treasury, which I think was responsible for the agreement. I imagine it is simply that a basic bank account makes losses. There is very little income stream for the bank associated with it, and I imagine the Treasury simply made a pragmatic decision: "We are going to stick this loss-making product on banks; let's stick the obligation on the bigger banks who have wide, national coverage so they will be accessible to most customers, and most of them have the broader financial back to bear the modest burden of the basic bank account".



**Lord McKenzie of Luton:** Do you see a role for Post Office accounts in all of this?

**Professor Alasdair Smith:** One role we see for the Post Office is in relation to the closure of bank branches. Accessing banking through the Post Office is going to become an important point of access to banking for those customers who need local banking and for whom the closure of conventional bank branches is a problem.

**Lord Shinkwin:** Citizens Advice has told us that while basic bank accounts are very useful for some people—for example, those who perhaps have problems with being offered a current account—awareness is low because there does not appear to be much advertising. I am encouraged by what you said a few moments ago about the importance of promoting basic bank accounts. I would be interested to hear who should carry the burden of advertising basic bank accounts. Should it be banks themselves, as a cost of doing business in the UK, or the Government?

**Professor Alasdair Smith:** I do not see any reason why it should not be borne by the banks themselves, just as a practical matter. The cost of mounting even a pretty effective campaign to publicise basic bank accounts is not huge compared with the financial resources of the banks. It seems to me entirely reasonable that the banking sector, as part of the overall deal of supplying this regulated approach, should also be responsible for effectively promoting it.

**Lord Shinkwin:** That is helpful, thank you.

**The Chairman:** Thank you very much for that. A final quick question from Viscount Brookeborough.

Q192 **Viscount Brookeborough:** Finally, what is the one thing you would most like this Committee to consider recommending, when it draws up its final report, that would affect most people and would have the greatest impact over the largest area?

**Professor Alasdair Smith:** We have talked about and have emphasised how open banking is at the centre of our proposals. We have discussed how open banking is going to develop lots of technology-based improvements to the banking market which are going to have a big effect, we hope, across the board. This Committee will naturally be anxious about the possibility that, whatever the best intentions of new products developed in open banking, the financially excluded will be far down the priority list. I would regard it as positively helpful if you put pressure on everyone involved in the open banking programme—the banks themselves and the financial technology companies—by saying that one of the ways Parliament is going to look at this in three years' time is not just, "Has this generated a broad improvement in competition in the market?", but "Has that improvement in competition improved the situation for the financially excluded in particular?". As we have said, there is plenty of scope for new products to be developed under open banking that will be very helpful to the financially excluded, but it requires people to put in the effort to do it.

**Viscount Brookeborough:** A lot of what you have said has been about clients, and you have repeated "customers, customers". Some of the most financially excluded people are not your customers, but the 1.4 million people

who do not have accounts, people with dormant, sleeping accounts and people who do not care about accounts. Do you believe there is enough outreach to those people? Clearly, a lot of the information you have given is only available to people who already have a certain level of literacy.

**Professor Alasdair Smith:** As Adam said earlier, one of the ways that open banking can reach out to those dormant, digitally excluded or otherwise excluded customers is by the development of products that will be of particular use to advisers in citizens advice bureaux, or wherever, so an adviser can sit down with a client and say, "Look, you are not managing your finances very well; I understand that you have difficulties of various kinds but let's sit down together. I have access to these tools and I can use them to give you better advice than I can give you." That is the kind of development that, among others, I very much hope will come out of open banking. I think it will be helpful to have pressure from Parliament on those developing these products to make sure that they address the full range of social needs.

**The Chairman:** Thank you very much indeed. Adam, a little earlier on in response to a question from Viscount Brookeborough, you talked about some analysis you had done on different types of customers. I think the question was around payday lending and the like, and you said it was five or six years ago. Would you be able to let the Committee have a note about that?

**Adam Land:** Yes. It is in our reports, so I will be able to direct you to the right parts of those reports.

**The Chairman:** That would be very helpful.

**Professor Alasdair Smith:** Incidentally, on the same page, as it were, in the banking inquiry we did a lot of work looking at overdraft users. Perhaps less surprisingly than in the case of payday loans, users of unarranged overdrafts come from the full income spectrum. The heaviest users of unarranged overdrafts are people who are pretty well off.

**The Chairman:** Thank you very much indeed. It has been a very helpful session, so thank you very much for your time.

**Professor Alasdair Smith:** Thank you.

## The Consumer Council –Written evidence (FEX0082)

### Introduction

1. The Consumer Council is a non departmental public body established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland (NI).
2. We welcome the opportunity to respond to this call for evidence by the House of Lords Select Committee on Financial Exclusion. We have restricted our response to those questions included in the call for evidence where we have a particular insight through our research. This covers:
  - Data on financial exclusion in NI (Question 2);
  - The attitudes of NI consumers to alternative outlets, such as Post Offices, for accessing banking services in the light of branch closures (Question 8);
  - The outcome of a project to pilot access to affordable credit in an area of high economic deprivation in NI (Question 9).
3. We have based our response on the definition of financial exclusion provided by McKillop and Wilson: "*The inability, difficulty or reluctance of particular groups to access mainstream financial services.*"<sup>153</sup>
4. In our view,<sup>154</sup> financially capable consumers can:
  - Make ends meet;
  - Keep track;
  - Plan ahead;
  - Choose products; and
  - Stay informed.

**Q2: 'Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?'**

### Income and debt in NI

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<sup>153</sup> Financial exclusion, McKillop and Wilson, 2007.

<sup>154</sup> Managing Money – How Does Northern Ireland Add Up? Consumer Council for Northern Ireland, 2007.

5. Discretionary household income in NI is the lowest in the UK: £103 per week compared to a UK average of £201 per week.<sup>155</sup> Furthermore, growth in NI family spending power has slowed in 2016. Compared to other UK regions NI had the smallest year on year improvement, with families just £8 per week better off in 2016.
6. A 2014 report by Stepchange<sup>156</sup> highlighted the fact that NI clients are 20% more indebted than the average UK client. NI clients had, on average, unsecured debt levels of £18,360. The average debt across the UK was £15,267.
7. Unemployment and reduced working hours are cited by Stepchange as the primary drivers of problem debt. These factors have increased the reliance on high cost credit, when other lending choices are not available. Borrowers are using expensive loans to repay relatively small original loans: *"Both the number of people seeking help and the amounts owed on payday loans has increased radically in recent years. The amount owed on catalogue debt – another form of high-cost credit – has risen significantly."*
8. People who are financially vulnerable often have no safety net in emergency situations and this can lead to a cyclical debt trap. In our recent Consumer Outlook research 41% of consumers said they had, *"run out of money before the end of the month"*.<sup>157</sup> This research also showed that 49% of disabled people, and those with a chronic long term illness, were *"worried about [their] ability to make ends meet right now"*.

#### Access to bank accounts

9. Another area where NI is different from the rest of the UK is in respect of the proportion of people who are 'unbanked'. Households in NI are less likely to have a current account (10%) than those living in the rest of the UK (4%).<sup>158</sup>
10. It can be difficult to encourage consumers who do not have a bank account to open one. Our research<sup>159</sup> shows that 69% of respondents who do not have an account have no interest in having one. However, this may change with the advent of Universal Credit, which encourages payment into bank accounts, and which is scheduled to be implemented in NI from 2017.

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<sup>155</sup> Asda Income Tracker, July 2016.

<sup>156</sup> Debt in Northern Ireland, Stepchange Debt Charity, 2014.

<sup>157</sup> Consumer Outlook Index, Consumer Council for Northern Ireland, June 2016.

<sup>158</sup> Family Resources Survey, NISRA, October 2015.

<sup>159</sup> Banking on Change, Consumer Council for Northern Ireland, August 2016.

11. Of those with no bank account, our research found:
  - 86% were disabled;
  - 91% were aged 55 or over and,
  - 89% were living in rented accommodation.
12. The absence of a bank account is problematic for a number of reasons. A bank account is often a stepping-stone to other important financial products and services, such as insurance and affordable credit. While it is difficult to fully quantify the costs of being without a bank account, there is no doubt that consumers without access to even the most basic of services, such as a debit card, face disadvantages. This includes potentially paying a 'poverty premium'.<sup>160</sup> For example, consumers may miss out on savings by not paying via direct debit and better value deals on goods and services, which are only available online.

***Q8. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?***

13. Almost 30% of bank branches in NI have closed in the last five years.<sup>161</sup> Bank of Ireland has recently announced the closure of a further eight branches, with fears that other banks are considering a further round of closures.
14. Branch closures risk excluding those consumers who rely on visiting a branch for financial services and then 'opt out' when their branch closes. This is because they may not be willing or able to access banking services through other channels, such as online, telephone, or Post Offices.
15. The Consumer Council commissioned research in 2015 to explore consumers' attitudes to alternative forms of banking in the wake of branch closures. This research has been published in a report entitled 'Banking on Change'.<sup>162</sup>
16. This research found that:

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<sup>160</sup> The Price of Being Poor, Consumer Council for Northern Ireland, 2011.

<sup>161</sup> 104 branches have closed in NI since 2010, leaving 252 branches. Data provided to the Consumer Council by banks operating in NI, January 2016.

<sup>162</sup> Banking on Change, Consumer Council, August 2016.

- Only about half of respondents (49%) were aware that banking services can be accessed through the Post Office – older people were more likely to be aware of this than other groups of consumers;
- Of these respondents, less than a quarter (24%) have used a Post Office for personal banking – older people, those on a low income, or disabled people were more likely to have used this service (this is in line with the profile of Post Office users generally<sup>163</sup>);
- Encouragingly, over four in five respondents (81%) rated highly the banking services provided through Post Offices; and
- A small number of users wanted improvements made in terms of queuing (23%) and greater privacy (17%) for banking transactions.

17. The report makes a number of recommendations to promote greater financial inclusion, and we are in the process of engaging with stakeholders as part of an action plan to implement these. The report recommends, for example:

- The adoption in NI of the British Bankers' Association's Access to Banking Protocol, which seeks to mitigate the impact of branch closures.<sup>164</sup>
- Further research on the impact of branch closures on vulnerable consumers who appear to be disproportionately affected – our research suggests that disabled consumers (31%) were twice as likely as other groups (15%) to be impacted "a lot" by a branch closure, although the relatively small sample size means this figure needs to be treated with caution.

18. Apart from the issues raised by our research in terms of limited awareness and use of banking facilities offered by Post Offices, an ongoing concern is the capacity of the new 'Local' model<sup>165</sup> to handle greater volumes of banking transactions, particularly in the wake of bank branch closures.<sup>166</sup>

***Q9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans – on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?***

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<sup>163</sup> The Postal Consumer Perspective NI, Consumer Focus Post, 2012.

<sup>164</sup> Industry Protocol on Branch Closures, British Bankers' Association, March 2015.

<sup>165</sup> Under the 'Local' model, Post Offices services are typically provided from the retail till of a shop.

<sup>166</sup> Fixing the Foundations: Branch and Service Standards in Post Office Locals, Citizens Advice, 2015.

19. For many consumers, payday lending works well: *“Payday lending has filled a gap in the market, particularly for those consumers with a poor credit history who are excluded from mainstream credit.”*<sup>167</sup>
20. The payday lending market has come under scrutiny in recent years, and we welcome recent changes,<sup>168</sup> which offer some protection for consumers – namely:
  - The cost cap of 0.8% per day;
  - Fixed default fees capped at £15; and
  - Total cost cap of 100%.
21. In light of earlier concerns about payday lending, the Consumer Council undertook a financial capability and affordable credit project (FCACP), in partnership with the Community Foundation for NI, Ulster Bank, and Credit Unions. As part of this, a community-based affordable credit scheme was piloted in an area of high socio-economic deprivation in Derry/Londonderry. Under this scheme, potential borrowers were steered away from doorstep lenders towards a less risky alternative provided through the Derry Credit Union.
22. Although this was a small-scale community lending scheme (£14,589 was borrowed by 52 people, with the average loan being £187), the results were encouraging:<sup>169</sup>
  - Of the 52 borrowers, 40 (77%) went on to have further successful loans;
  - Bad debts amounted to 6% of the total amount borrowed, which is less than the typical write off amount for payday loans (8%<sup>170</sup>);
  - The participants also began an established savings pattern. A typical approach, encouraged by community workers and Credit Union staff alike, was to put £5 towards repayment and £5 towards savings. This resulted in feelings of increased self-esteem and independence among the participants; and
  - While the pilot has concluded, the Derry Credit Union scheme is continuing and four other schemes are now being developing in different parts of NI.
23. There are some themes and actions, which appear to have contributed significantly to the scheme’s success.

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<sup>167</sup> Payday Lending: Pieces of the Puzzle, Financial Ombudsman Service Insight Report, August 2014.

<sup>168</sup> Detailed rules for the price cap on high-cost short-term credit, Financial Conduct Authority, November 2014.

<sup>169</sup> Financial Capability and Affordable Credit Pilot – Final Report, Consumer Council for Northern Ireland, 2016.

<sup>170</sup> Payday Lending: Fixing a Broken Market, Sarah Beddows and Mick McAteer, Financial Inclusion Centre, 2014.

- The scheme was accessible – no one was excluded from seeking a loan. The normal rules of entry to Credit Union loans were waived: borrowers for the scheme did not have to be referred by a member or have prior savings;
  - Potential participants were targeted – these were those reliant on short term high cost loans, typically from doorstep lenders.
  - Existing support structures were used – borrowers were known to and had good relationships with local community workers and hence trust was pre-established. This was important because many individuals had poor experiences of financial services; and
  - Early success was built upon – once borrowers were introduced to the scheme, others came forward.
24. We believe where individuals are 'locked out' of other financial services due to low income or poor credit rating, they are much more likely to turn to high cost credit loans. This scheme demonstrates that an affordable, ethical alternative has the potential to help break the cycle of indebtedness and encourage a savings culture, and therefore greater self-sufficiency.
25. In July 2016, the Consumer Council hosted an exploratory workshop in Belfast, run by the Financial Conduct Authority (FCA) to gather insights from a wide range of policy-makers, practitioners, and frontline money advisers on the prevalence and practice of illegal money lending in NI. This was one of a series of workshops held around the UK by the FCA. The experiences from the pilot scheme were fed into this. We are hopeful that this workshop will pave the way for resources from HM Treasury to underwrite further community lending schemes to reduce reliance on high cost and illegal money lending.

### **Further information**

- 26.** The Consumer Council would be happy to provide further information to the Committee as required. We look forward to reading the Committee's findings on this important issue in due course.

*15 September 2016*



## **Consumer Credit Association – Written evidence (FEX0051)**

1. This response is by the Consumer Credit Association, the trade body for the UK home collected credit sector. Our remarks are limited to financial exclusion in the context of consumer credit.

Home collected credit ('home credit') is a system for providing small, short-term cash loans to consumers on lower-than-average incomes.

A typical loan is likely to be for around £200-£600, repayable over somewhere between 26 and 52 weeks. The system is defined by the weekly agent visit to the customer's home. During this call, the agent will collect any repayment due and, if required, issue further credit. Most agents in the sector are women.

The product is straightforward. These are fixed-sum, fixed-term loans, with a fixed, all-in charge. If the customer misses a repayment, no extra charges are imposed for that miss. The fixed charge covers funding costs, the costs of arrears, the costs of documenting and processing the loan and the costs of the weekly agent visit.

Although these are ostensibly fixed-installment contracts, the system is, in practice, operated very flexibly. If the customer has a problem repaying, his agent can informally agree - on the spot - to either allow a missed payment or allow a reduced payment. When any loan is rescheduled in this way, there is nothing extra for the customer to pay. Missed instalments are often paid at the end of the contract term, effectively stretching the overall repayment period. Some customers prefer not to leave things this long and get their account back up to date by paying a little extra each week.

The technical effect of allowing misses (and reduced payments) without charging for them is that the real cost of the credit falls.

2. Home credit complies with the information requirements of UK credit law. These stipulate key disclosures in a set form for every loan. These include a pre-contract notice (the Standard European Consumer Credit Information form) which sets out APR, the sum borrowed and the cash amount of charges. Customers must also sign a written contract, again including APR, amount of loan and cash charges. Agreements also include various statutory warnings.

Although not a statutory requirement, it is normal for home credit firms to also provide each customer with a payment card or book. The details of the loan are entered in this, and as payments are made, the agent will record them in this document.

3. Customers have very good relationships with their agents and also like the certainty and control that the home credit system provides. In particular, because charges are fixed, customers always know how much they have to

repay. For instance, in her evidence to the Competition Commission, Professor Elaine Kempson noted that:

***'Just about every home credit customer we have ever interviewed knows the total cost of borrowing - unlike the generality of credit users. They do not know the APR on their loan and nor can they easily compare costs from different lenders. But work we are currently undertaking for the Financial Services Authority for a base-line survey of financial capability shows that this is true of the great majority of credit users too. They have repayment books that contain terms and conditions and details of how much they have repaid. Many other borrowers do not receive regular statements on fixed rate fixed term loans and terms and conditions tend to be lost over the lifetime of the loan'.***

4. The home credit sector comprises around 400 firms, ranging from small family businesses (the majority of CCA members), through medium-sized firms, to two large firms listed on the London Stock Exchange. Some of these businesses have operated for the best part of a century, with one or two even older than that.

Payday lending is a much more recent entrant to UK credit markets and operates quite differently to home credit. For instance, repayments on internet-based payday (the main form) are all made electronically. And if a payment is missed, the payday customer will usually incur an extra interest charge plus a default charge.

5. Financial inclusion in consumer credit has, over the years, largely been characterised as a problem of lower-income consumers using inappropriate products. According to this view, the solution lies in transitioning those consumers either to mainstream, middle-income products or to specialist not-for-profit systems.

Commentators deem products inappropriate for various reasons, but most often because the charges seem too high.

More recent research has started to look at lower-income credit in an even more in-depth way, reflecting on matters much more from the lower-income consumer's perspective rather than, as previously, from the commentator's viewpoint.

In the remainder of this note, we outline some core findings from three key studies. These findings radically shift the terms of the debate. They also perhaps help explain why various solutions that have been tried over the years have not gained the critical mass that their proponents had, perhaps, anticipated.

6. Before we comment on those studies, we wanted to mention one critical economic concept. Debates on exclusion rarely address this technical matter.

However, it should perhaps have a higher profile because it is to do with pricing and pricing was the main driver behind many of the criticisms originally levelled at lower-income credit systems in the early 1980s.

The economic point (which most people are familiar with from their weekly food shop) is that if you buy a product in a small quantity, you will pay a higher unit price (e.g. £ per kg) and that if you buy in bulk, you will pay less (per kg).

Credit is the same; small loans cost more (per £ borrowed) than larger loans. A US academic put it this way:

***'...The social agencies which took the initiative in developing the Uniform Small Loan Law, as well as the legislators who enacted it into state legislation, realized the unavoidable cause and effect relationship between size of loan and percentage rate of charge. Now, as then, very small loans and very high rates inevitably go together. So do small loans and moderate rates. And so do large loans and low rates.***

***This relationship is inescapably true no matter who is the lender - whether commercial bank, industrial or Morris Plan bank, industrial loan company, credit union, or consumer finance company. The smaller the average loan made, the higher must be the percentage rate charged to cover expenses because many of these expenses are the same in dollar amount regardless of the size of the loan...'***

'The social control of consumer credit costs: a case study'  
Clyde William Phelps  
*University of Southern California, 1951*

Lower-income consumers only need small loans - £500 rather than £5,000. It may be a reasonable strategy for these consumers to buy some food in bulk to get the lower price. But it is not sensible for them to take out larger loans (i.e. also buy their credit in bulk) just for a lower APR.

This all means, too, that the specialist lenders who issue small credits to lower-income groups have to charge APRs much higher than those found in mainstream markets. This is a matter of simple economics, not a matter of profiteering.

On this general theme, the Competition Commission observed that APR 'was a poor measure of the cost of a loan' and not one that customers valued. The Commission went on to say<sup>171</sup>:

***However, lenders have told us, and we agree, that the APR has significant limitations not only for comparing different***

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<sup>171</sup>'Home Credit Market Inquiry: Provisional Findings Report', Competition Commission, April 2006

**credit products but also for comparing home credit loans of different lengths (see Appendix 3.1). APRs, especially for shorter-term home credit loans, can be very high. We do not consider that the APR is a useful comparator for customers, when it is at such high levels. With APRs above 100 per cent, customers may be able to tell that a particular APR is greater than another, but the APR conveys little further useful information’.**

7. The first key study is by the Financial Inclusion Task Force, which sat from 2005 to 2011 under the chairmanship of Sir Brian Pomeroy. By 2010, when the report, ‘Mainstreaming Financial Inclusion’<sup>172</sup> was published, the Task Force had been studying the issues for nearly five years.

The report commented as follows:

**‘26. A number of opportunities exist to expand access to credit for vulnerable households. However care should be taken to learn from past experiences of what [has] and has not worked. In particular, attempts to create sustainable lending initiatives without taking into account the well-evidenced costs of serving this market, or the product features that are important to the target borrowers should be viewed with caution. Any successful initiative will need to offer most of the following features:**

- **Simple, straightforward and speedy access**
- **Clear indications of who would qualify for a loan, enabling applicants to have confidence that they will not be refused**
- **Repayment system suits household budgeting strategies (e.g. frequency of repayment matches income)**
- **Lender understanding and recognition of borrower’s financial circumstances**
- **Cash based system**
- **Trust in and familiarity with providers, products and procedures**
- **Small loan amounts (under £500)**
- **Repayment discipline (e.g. quick contact if payment missed)**
- **Repayment flexibility (e.g. some ability to miss or reduce payments when absolutely necessary)**
- **No (or low) penalties or charges for default**

**27. Effective credit control procedures are also essential, and even some high cost lenders have failed for this reason. Furthermore, decisions will need to be taken on where exactly the limit of the definition of ‘affordable’ should be**

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<sup>172</sup>‘Mainstreaming Financial Inclusion - Planning for the future and coping with financial pressure: access to affordable credit’, Financial Inclusion Taskforce, March 2010

**when providing credit opportunities to low-income households.**

**28. Affordability in this context is not based on overall price. It is inherently expensive to lend to this market, and the question is over how that cost is met and by whom. In looking at any product which seeks to extend provision beyond the current reach of Growth Fund, careful consideration should be given to how well the features of the proposed product match the features that low-income households want. Lessons should also be drawn from international experience in delivering similar initiatives on ways of reducing the cost of delivery or linking with other initiatives to increase revenue.'**

The significance of all these product requirements is that each one speaks to the powerful need of lower-income consumers to be able to stay in control of their finances. Home credit has all these product features.

It is also significant that low relative overall cost (i.e. low APR) is not in this list. This is because it has no real relevance to the question of control.

8. The second key study, by Consumer Focus (previously the National Consumer Council), was published in 2011. This report reflected on the techniques that lower-income consumers used to stay in control of their household budgets. It considered not only the credit systems they used but also the payment mechanisms they deployed for services such as utilities and telephone.

The key finding was that control was more important than absolute overall price and that consumers were making conscious trade-offs, weighing up price against the degree of control that a product gave:

**'Coming through our research are clear and consistent priorities that inform low-income consumers' choice of financial products and services. These are control, predictability, convenience and clarity...'**

Consumer Focus described the policy analysis dilemma in this way:

**'The precariousness of low-income consumers' finances and personal circumstances means that they often have to prioritise control...clarity...and convenience...over long-term cost. Unlike more affluent consumers, they cannot afford to take the risk of the fees and penalty charges for missed payments that come with more mainstream products. Instead, many low-income consumers rely on more expensive payment methods and financial products, such as cash, certain types of credit (e.g. home-collected credit...) and prepayment meters ...which are**

***better suited to their priorities for day-to-day money management.'***

Commentators often assume that low-cost, viable alternatives do already exist and that it is simply a matter of home credit users moving across to those products.

However, the research sends clear signals that lower-income consumers want mechanisms that help them stay in control over the long-term, rather than systems that harm them by creating uncertainty and unexpected costs. The research also flags that consumers actively weigh up these matters:

***'A consistent feature of our research findings is that low-income consumers' choices are based on an active weighing up of the costs and benefits of the products they consider available to them. Often this means having to make difficult trade-offs between cost<sup>173</sup> and other priorities, given the limited choices on offer.'***<sup>174</sup>

9. The third study is the FCA's 2015 Occasional Paper<sup>175</sup> on consumer vulnerability<sup>176</sup>. A key theme of this report was that modern, streamlined electronic credit systems did not always respond well to the real-life situations in which many consumers found themselves:

***'The research found that the streamlined systems approach of many firms do not respond well to the fact that vulnerability can affect us all, and we may all experience challenging life events and circumstances. Many financial products, services and systems seem not to be designed to respond to inevitable vulnerability. The research found that many consumers in vulnerable circumstances feel that services have become streamlined, designed for the 'perfect customer', and do not meet the needs of non-standard consumers who do not fit the mould or whose personal circumstances may have changed. Indeed, many of the negative outcomes uncovered by the research appear to be unintended consequences of this streamlining, which cannot flex when put to the test. The vast majority of consumers approach firms in good faith, not expecting charity, but needing support and flexibility, or a greater degree of***

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<sup>173</sup> See footnote 17.

<sup>174</sup> Consumer Focus appears to contradict some of its own findings, when it says: *'By choosing sound financial management with the aim of avoiding debt, low-income consumers' priorities can result in expensive choices. Making sensible decisions for their financial circumstances can actually increase low-income consumers' poverty premium and vulnerability to debt'.*

<sup>175</sup> Occasional papers are not statements of FCA policy but are intended to stimulate debate and discussion on a subject.

<sup>176</sup> 'FCA Occasional Paper No.8 - Consumer Vulnerability', FCA, March 2015.

***sophistication and willingness to engage. In fact they find that they struggle to make services and products 'work' for them.'***

These comments resonate with some of the observations made in Sir Brian Pomeroy's 2010 Task Force report (see above).<sup>177</sup>

10. The materials we review in this note reveal some fundamental truths about lower-income credit consumers.

Most critically, these consumers require, and seek out, mechanisms that allow them to stay in control. This means, for instance, that it is more important to have costs that are fixed, rather than costs that are lower relative to those of other products, but which may vary.

These consumers also strongly prefer face-to-face contact, with someone they trust. This may cost them more than using an electronic system,<sup>178</sup> but it is more responsive and therefore more helpful. In particular, it allows them to explain, to a human being, what has happened to them.

11. We would like, finally, to mention the question of illegal lending.

Some commentators see an outright ban on all commercial lending to lower-income consumers as an appropriate solution. The problem with this is that illegal lending markets can quickly emerge and grow, at a rate that can make them unstoppable.

The literature suggests that, over the years, various countries have, from time to time, experienced rapid growth in their illegal lending sectors (most recently in Japan), usually in response to legislative changes that have made it impossible for legal firms to operate in a market sector. And even a market as open as the UK's has an illegal market serving some 300,000 consumers.

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<sup>177</sup> See also unpublished research for the National Consumer Council which found: ***'The main things which customers noticed in dealing with collectors from doorstep lending companies was the fact that they seemed to be trying to do their best to help them whereas other potential lenders like banks and 'The Social' had been intent on making them feel inadequate. Banks, in particular, were strongly criticized by many customers for being totally unwilling to consider people's individual circumstances and for adhering to 'credit scoring' systems which are inflexible...'***

*'Supercomplaint on high-cost credit: research report prepared for the National Consumer Council by MORI Financial Services and Front Line Research', November 2003. This was qualitative research.*

<sup>178</sup> Although, in some instances, on-line payday loan costs can be similar to, or even greater than, those charged in the home credit sector.

12. We hope the above is helpful to the Select Committee. We would be happy to provide any further information which might be required.

*14 September 2016*



Consumer Credit Association, Consumer Finance Association and BrightHouse – Oral evidence (QQ 132-141)

**Consumer Credit Association, Consumer Finance Association and BrightHouse – Oral evidence (QQ 132-141)**

[Transcript to be found under BrightHouse](#)

## **Consumer Finance Association – Written evidence (FEX0011)**

### **Introduction**

1. The Consumer Finance Association (CFA) is the principal trade association representing the interests of major online and store-based short and medium-term lending businesses operating in the UK. The CFA is pleased to have the opportunity to respond to the call for evidence from the House of Lords Select Committee on Financial Exclusion.

### **General Comments**

2. The CFA is pleased that the Lords Select Committee on Financial Exclusion has been established. In recent years there has been a great deal of debate about tackling financial exclusion and the Committee can play a key role in helping to prioritise and coordinate efforts to reduce financial exclusion.
3. A regulatory framework and supervisory approach that allows banks, building societies, credit unions and alternative finance providers to serve a wide range of customers is essential to reduce levels of financial exclusion. Legislative change may be needed to achieve this. It is important that regulated lenders are able to serve as many people as possible. There is a risk that, through increasingly tighter regulation, more people are excluded from access to credit and the CFA believes increased numbers of people are being pushed towards unregulated lenders.
4. There is no one size fits all approach. Measures that help tackle the financial exclusion for a group of people may not work at all for another group. It follows that measures to reduce financial exclusion should start from the point of assessing need in a particular group or groups and any resulting measures should be targeted at those groups.
5. Responses to relevant evidence questions, on which the CFA has a view, are set out below.

### **Financial education and capability**

Q5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?

6. Financial education is an issue that provokes strong views. The CFA welcomed the move to make financial education part of the curriculum, but issues remain. As a result, the CFA does not believe that appropriate education and advisory services are available.
7. The CFA believes there are four broad issues:-
  - **Access.** How and when people access information;
  - **Engagement.** How appealing and accessible the information is;
  - **Relevance.** How relevant information is to its target audience; and
  - **Impartiality.** How balanced and impartial the information is.

8. Financial education is just one issue competing for space in a crowded school curriculum. The quality of financial education children receive in educational settings is dependent on the resources a school or college devotes to the subject. A wide range of resources is available for teachers to use when teaching financial matters but the breadth and quality of these resources is variable. As a result there is a significant risk that the financial education provided in some settings is not given sufficient priority, is incomplete, and/or is not interesting or engaging for children and young people.
9. Incomplete financial education can result from teachers and parents focusing solely on products and services that are familiar to them, in the process making judgements about non-standard products such as short-term loans. For example, while some CFA members are engaged with and supporting a number of charities that provide financial education in schools, other charities have refused support from short-term lenders on the apparent basis of an ill-informed judgement about short-term loans and their role in the financial services marketplace.
10. There are also issues about providing education and advisory services for people who are no longer in full-time education. While there has been progress in engaging with people at different life stages, such as initiatives to engage with new parents, it remains difficult to both reach people and prompt them to seek help when they need it.
11. The provision of education and advisory services is also muddled by the amount and variety of different information and guidance sources available. There is a particular issue in that not all information provided to consumers is accurate and impartial. Despite its role to provide impartial information, even the Money Advice Service (MAS) has struggled to provide objective information that is not influenced by personal and organisational views and prejudices.
12. The activities of unregulated blogs, the use of populist and often badly designed online or telephone consumer surveys, and websites set up to help customers complain are often a risk to consumers rather than a reliable source of information. They can provide incorrect and misleading information and raise customer expectations of compensation in the process.
13. The CFA is also concerned about the growth in the number of claims management companies that appear to push the illusion that walking away from debts is a good option. The CFA believes that personal financial education needs to include a focus on both the rights and responsibilities of consumers, including the responsibilities to borrow sensibly and be truthful and honest with financial services firms.

Q6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?

14. To some extent, financial literacy can be maintained and developed over the course of a person's lifetime by prompting and providing key information at the time of key life events. It is however impossible to force people to look at information or take up any advice offered, whatever their situation. There is also a risk that people are 'turned off' by having education and/or information forced on them and when they may not either want it or need it.
15. To encourage people to look at information or take up advice, any information provided needs to be accessible and inviting. It also needs to cover a range of issues, including basic money management and how to deal with unexpected situations. The financial information and advice available currently tends to be polarised between investment advice for wealthier consumers and debt advice to help people tackle problem debt. As a result there is little incentive for other consumers to seek information and advice.
16. Incentivising people to use the information and advice available could have a positive effect on financial literacy. Incentives could include lower interest rates on credit products if people complete financial education modules online and/or points towards other rewards. Consideration should also be given to gamifying financial skills and knowledge, developing online and App games which are fun to play but which also help improve financial literacy. A good example of how developing and maintaining financial literacy skills can be gamified is the website [www.practicalmoneyskills.com](http://www.practicalmoneyskills.com) website operated in the USA by the payment company Visa, in partnership with educators, consumer advocates and financial institutions.
17. Lenders are in an ideal position to be able to promote ongoing improvements to individuals' financial literacy skills. However CFA members often find that their offers to sponsor or co-author material are rejected by debt advice providers and educational groups.

### **Addressing financial exclusion**

Q7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?

18. The issue of personal financial responsibility is absolutely key and the CFA believes insufficient attention is given to its promotion. Consumers need to understand that by acting responsibly and openly, they are more likely to be able to reduce the risk of financial exclusion. There is a widespread fear among consumers that taking responsibility by 'owning up' to being in financial difficulty is likely to lead to financial exclusion. But the reverse is more likely to be the case with lenders likely to respond positively to requests for help and forbearance.
19. There is a risk that prescribed warnings on promotional literature, statements and other communications are seen as a proxy for supporting responsible

behaviour but the CFA is not aware that they have any discernible effect of this type.

### **Accessing affordable credit**

Q9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?

20. Innovations in the market, new products and the use of new technology can be beneficial for consumers. There is often suspicion about new products, which initially at least fall outside mainstream financial services, but the use of new technology, new products and new methods of working can all help tackle financial exclusion.
21. Short-term lenders have led the way in assessing affordability and sharing information about consumers. Banks and other mainstream financial institutions need to follow suit and share information in the same way. Ensuring that financial institutions have a more complete picture of an individual or household's finances helps to tackle financial exclusion by ensuring decisions by financial institutions are based on facts rather than assumptions.
22. The introduction of the price cap has resulted in a reduction in customer choice and an increase in the number of applicants being declined. Customer choice has reduced due to a number of lenders exiting the market and others refining their offer so that it is compliant. The number of applicants being declined has increased as a result of lenders tightening their lending scorecards in response to the price cap, and as a result of them being required to carry out more extensive credit worthiness checks. The CFA is undertaking further work to look in more depth at the impact of the price cap and we would be happy to share the results with the Committee when available.
23. The reduction in the availability of credit has a direct impact on customers. In the Competition and Markets Authority (CMA) Payday Lending Market Investigation working paper *The size and concentration of the payday lending sector*<sup>179</sup> the CMA said that payday lenders issued approximately 10.2 million new loans in 2012. The latest data from the FCA shows that the number of short-term loans made in the first half of 2015 dropped to 1.8 million, compared to 6.3 million in the first half of 2013<sup>180</sup>.
24. The reduction in the supply of credit can also be seen in the reduction in the number of lenders. In 2013 there were 240 lenders offering a single payment loan. In September 2016 the CFA estimates there are between 50 and 60

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<sup>179</sup> CMA (February 2014) *The size and concentration of the payday lending sector*

<sup>180</sup> FCA (2016) *Annual Report 2015 – 2016*

short-term lenders (excluding franchise holders) who have been authorised by the FCA.

25. In order to understand the impact on customers of a reduction in the supply of credit, the CFA carried out consumer research in 2015 in partnership with polling company YouGov. The research focused on customers who had had loan applications declined as a direct result of stricter affordability checks<sup>181</sup>. The research found that consumers who are now denied short-term loans can face financial issues as a result. Of those surveyed:

- 22% said they failed to pay some form of bill or credit repayment, with 48% saying they incurred a fee as a result;
- 9% used an authorised overdraft on a personal bank account; and
- 3% borrowed from an unlicensed lender.

26. The reduction in the supply of credit also carries with it a risk of increased illegal lending, as people who are unable to access credit potentially turn to illegal sources to meet their needs. The traditional image of a loan shark coming to your door and demanding payment with menaces is alive and well. The Illegal Money Lending Team has an important role in tackling illegal money lenders. But there is also an increasing issue with illegal lenders operating online and it can be difficult for people to distinguish between legal and illegal lenders online. Lenders operating online without the necessary permission are unlikely to adhere to requirements such as the price cap or restrictions on the amount of times a lender can attempt to take repayment. This leaves customers vulnerable with no protection if things go wrong. Chris Pond, vice-chairman of the Financial Inclusion Commission, said in reference to the impact of the new regulatory regime that: 'While the supply of that lending has disappeared, the demand doesn't. The demand keeps on growing. And it's in that respect that the illegal loan sharks are getting into a feeding frenzy'<sup>182</sup>.

27. Other impacts of regulatory changes include changes to the way loans are promoted and risk warnings being displayed alongside clear information about the cost of the loan.

28. The combination of strict affordability checks and the FCA cap on the cost of short-term loans ensures that loans are affordable for those who have loan applications approved. The market for short-term loans is not however the financially excluded. For example more than 90% of short-term loan customers earn more than £750 a week<sup>183</sup>.

29. Financial exclusion may affect those who are unable to obtain short-term loans and other forms of credit. As such the CFA believes that any efforts to provide affordable credit should be focused on those who are unable to access other forms of credit and who are likely to be at most risk of turning

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<sup>181</sup> CFA/YouGov – Declined applicants 2015

<sup>182</sup> BBC News – 'Personal debt goes up by 23% in a year in Wales', February 2015

<sup>183</sup> Based on data from CFA members.

to illegal sources of credit. In this context, there may also be a role for the Government, for example providing more in the way of crisis funding for those who are clearly not in a position to access credit and ensuring that there is a regulated market providing options for people who need and can afford credit.

### **Government policy and regulation**

Q12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?

30. The CFA believes that regulators and policymakers need to take account of the impact on those who will be excluded as result of regulatory change, as well as the protection given to those who can continue to access financial products and services. The CFA believes too little attention is paid to the issue of where those consumers who are excluded as a result of regulatory change can and will go for alternatives when they can no longer access a particular type of product. For example, the FCA work on a price cap for short-term loans did not consider the harm consumers may suffer if they were unable to obtain a loan. More recently, the funding of the Illegal Money Lending Team was at risk putting future work to protect consumers in jeopardy. An effective campaign secured the future of the team but it is alarming that so little thought was apparently given to the potential impact on consumers while the focus appeared to be on reducing Government costs.

31. The CFA believes there is a clear case for the FCA to have a duty to consider the impact of its regulatory approach on people who may be excluded as a result. Similarly, Government departments are currently required to consider a range of impacts when developing policy proposals, including the impact of proposals on women and other protected groups of people. The CFA believes consideration should be given to extending these requirements and including a duty to consider the potential impact of any policy proposals on financial exclusion.

32. A joined up approach is essential. The legislative framework needs to ensure that regulators take account of those who might be financially excluded. Regulators need to consider the risk of financial exclusion for increasing numbers of customers and offer flexibility when necessary and appropriate. This will only happen if there is a clear duty on regulators to consider the impact on customers who might be excluded as a result of regulatory change.

Q13. 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? What balance should be struck between regulations and incentives for financial institutions?

33. The regulation of financial products and services in the UK risks increasing financial exclusion rather than tackling it. The FCA has a duty to consider

access to financial services but this duty is limited and does not address the issue of financial exclusion.

34. In addition the FCA's regulatory and supervisory approach does little to incentivise firms to address financial exclusion. Firms are more likely to interpret regulations and adapt behaviour in a conservative way to reduce regulatory and enforcement risks. A change of approach would be needed to encourage firms to consider the issue of financial exclusion. The CFA believes that within the current regulatory framework, any incentives to address financial exclusion will need to come from Government, either directly or indirectly through changes to the FCA duties and objectives.

### **Financial technology (Fintech)**

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?

35. Short-term lenders pioneered the FinTech sector and continue to lead the way on key initiatives such as real-time data sharing, anti-fraud measures, advanced marketing channel analytics and customer profiling. Both the Government and regulators have an important role to play in encouraging wider use of some of these initiatives, particularly real-time data sharing. The CFA believes it is important for individual financial data to be shared with credit reference agencies (CRAs) on a much more regular basis, at least once a day. This would ensure that every potential lender had up-to-date information to inform their lending decisions and the quality of those decisions would improve immeasurably as a result, which would ultimately lead to better outcomes for customers, including those who are financially excluded.

36. The CFA is disappointed that much of the focus of work on FinTech and innovation has been focussed on new companies and new products. Existing firms, particularly short-term lenders, use technology to deliver products in a more efficient and customer-focused way, to make better affordability checks and improve understanding of customers. The majority of technological innovation is advanced by SME's making a series of small incremental changes. The type of technological advances that grab headlines are rare and typically the final link in a chain that has been mostly built over time by earlier market participants. The CFA believe Government efforts to support the development of Fintech should look at all the elements of the chain rather than simply focusing on potential headline grabbing events.

*9 September 2016*



Consumer Finance Association, BrightHouse and Consumer Credit Association – Oral evidence (QQ 132-141)

**Consumer Finance Association, BrightHouse and  
Consumer Credit Association – Oral evidence (QQ 132-  
141)**

[Transcript to be found under BrightHouse](#)

## **The Co-operative Bank – Written evidence (FEX0033)**

### **About the Co-operative Bank**

The Co-operative Bank provides a full range of banking products and services to around 4 million retail and SME (Small and Medium Sized Enterprises) customers. The Bank is committed to values and ethics in line with the principles of the co-operative movement. We are the only high street bank with a customer-led ethical policy, which gives our customers a say in how their money is used. Launched in 1992, the policy has been updated on five occasions, with new commitments added in January 2015 to cover how the Bank operates its business, products and services, workplace and culture, relationships with suppliers and other stakeholders and campaigning.

### **Additional Questions from the Committee**

#### **1. At Board level, is anyone's remuneration linked to the bank's performance on financial inclusion?**

Although our executive remuneration is not linked to financial inclusion, it is performance based. When assessing performance, the Bank's adherence to its Ethical Policy objectives and delivery of projects driven by the Values and Ethics committee will be considered. For example, the Director of our Retail Bank is responsible for the policy and implementation of our work on vulnerable customers and their performance in this area will be considered alongside their other areas of responsibility.

#### **2. What would be required for the UK to reconstitute the Payment Accounts Directive post- Brexit?**

Until it is clear what relationship the UK will have with the European Union and the Single Market, and how Brexit will be brought about (e.g. if Parliament repeals the European Communities Act 1972), we cannot predict which EU laws and directives will still apply in the UK.

However, Due to its transposition into UK law it is likely that some elements of the PAD would still apply even if the UK were to leave the Single Market. It will therefore be for the Government to determine the UK's future relationship with the EU and for Parliament to determine which elements of the transposed UK law it may or may not wish to amend.

#### **3. What work is underway in regard to the ID requirements for bank accounts?**

The BBA is working with Home Office officials to agree a common list of Identification and Verification documents that banks accept for basic bank accounts. This is intended to enable the Home Office to provide guidance to local

authorities, charities and other relevant organisations who may advise, for example, refugees, on setting up a bank account.

**4. How might the concept of flexibility work in regard to direct debits, and what is the relationship with variable income (for example minimum hours contracts)?**

A customer sets up a Direct Debit with, and payment is requested by, the third party (e.g. a utility provider), rather than their bank. It is up to the third party to determine the timelines and processes for processing direct debits, which may be based on their own operational restraints, billing policies or preferences. As a result this limits the flexibility for customers and the role that banks can play.

When the Bank receives a request for a Direct Debit from a third party, we make a decision to make the payment or return the item unpaid, dependent upon whether there are sufficient funds in the customer's account. If the item is returned unpaid the customer does not incur a charge as The Co-op Bank does not charge customers for unpaid Direct Debits.

In some cases we apply an Anticipatory Limit, based on the customer's account and transactional history. This means we pay the Direct Debit on request but the customer goes into an informal limit. The customer has until 9pm that day to return the account to credit without charges being applied. We also waive fees where a customer goes into an informal overdraft position, which for example could be triggered by a Direct Debit, once every 12 months.

**5. Should not bank overdraft fees (authorised or unauthorised) be made clearer and in writing as customers are often in the dark about the scale of these?**

Yes. The Co-op Bank believes that transparency and simplicity is vital if customers are to be able to control their finances. That is why in April 2015 we launched a new overdraft for our Co-operative Bank and Smile current accounts. The design of our new overdraft was guided by research with our customers, those of other banks, and consumer group Which?. We found that customers wanted an overdraft that offered simplicity, fairness, and transparency, as well as features such as a maximum cap on charges and an unauthorised overdraft buffer.

We abolished our unpaid item fee which, alongside our £20 buffer and discretionary waiver, helps customers who occasionally use an informal overdraft. We also lowered our industry-leading quarterly cap on charges, as opposed to the industry norm of a monthly cap, to £60 and reduced our informal charge, lowering the overall cost of unauthorised borrowing for all of our customers. The table below sets out an overview of our fees and charges and contrasts this with our previous overdraft proposition:

<b>Features</b>	<b>New proposition</b>	<b>Changes made</b>
<b>Annual service fee for formal arrangement</b>	No fee	£20 fee abolished
<b>Unpaid charge</b>	No fee	£15 fee abolished
<b>Monthly/Daily Informal</b>	£10	Reduced from £20
<b>Charges cap</b>	£60 per quarter maximum	Reduced from £150 per
<b>Buffer</b>	Up to £20	Retained
<b>Waiver</b>	Six days return to agreed limit, once a year	Retained
<b>Debit interest</b>	18.9% EAR*	Retained

\* *Equivalent Annual Rate*

## **6. Should there be a cap on punitive unarranged bank overdraft charges, which are higher than the cap on payday loans?**

Yes, though we do not agree that our own unarranged overdraft charges cost more than payday loans. In April 2015 the Co-op Bank introduced a quarterly cap on fees for unauthorised overdrafts of £60.

A customer will incur a £10 monthly charge, which is applied once per charging period when a customer uses an unauthorised overdraft. As part of our new overdraft proposition we scrapped our annual service fee and unpaid item fee, so that customers now only incur a single, capped charge for their unauthorised overdraft, in addition to an 18.9% EAR on their unauthorised debit balance.

For example, the table below sets out the estimated cost of unauthorised borrowing of £100 for 28 consecutive days (Please note that the competitor examples have been sourced from a Moneyfacts news article published on 13th July 2016):

<b>Provider</b>	<b>Monthly Cost</b>
Co-op Bank	£11.33
Barclays	£29.75
Santander	£67.00
TSB	£80.00
HSBC	£80.00
Lloyds	£80.00
RBS	£90.00

*Source: Moneyfacts news, 13/7/16*

The table below sets out the estimated cost of authorised borrowing of £300 for 15 consecutive days (Please note that the competitor examples have been sourced from a BBC News article published on 13th July 2016, featuring analysis by consumer group Which?):

<b>Provider</b>	<b>Account name</b>	<b>Monthly</b>
Co-op Bank	Current Account	£2.15
Lloyds	Classic	£8.25
Natwest	Select Account	£8.45
Barclays	Bank Account	£11.25
Halifax	Current Account	£15.00
Santander	123 Current	£15.00

Source: BBC news, 8/7/16

**7. How successful has the Access to Banking Protocol been, and what are your aspirations for the independent review of the Protocol that is currently underway?**

The Access to Banking Protocol has been successful in formalising and improving the steps banks take when closing one of their branches, ensuring that the impact of our decision on customers is minimised. It has also led to us reviewing and improving our closure process. However, most of what the Protocol requires was already being undertaken by the Bank.

Our aspiration for the one year review is to highlight that The Co-op has taken the right approach, and done the right thing by its customers, when closing a branch. We also hope that it highlights minimal – if any - customer detriment, as ensuring customers can maintain access to banking is our primary concern.

We also look forward to reviewing any recommendations or best practice put forward by Professor Griggs as part of his review.

**8. How does your company identify customers who are in, or at risk of financial difficulty? What support would you offer to such customers and do you employ 'warm handovers' to introduce customers to organisations that might offer assistance?**

As our approach to financial exclusion and vulnerability is embedded in our ways of working, we identify through customer interaction at the "front line". This can be from a customer explicitly advising us of being in financial difficulty, or a colleague picking up on signs of difficulty from a customer interaction, or their transaction activity. The signs can be as obscure as a customer mentioning a life event that could cause financial problems or picking up on anomalies from our internal account information.

We pro-actively contact customers who we believe to be at risk of financial difficulty (through our mortgage Pre-arrears team) with a view to discussing their circumstances in detail, completing a financial statement and offering them support through a number of forbearance treatments. These treatments are also those available to customers who are in an arrears. They include treatments such as repayment overdrafts, reduced repayment arrangements, consolidation loans and pre-agreed periods of non-payment. Our colleagues are empowered to offer customers treatments that are tailored to them and their needs.

Within all interactions with customers in potential or actual financial difficulty, we promote free and independent debt advice as a means of supporting customers in addressing their debt problems. We actively support the free debt advice sector through the fairshare contribution, make reference to free advice on our customer correspondence/ internet site and regularly meet with the free sector to understand how we can work to deliver the most effective customer experience.

The Bank has established relationships to a variety of external support agencies all of which assist in different types of circumstances; this includes the Police, Local Authority Social Services, StepChange, Refuge, MacMillan.

**9. The Financial Services Consumer Panel has suggested that banks should have a statutory duty of care to their customers. What is your view of this suggestion?**

As a Bank defined by our Values and Ethics we believe a statutory duty of care is unnecessary, as we already make explicit, and embed in the way we do business, our commitment to 'do the right thing' for customers. We provide training to all of our colleagues on what our ethics mean and what constitutes ethical behaviour. Our Values and Ethics committee also provides scrutiny of our business decisions and policies to ensure they are meeting our ethical policy.

This approach runs alongside our regulatory responsibilities to treat customers fairly. A number of institutions have been censured in recent years over mis-selling of products such as Payment Protection Insurance. However, in our view, the negative reputational impact of those incidences have been of equal importance to any fines imposed in shaping the industries approach to ensuring they do not happen again.

**10. What role do banks have in improving the financial literacy and education to children, young people and adults?**

We think the most important role that a Bank can play is to provide simple and accessible products and services. We design all of our new products to simple and easy to understand, such as our new overdraft fees and charges, and we provide easy to understand information in our marketing, and terms and conditions.

Alongside simple and accessible products, as a Bank it is important that we play our role in improving financial literacy. We grant all of our colleagues two days of volunteer leave per year and many of them use to provide mentoring in schools on financial literacy, e.g. Fit 4 Finance. This is undertaken by colleagues in our main offices in Manchester, Stockport, and Skelmersdale, or led by our colleagues in our branch network across the UK.

**11. Are there new technologies or innovative projects that are being used to tackle financial exclusion in developing markets that could be used to tackle financial exclusion in the UK?**

We believe that one of the key barriers is the perceived complexity of financial services products, which discourages engagement. Products and services need to be simple, accessible and enable people to manage their money

To that end, we believe it's important to look more widely than the developing world for innovative solutions, as there may be other more developed nations that experience similar challenges to the ones we face here in the UK.

For example, DeMyst, launched in Hong Kong, is seeking innovative solutions to help credit check those who are currently unbanked, such as using mobile payments histories.

**12. What is the remit of the Values and Ethics Committee?**

The Bank has a Values and Ethics Committee, chaired by an independent non-executive director, whose role is to scrutinise the Bank's board and business practices, ensuring they are consistent with our Values and Ethics. The terms of reference of our Values and Ethics committee set out its commitments as:

"The V&E Committee shall recommend to the Board for approval and adoption the cooperative values and ethical policies of the Bank and shall represent, monitor and advise the Board on matters concerning the interests of customers, suppliers, employees and other stakeholders in their dealings with the Bank in line with the objects of the Bank as described in the Articles of Association having regard to:

- i. the legal and regulatory requirements applicable to the Bank and its directors;
- ii. the need for the Bank's operations to be commercially sustainable and profitable; and
- iii. the desirability of maintaining and enhancing the public reputation and image of the Bank. The V&E Committee shall monitor and report on the following:
  - i. customer satisfaction levels (with a focus on service levels and on the product offering in the light of the Bank's ethical policies, in each case assessed by reference to relevant customer metrics);
  - ii. alignment of treatment of the Bank's customers with its values and ethical policies;
  - iii. alignment of employee training and culture with its values and ethical policies;
  - iv. corporate social responsibility, community investment, environmental and other projects and activities of the Bank;
  - v. the establishment of a clear 'ethical' policy and 'ethical' strategy informed by customer consultation that aligns with the commercial strategy and is reviewed annually

- vi. the extent to which executive remuneration policies are consistent with the Bank's values and ethical policies;
- vii. provision of products and services to sectors/organisations with clear social justice or community benefit purpose;
- viii. the development of products and services with 'ethical' features;
- ix. the Company's approach to improving the social and environmental impacts of the Bank's own operations; and
- x. the choice of suppliers, partners and third party relationships which should be informed by the Bank's 'ethical' policy."

The full terms of reference of our Values and Ethics committee are available via:

<http://www.co-operativebank.co.uk/assets/pdf/bank/aboutus/governance/values-and-ethics-committee-terms-of-reference.pdf>

*14 September 2016*



Co-operative Bank and Barclays – Oral evidence (QQ 38-49)

## **Co-operative Bank and Barclays – Oral evidence (QQ 38-49)**

[Transcript to be found under Barclays](#)

## **Council of Mortgage Lenders – Written evidence (FEX0007)**

### **Introduction**

1. The Council of Mortgage Lenders (CML) is the representative trade body for the residential mortgage lending industry, including banks, building societies and specialist lenders. Our 139 members currently hold over 97% of the assets of the UK mortgage market. In addition to lending for home-ownership, the CML members also lend to support the social housing and private rental markets.

2. The Select Committee's call for evidence is an attempt to build up an understanding of financial exclusion from first principles. We acknowledge and welcome this work. Our comments focus on how the mortgage industry supports customers on lower incomes or who are financially vulnerable.

### **General comments**

3. Mortgage lenders are open to all customers but can only lend where there is a strong prospect that the borrower will be able to meet their ongoing mortgage commitments. Lending activity is subject to the Mortgage Conduct of Business (MCOB) regulations of the Financial Conduct Authority (FCA). Lenders are only permitted to lend in circumstances where the "customer will be able to repay the sums borrowed and interest (in the case of a regulated mortgage contract) or pay the sums due (in the case of a home purchase plan)."<sup>184</sup>

### **Low cost homeownership**

4. The mortgage industry does tailor for those with lower incomes. For example, it supports shared ownership and shared equity, which are proven means of promoting low cost home ownership. To help those who are unable to save for a substantial deposit, lenders provide loans at high loan-to-value; for example, in the year to June 2016, around a third of new regulated mortgages was at a loan-to-value equal to or higher than 90%.

5. Lenders support prospective homeowners in the social rented sector, extending finance to 11,644 customers exercising their Right to Buy in the year to June 2016. With respect to the extension of Right to Buy to housing associations in England, the CML continues to work with industry to ensure the concerns of commercial funders to the housing association sector in England are heard and understood by the Westminster government.

6. Lenders also support borrowers by facilitating transfers to lower-rate products and making them aware of new products that enable them to manage interest rate risk and guarantee contractual monthly payments going forward. Usually this process is 'advised', which means that any mortgage sold is the most appropriate product based on the individual circumstances of the customer.

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<sup>184</sup> MCOB 11: *Responsible lending, and responsible financing of home purchase plans*, Financial Conduct Authority.

## **Support for the social housing sector**

7. Private funding of housing associations is an important part of the commercial lending and investment activities of a range of financial institutions including banks, capital market investors and pension funds, many of which are CML members. The development of homes for sale by housing associations means there is an overlap between the interests of lenders' commercial funding and residential mortgage lending activities. Commercial lending to the social housing sector totals around £74.5 billion, most of which comes from CML members. This helps provide accommodation for more than one in six households, almost half of whom (47%) are in the lowest income quintile.<sup>185</sup>

## **Dealing with financial vulnerability**

8. Where a customer faces financial difficulty, lenders will work with them to help them manage their payments and to deal with arrears; in the event that the mortgage proves unsustainable, lenders will work with customers to help them exit the situation in an orderly way that minimises losses.

9. Only 0.91% of mortgages are in arrears (i.e. more than three months behind on mortgage payments) while just 0.03% result in repossession. The benign state of these figures is largely due to a combination of low interest rates, lender forbearance and the support given to distressed borrowers to help them manage their debts and keep their homes.

10. The government estimates that around 8 million people in the UK face problem debt. The CML and its members work with financial guidance organisations providing debt advice and money guidance (including financial capability), including the Money Advice Service (MAS), Money Advice Trust, Citizens Advice and StepChange Debt Charity. The CML is also a member of the Money Advice Liaison Group. In addition, the CML's members directly fund MAS through the industry-wide levy.

*9 September 2016*

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<sup>185</sup> *British Household Survey: Social Rented Sector Report, 2014-15*, DCGL, Crown copyright, 2016.

*6 September 2016*

## **Demos – Written evidence (FEX0063)**

### **Summary**

Financial exclusion in the UK ranges from the extreme end – the 1.5 million adults who do not have a bank account and those whose credit history cuts them off from affordable sources of credit – to those who lack practical money management skills and financial knowledge, and are thus unable to track their income and outgoings, or build up a savings buffer to cope with financial shocks. Those on low incomes and young people are most likely to be financially excluded, and a lack of digital capability can also exacerbate financial exclusion.

There have been many attempts from recent governments to tackle financial exclusion. Despite its recent inclusion in the national curriculum, financial education is not currently as effective as it could be, with levels of financial capability still very low among the adult (particularly young adult) population. Support and services for the financially excluded remain inadequate.

Our key recommendations are:

- Improve partnership working between the Government, banks, credit unions and the rest of the third sector. Local charities, credit unions, bank branches and local authorities should work together to raise awareness of, and refer to, each other's services.
- The FCA should ensure regulation does not impinge unduly on the third sector, with regard to providing financial advice and informal extensions of bill payments, and that third sector organisations are sufficiently informed about any changes to avoid any 'chilling effect'.
- Increase focus on and funding for tackling financial exclusion at source through building financial capability, starting with educating children but continuing throughout the person's lifetime.
- Education and advice should be particularly targeted at key life points such as the move to independence in young adulthood, particularly for care leavers, and new parenthood.
- The character 'policy community' should ensure it works closely with the financial inclusion community.
- In line with Action for Children's request, the Government should ensure financial capability is included in the regime of support that surrounds the Youth Obligation. A similar offer should be included for all recipients of Universal Credit, with a particular focus on the incoming changes.

## **Section 1: Definitions and causes**

### *1. What are the causes of financial exclusion?*

Demos' research concurs with findings of the Financial Conduct Authority (FCA) which in its May 2016 report on access to financial services in the UK, outlined a number of reasons for financial exclusion:

- Lack of understanding or engagement with financial services
- Lack of internet access or digital skills in the context of the trend towards more online delivery of services
- Lack of identity documents required by banks in setting up an account to prevent fraud
- Lack of a permanent address, particularly affecting members of the armed forces and private renters
- Poor access to insurance for older people, ex-offenders and those with disabilities or serious illnesses
- Automated credit checks failing to take account of an individual's situation or extenuating circumstances
- Lack of geographical access, particularly affecting those in rural areas<sup>186</sup>
- Language problems also present a barrier<sup>187</sup>

Of the 1.5 million people currently without a bank account, only around half want one, often because they have had previous bad experiences with banking.<sup>188</sup>

### *2. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?*

Suffering from financial exclusion is likely to exacerbate economic disadvantage and deprivation, as the unbanked and underbanked alike are hit by increased costs from a number of different sources. The Financial Inclusion Commission cites Save the Children's 'poverty premium' of £1,300 as one attempt to quantify it.<sup>189</sup>

For example, extra costs on energy bills can account for a premium of up to £250 per year approximately.<sup>190</sup> Unbanked households and those with a history of problem debt are more likely to have to use prepayment meters and not have the option of direct debit payments, rendering unit costs far higher – an average

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<sup>186</sup> FCA, *Access to Financial Services in the UK*, Financial Conduct Authority, May 2016, [www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf](http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf) (accessed 1 Sep 2016).

<sup>187</sup> Toynbee Hall, 'Access to banking in the UK – a snapshot of intermediaries', 2008, [www.toynbeehall.org.uk/data/files/Services/Financial\\_Inclusion/Access\\_to\\_Banking\\_-\\_intermediaries.doc.pdf](http://www.toynbeehall.org.uk/data/files/Services/Financial_Inclusion/Access_to_Banking_-_intermediaries.doc.pdf) (accessed 1 Sep 2016).

<sup>188</sup> Financial Inclusion Commission, 'The facts'.

<sup>189</sup> Save the Children, 'The UK poverty rip-off: the poverty premium 2010', briefing, Jan 2011, [www.savethechildren.org.uk/sites/default/files/docs/UK\\_Poverty\\_Rip\\_Off\\_Brief\\_1.pdf](http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf) (accessed 1 Sep 2016), p 3.

<sup>190</sup> *Ibid*, p 3.

of £80 more per year.<sup>191</sup> Similarly, many other good deals for consumers are limited to those who can pay on a credit or debit card, or using direct debit, either because paying through those methods is the only way to get the deal, or because it is far easier to 'shop around' and compare prices.

The unbanked and underbanked typically face higher borrowing costs too. If people are unable to access credit in the form of a bank or credit union loan or an overdraft, they are more likely to fall into the hands of high-cost forms of credit, such as payday lenders, and increase their chances of accumulating problematic levels of debt, which then makes financial exclusion more likely. Existing debts or a poor credit history are key barriers to access to the broader range of financial services, such as loans and overdrafts. The Money Advice Service estimates that over 8 million adults – over 16 per cent of the population – have problematic debt, with younger adults, larger families and single parents at highest risk.<sup>192</sup>

### *3. Who is affected by financial exclusion?*

Those on the lowest incomes are most at risk of financial exclusion, as are young people. 37% of 18-24 year olds hold one or more credit card, an overdraft or other form of borrowing, owing a combined average of £2,989 (excluding student loans and mortgages). 51% of that group regularly worry about money.<sup>193</sup> As discussed above, those with problem debt or a poor credit history are also more likely to be financially excluded – trapped in a vicious circle, where financial exclusion leads to the building up of debt, which then exacerbates financial exclusion. Those who have low digital capabilities are also at a higher risk of financial exclusion, due to the increasing trend of financial services moving online.

## **Section 2: Financial education and capability**

### *1. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?*

#### **The services that exist**

Financial education became a statutory part of the curriculum for citizenship education in England in 2014 (having been previously introduced by the other nations of the UK).<sup>194</sup> However, this applies only to maintained schools, which are a minority of all schools. In addition, the mathematics curriculum has been updated so that both the GCSE and the new core maths qualification for those in

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<sup>191</sup> Utility Week, 'Prepayment meter customers should not be charged a premium', 15 May 2015, [http://utilityweek.co.uk/news/prepayment-meter-customers-should-not-be-charged-a-premium/1131082#.V3-Je\\_krLIU](http://utilityweek.co.uk/news/prepayment-meter-customers-should-not-be-charged-a-premium/1131082#.V3-Je_krLIU) (accessed 1 Sep 2016).

<sup>192</sup> MAS, 'One in six adults struggle with debt worries', press release, Money Advice Service, 10 Mar 2016, <https://www.moneyadviceservice.org.uk/en/corporate/one-in-six-adults-struggling-with-debt-worries> (accessed 1 Sep 2016).

<sup>193</sup> Money Advice Trust, 'Borrowed years'.

<sup>194</sup> Personal Finance Education Group, 'Financial education – why do we need it?' 2016, [www.pfeg.org/policy-campaigning/personal-finance-education-what-it](http://www.pfeg.org/policy-campaigning/personal-finance-education-what-it) (accessed 2 Sep 2016).

post-16 education includes placing mathematics in a financial context.<sup>195</sup> Financial and enterprise education can also be taught as part of personal, social, health and economic (PSHE) education. This is a non-statutory subject, although the curriculum states that 'schools should make provision for PSHE'.<sup>196</sup>

While teachers are the main deliverers of financial education in schools, third parties are also involved in some instances. For example, the Personal Finance Education Group ([www.pfeg.org/services](http://www.pfeg.org/services)), which is now part of Young Enterprise, delivers educational and interactive workshops in schools which aim to develop 'core knowledge, skills and attitudes relating to money and money management.' The Personal Finance Education Group also provides training for teachers delivering financial education, as well as free support and advice.

While much of the education takes place in schools, there are other non-school-based services. Lloyds Banking Group's Money for Life programme provides online resources and three Open College Network accredited qualifications. The Money Charity works with both children and adults to develop financial understanding. It delivers Money Workshop sessions in schools and colleges, and provides a 'Student Moneymanual' containing guidance on student finance and managing money. It also works through churches, housing associations, credit unions, charities, local councils and prisons to help adults in need of financial education.

### **Their appropriateness**

Demos' research suggests that more Government and third sector resources are spent on money and debt advice for those already in difficulty, rather than tackling problems at source. Financial education is not currently as effective as it could be, with levels of financial capability still very low among the adult (particularly young adult) population.

In a recent survey of teachers commissioned by the All-Party Parliamentary Group (APPG) on Financial Education for Young People, 75% of citizenship teachers confirmed that they were teaching financial education<sup>197</sup>. However, 62% of teachers felt that financial education should be taught within PSHE. Furthermore, just 35% of teachers described financial education as being a high or medium priority for their school, and less than one in three (28%) believed that their school had put more emphasis on financial education since it became statutory.<sup>198</sup>

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<sup>195</sup> Ibid; Core Maths, 'What is core maths?', 2016, [www.core-maths.org/about-core-maths/teachers/](http://www.core-maths.org/about-core-maths/teachers/) (accessed 2 Sep 2016).

<sup>196</sup> Long and Foster, *Financial and Enterprise Education in Schools*.

<sup>197</sup> APPG on Financial Education for Young People, *Financial Education in Schools: Two years on – job done?*, All party Parliamentary Group on Financial Education for Young People, 2016, <https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf> (accessed 2 Sep 2016).

<sup>198</sup> APPG on Financial Education for Young People, *Financial Education in Schools: Two years on – job done?*, All party Parliamentary Group on Financial Education for Young People, 2016, <https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf> (accessed 2 Sep 2016).

The current provision for financial education in the national curriculum for secondary school pupils is inadequate. Academies and free schools are not obliged to teach financial education, and without inclusion in Ofsted's inspection framework, there is little to incentivise schools to prioritise financial education with so many competing demands on teachers' time.

However, the curriculum inclusion does at least help teachers who want to teach financial education to make a case to their school. The new maths GCSE and core maths qualifications will introduce more of a financial context for mathematical knowledge to be applied to.

### **Improving education and advisory services**

Future funding streams for financial inclusion should focus on early intervention through the development of financial capability. In particular, evidence-based interventions that focus on developing practical skills (such as those delivered by credit unions) should be prioritised.

Bringing credit unions into schools has the benefit of promoting saving behaviour by default, and helping children to learn about interest (or dividends) through their own balances. A number of Scottish local authorities have tried this approach, with South Lanarkshire Credit Union's Savvy Savers scheme a particular success. It teaches children how to manage their finances, but also works with schools to help them establish their own credit union and teach children to run them independently.<sup>199</sup> In March 2016 the Scottish Government committed £300,000 to help credit unions develop saving schemes in schools.<sup>200</sup>

Developing positive character traits at an early age is of crucial importance, but little of the work in this area is currently coordinated with wider financial capability objectives. The character 'policy community' should ensure it works closely with the financial inclusion community. The former could see financial capability goals as another way of making the case for character education, while those advocating financial inclusion strategies should see the character community as a useful resource of research and expertise that can be leveraged to promote financial capability, and therefore financial inclusion.

With regard to funding, a good model exists with regard to debt, where the financial services industry funds the debt charity StepChange. A similar funding model could be applied to financial education, which could help plug the identified gap in this area.

## *2. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?*

There are key 'life points' where financial capability interventions can be particularly effective. Alongside early-years character development, and in line

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<sup>199</sup> Lanarkshire Credit Union, 'Savvy savers', 2016, <http://lanarkshirecreditunion.co.uk/content.asp?section=261> (accessed 2 Sep 2016).

<sup>200</sup> Abcul, '£300,000 to back junior savers', Association of British Credit Unions Ltd, 9 Mar 2016, [www.abcul.org/media-and-research/news/view/672](http://www.abcul.org/media-and-research/news/view/672) (accessed 2 Sep 2016).



with the Money Advice Service's Financial Capability Strategy, the transition to independent living in young adulthood is a crucial time, as this is when young people are starting to take on real responsibility for their money. New parenthood is another such 'life point' when intervention is particularly necessary and effective.

Furthermore, it is vital that services aimed at educating people and improving financial capability break down the taboos around money and debt, and encourage people to talk about budgeting and savings across generations. An example of how this can be done is the LifeSavers programme. A collaboration between the Personal Finance Education Group (now part of Young Enterprise), the Credit Union Foundation and the Archbishop of Canterbury's Task Group for Responsible Credit and Savings, LifeSavers creates school-based savings clubs as a basis for financial education within primary schools.<sup>201</sup>

Fostering digital capability is increasingly crucial to ensuring financial capability across an individual's lifetime, as more and more financial services move online. Between 1988 and 2012 the number of bank branches in Britain more than halved, to less than 9,000,<sup>202</sup> a trend which has quickened more recently. Yet more than one in five UK adults – around 13 million – lack basic digital skills, such as being able to send and receive emails, use a search engine, buy items from a website and browse the internet. Digital exclusion is concentrated in Wales (parts of which have also lost among the most branches per population<sup>203</sup>) and the Midlands, and among older people and those on lower incomes.<sup>204</sup> The digital capability charity Doteveryone, which is being supported by the Government, and the Money Advice Service should work together to ensure the digital capability and financial capability agendas complement one another to maximise the potential benefits to long-term financial literacy.

### **Section 3: Addressing financial exclusion**

- 1. Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?*

Although there are instances of good support appropriate support for the most excluded is far from comprehensive. As mentioned above, funding for financial capability should focus on key 'life points' including one-to-one money management support for care leavers, partnerships with maternity services to promote referrals of new parents, and dedicated money management training for new parents.

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<sup>201</sup> Personal Finance Education Group, 'PFEG Forum papers', 2015, <https://www.pfeg.org/sites/default/files/pfeg%20Forum%20Papers%20-%20February%202015.pdf> (accessed 2 Sep 2016).

<sup>202</sup> House of Commons Library, 'Bank branch closures', briefing paper, 7 Jul 2016, [researchbriefings.files.parliament.uk/documents/SN00385/SN00385.pdf](https://researchbriefings.files.parliament.uk/documents/SN00385/SN00385.pdf) (accessed 2 Sep 2016).

<sup>203</sup> R Wearn, 'Banks close more than 600 branches over the past year', BBC News, 13 May 2016, [www.bbc.co.uk/news/business-36268324](http://www.bbc.co.uk/news/business-36268324) (accessed 2 Sep 2016).

<sup>204</sup> Go On UK, 'Basic Digital Skills: UK report 2015', 2015, <http://tinyurl.com/gwwznoq> (accessed 2 Sep 2016); Accenture and Lloyds Bank, *Consumer Digital Index: Benchmarking the digital and financial capability of UK consumers*, 2016, <http://tinyurl.com/glefujo> (accessed 2 Sep 2016).

## **Role of Government**

The economically disadvantaged and young people are two of the groups most likely to suffer from financial exclusion. One way in which the Government could address this is, in line with Action for Children's request, to ensure financial education and capability is included in the regime of support that surrounds the new Youth Obligation. Coming into force from April 2017, under the scheme 18–21-year-olds on Universal Credit will be required to participate in an 'intensive regime of support', and after six months of unemployment will face a mandatory work placement if they have not gained an apprenticeship or traineeship. A similar offer of financial advice and education should be included for all recipients of Universal Credit, with a particular focus on the incoming changes.

Furthermore, the Government should work with banks to establish a system of incentives to ensure banks have a financial interest in developing and offering effective interventions and reducing the proportion of their customers sliding into problematic debt, such as those set out under question 2 below.

The Government should also ensure that regulation does not impinge unduly on informal extensions of bill payments, and that third sector organisations are sufficiently informed about the extent of regulations and any changes, to avoid any 'chilling effect' on housing associations and other organisations seeking to help their tenants and customers. This is discussed in greater detail in section 4.

## **The charitable sector**

Non-profit organisations are extremely well placed to help financially excluded people who would otherwise be hard to reach. Many of those who receive support from local not-for-profit organisations also suffer from, or are at risk of, financial exclusion; for example, food bank visitors, housing association tenants, refugees, youth club attendees and offenders on probation. Furthermore, their local knowledge and holistic view enables them to make and receive informed referrals, and signpost people to appropriate services. In addition, their reputation as trustworthy and impartial sources of advice means that they can play a crucial role in supporting the hard-to-reach financially excluded.

## **Working in partnership**

There is significant scope for joint working both within the third sector and between charities and banks, to be made more effective. Regarding the former, charities that don't have a specific financial inclusion mission, but do regularly come into contact with financially excluded individuals, could benefit from more assistance from financial inclusion charities. For example, it would be beneficial if food bank volunteers were able to offer basic financial guidance to those using the food bank.

Local charities, credit unions, bank branches and local authorities should work together to raise awareness of, and refer to, each other's services. Banks should share anonymised data with credit unions to explore ways to target and communicate effectively with those most likely to use high-cost credit, who would be eligible for credit union services.

- 2. 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?*

Some of the most appropriate financial services for those experiencing financial exclusion are provided by credit unions. Credit unions have an important role to play in increasing access for the most excluded, as, due to the fact that they are not profit-maximising, they can offer services to those whom the commercial banking sector will not. Credit unions' role in promoting saving behaviour is particularly valuable to tackling financial exclusion, as it prevents clients building up problem debt which can contribute to financial exclusion. However, the credit union sector still faces significant challenges in awareness raising, capacity building and ensuring their long-term sustainability. Credit unions can find themselves in financial difficulties if they allow their deposits to grow at a much faster rate than their lending. Not only does this threaten the sustainability of larger credit unions, it is particularly problematic for financial inclusion if it causes these larger credit unions to slow their efforts to promote savings among members in favour of promoting lending.

Banks should help customers develop good financial practices by offering services – including 'nudges' and ring-fencing – that help customers to separate their savings without incurring a loss of earnings on interest. Banks should also offer finance tutorials to customers, and design and pilot money-awareness courses to those who go into unarranged overdrafts or fall behind on loan repayments. As with driving-awareness courses, where drivers can attend to avoid getting points on their licence, banks should offer to waive penalty fees if customers attend. In order to achieve this, the Government should work with banks to establish a system of incentives, to ensure banks have a financial interest in developing and offering products such as these which would help those experiencing financial exclusion. One option worth exploring is to generate a pot of money through the Bank Levy, to be managed by the Money Advice Service, to fund evidence gathering, and then delivering evidence-based interventions to improve the financial capability of their customers.

#### **Section 4: Government policy and regulation**

- 1. What has been the impact of recent welfare reforms on financial exclusion?*

The long anticipated switch to Universal Credit could have a negative impact on those who are financially excluded. Universal Credit combines six different benefits into a single lump payment to a bank account, so those eligible have to get a bank account to receive their benefits. This is being viewed in some quarters as a useful nudge to help people access financial services and the security and cost savings they can bring, but unless it is accompanied by an appropriate information campaign, and additional support for the most vulnerable, the change could leave people behind.

Moreover, Universal Credit will be paid monthly, in arrears, rather than weekly. Housing support will – at least barring exceptional circumstances<sup>205</sup> – be paid directly to the recipient, where currently Housing Benefit is often paid directly to landlords. Thus, in future many more people on low incomes will have to organise their money more carefully than previously. Where the system has been rolled out, a significant proportion of social housing tenants (up to 90 per cent in one study) have found themselves behind on their rent payments.<sup>206</sup> On the other hand, monthly payments may help people to overcome the ‘poverty premium’ by giving them the opportunity to make bulk purchases and pay monthly bills by direct debit. The Financial Inclusion Commission estimates that 2.5 million people will need help managing their money in the move to Universal Credit.<sup>207</sup>

2. *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? What balance should be struck between regulations and incentives for financial institutions?*

The increased regulation on the payday loan industry was a positive step in tackling financial exclusion, as payday loans are a key source of problem debt, which can lead to financial exclusion. Regulation of consumer credit has moved from the Office of Fair Trading to the FCA, with specific regulations for the high-cost, short-term lending market, including mandatory affordability checks on borrowers, and the power to ban advertising deemed misleading, which should also help to reduce the numbers of people incurring problem debt, and thus help tackle financial exclusion.<sup>208</sup>

However, Demos’ research found that certain regulations are hampering the third sector’s efforts to help the financially excluded. This may be directly, or through a ‘chilling effect’, with staff in organisations believing that the law is more restrictive with regard to giving advice than it really is, as a result of insufficient information and communication. Thus there is a risk of third sector organisations providing less advice in order to ensure that they do not fall foul of the regulations. For example, there is concern from housing associations that arrangements agreed with tenants to pay off rent arrears may constitute a ‘credit agreement’ and thus be subject to consumer credit regulations.

To combat this, the FCA should ensure regulation does not impinge unduly on informal extensions of bill payments, and that third sector organisations are sufficiently informed about the extent of regulations and any changes, to avoid

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<sup>205</sup> H Spurr, ‘DWP-backed trial to tackle universal credit rent arrears’, *Inside Housing*, 8 Jun 2015, [www.insidehousing.co.uk/dwp-backed-trial-to-tackle-universal-credit-rent-arrears/7010132.article](http://www.insidehousing.co.uk/dwp-backed-trial-to-tackle-universal-credit-rent-arrears/7010132.article) (accessed 1 Sep 2016).

<sup>206</sup> J Stone, ‘Iain Duncan Smith’s Universal Credit scheme is throwing 90 per cent of social tenants into rent arrears’, *Independent*, 17 Dec 2015, [www.independent.co.uk/news/uk/politics/iain-duncan-smiths-flagship-universal-credit-scheme-is-throwing-90-per-cent-social-tenants-into-rent-a6777356.html](http://www.independent.co.uk/news/uk/politics/iain-duncan-smiths-flagship-universal-credit-scheme-is-throwing-90-per-cent-social-tenants-into-rent-a6777356.html) (accessed 1 Sep 2016).

<sup>207</sup> Financial Inclusion Commission, *Financial Inclusion*, p 14.

<sup>208</sup> FCA, *Guide for Consumer Credit Firms*, Financial Conduct Authority, 2016, [www.fca.org.uk/static/documents/consumer-credit-being-regulated-guide.pdf](http://www.fca.org.uk/static/documents/consumer-credit-being-regulated-guide.pdf) (accessed 2 Sep 2016); FCA, ‘Financial promotions and adverts’, 8 May 2016, <https://www.the-fca.org.uk/firms/financial-promotions-adverts> (accessed 2 Sep 2016).

Demos – Written evidence (FEX0063)

any 'chilling effect' on housing associations and other organisations seeking to help their tenants and customers.

*14 September 2016*

## **Department for Education – Supplementary written evidence (FEX0100)**

The Baroness Tyler of Enfield  
House of Lords  
London  
SW1A 0PW

9 January 2017

During my appearance at the House of Lords Select Committee on Financial Exclusion on 13 December I was asked whether there has been a Government response to the report published by the Financial Education APPG.

The APPG have not asked us to respond to the report's recommendations and we do not plan to do so. I can confirm, however, that the [then] Prime Minister wrote to the Chair of the APPG, Suella Fernandes MP, in June 2016 to thank her for sending him a copy of the report. The Prime Minister agreed that high-quality financial literacy is crucial if young people are to be successful later in life and to be able to contribute to the UK's long-term economic future.

Shortly before my appearance at the Select Committee hearing, I met the Chair of the APPG to discuss the recommendations in more detail. I confirmed that the Government will ensure that the recommendations of the report are taken into account when considering future action on financial education. Officials in my Department are also engaging regularly with Young Enterprise, who provide support to the APPG, to support their efforts to improve financial education.

With best wishes

**Nick Gibb MP**

*9 January 2017*

Department for Education, Department for Work & Pensions and HM Treasury – Oral evidence (QQ 231-250)

## **Department for Education, Department for Work & Pensions and HM Treasury – Oral evidence (QQ 231-250)**

Evidence Session No. 23

Heard in Public

Questions 231 - 250

Tuesday 13 December 2016

[Watch the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); The Bishop of Birmingham; Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Holmes of Richmond; Lord Shinkwin.

## Examination of Witnesses

The Rt Hon Lord Freud, Minister of State for Welfare Reform, Department for Work and Pensions; Nick Gibb MP, Minister of State for School Standards, Department for Education; Simon Kirby MP, Economic Secretary to the Treasury, HM Treasury.

**Q231 The Chairman:** First of all, could I say thank you very much indeed for coming? This is our final evidence-taking session. It is obviously a very important one for us and we are very grateful to you for coming and giving your time. I shall just run through a couple of formalities first. Welcome to the evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee.

The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the website and you will, of course, have the opportunity to make any corrections to the transcript where it is necessary. Whilst we around the table all know exactly who you are, could I ask, for the benefit of the transcript, if you could introduce yourself please?

**Lord Freud:** Good morning. I am David Freud, Lord Freud. I am the Minister for Welfare Reform.

**Simon Kirby:** Good morning. I am Simon Kirby. I am the Economic Secretary to the Treasury, and I am very pleased to be here.

**Mr Gibb:** I am Nick Gibb. I am the Minister of State for School Standards, and I am also pleased to be here.

**Q232 The Chairman:** I am going to kick off with the first question, which is probably primarily aimed in the first instance to Mr Kirby, but I am sure we would be interested to hear all of your thoughts on this. In preparing for this meeting, I have been looking back at all the evidence we have received, and one of the very strong themes that has come across from everyone we have heard from is the need for really strong government leadership and co-ordination in the area of financial exclusion. Indeed, many of our witnesses have said they feel there is a need for stronger government leadership and co-ordination than we currently have.

At the end of each session, I have asked all of our witnesses what is at the top of their wish list for this Committee. A large number of them talked about the need for this strong government leadership and co-ordination. I was very struck when Gwyneth Nurse, Director of Financial Services at the Treasury, came and gave very helpful evidence to the Committee. She talked about how financial inclusion is dealt with in Government and the different roles that different departments have. However, she said—and I will quote this to you—“There is no single committee that sits and looks at those issues”, i.e. how they are all co-ordinated and how the big picture comes together.

Could I ask you, first of all Mr Kirby, how the Government is carrying out its co-ordination role, how you think it could strengthen that role and the leadership role, and what plans are in place to do so?



**Simon Kirby:** Thank you for inviting me here today. This is a very important issue and goes beyond just Government, but I will do my very best to answer your specific points. Financial exclusion is a cross-cutting topic and the powers to address financial exclusion rest in several places: the financial services industry, regulators, local authorities and, of course, across Government. Different financial exclusion issues require different approaches. Some can be addressed effectively by the market, some will require regulation or government intervention, and others will require more collaborative working across departments, regulators and industry. Therefore, there is no one-size-fits-all approach to this question.

My role in Government is to look after the financial services sector in the UK. It is about making sure the industry is stable and secure. It is about making sure, in these interesting times, that the UK continues to lead the world in financial services, but it is also about making sure that financial services are there to help people at every stage of their lives. That expression, “every stage of their lives”, is an important one. This means working closely with the industry, with the regulators and across Government to protect consumers and to build products that meet consumers’ changing needs.

**The Chairman:** I am very clear about your role in relation to the financial services industry. It is a very important role. The heart of my question is about who has the role of pulling this together across Government, because tackling financial exclusion is very much a multi-faceted issue. We have heard this from many of our witnesses. We have heard that there is no piece of machinery within Government and no single committee that is pulling this all together. Who is doing that? Who is responsible for ensuring there is an overall financial exclusion strategy?

**Lord Harrison:** Is it still right that there is no committee, as Gwyneth Nurse told us?

**Simon Kirby:** Let me be very clear.

**Lord Harrison:** Be very clear: is there a committee or not?

**Simon Kirby:** There are a wide number of meetings and discussions that happen on a very regular basis. There is no formal structure but we have a series of successful dialogues. I am the Minister responsible for financial inclusion in my role as Economic Secretary to the Treasury. My remit covers insurance retail, financial services, consumer finance and financial advice.

**Lord Harrison:** Why is there no co-ordinating committee?

**Simon Kirby:** Because the Government decided in 2011 that it was a more sustainable, cost-effective and successful way forward to integrate financial inclusion into departmental work.

**Lord Harrison:** Was that wise?

**Simon Kirby:** It was wise. Each of the departments has it very much at the centre of its objectives and its way of working. I can give you examples: basic bank accounts working with the DWP; people being charged for unpaid item fees; my work with the DWP about a money advice service and how we best provide that simple source of guidance to customers; and my work with the Department for Business, about the importance of post offices. The Government have financial inclusion at the heart and centre of their work.

Each of the departments has it at the heart and centre of its work. My role as the Economic Secretary is to co-ordinate and facilitate that important area. I cannot be much clearer than that.

**The Chairman:** We have heard a lot about initiatives taken forward by individual departments. We have had a lot of evidence on them and we will have further questions on them. Sir Sherard Cowper-Coles, who was chair of the Financial Inclusion Commission, said something that was quite memorable to us: that we need to make sure that what Government are doing adds up to more than the sum of its parts. There was a feeling that, at the moment, it was adding up to less than the sum of its parts because of this lack of co-ordination across Government.

**Mr Gibb:** From my recollection from when we brought financial education into the curriculum, Treasury Ministers were heavily involved in that. You are asking for formal procedures. The way Government work, as you will know, is through a dialogue between Ministers on a range of issues. Issues have to be sent around for clearance by various committees. I certainly recall that when we did include financial education in the curriculum, there was heavy involvement from Treasury Ministers, from the Chancellor of the Exchequer downwards.

Q233 **The Chairman:** Do the Government intend to take up the recommendation of the Financial Inclusion Commission that there should be a Minister for financial health who has national responsibility and oversight? If it did, do you agree that Treasury would be the right place to have that Minister?

**Lord Freud:** I do not agree with this at all. This is not realistically how things work. One of the driving factors in financial inclusion is universal credit. The way we are doing that is creating a relationship between each claimant with the state on a digital platform. It is not exclusively digital but largely digital. We have put alongside that structures to help people with their budgeting. I am sure you have had a lot of evidence on that. One of the key things is we have built out something we have called universal support to make sure that people with budgeting issues have a support mechanism.

You can try to centralise all of that, but the trouble is the knowledge of how universal credit works and how it develops through is very concentrated. It is much better for us to talk to the Treasury on the key issues as they arise where there is a relevant Minister who understands those issues than to have some overarching body, which we used to have, that could not pick up the specifics. We have done a lot of work, particularly with the Treasury, on inclusion. You will have had a lot of evidence on our credit union expansion project, which was a joint project. The Treasury was very heavily involved in making sure on how much credit unions could charge. They did that half. We did the half to make sure the expansion platform was available. We did the £38 million contract for that.

We were heavily involved with the Treasury on the payday loans issue. You will all remember how much pressure you put on me about the payday loans industry growing. It probably has a place. We—the Treasury and ourselves—spent an enormous amount of time with the FCA to help get those controls in. I was particularly worrying about continuous payment authorities, which I thought would come in and puncture universal credit. I am completely against the proposition that there is another overarching body over there.

**Lord Kirkwood of Kirkhope:** Who does the strategy?

**Lord Freud:** That depends. This is a huge issue.

**Lord Kirkwood of Kirkhope:** We need somebody to control the strategy. You in particular have done an enormous amount. I know this because of the work you have done in universal credit. That is all banked. There are some issues that need to be tidied up but that is all welcome. It is all being done on a piecemeal basis. You cannot persuade the Committee: from the evidence we have heard, without someone holding the ring, developing momentum and delivering a strategy within which these initiatives can flourish, you are wrong in saying that we are wrong.

Q234 **The Chairman:** I do not think anyone has argued to us that everything should be centralised. They absolutely see the benefit of having these things embedded in departments: as you say, universal credit in DWP, financial education in DfE and all of that. What do you think is the reason for the difference in perception between all of these players who come before us, who have been involved in this area for many years, saying that we need stronger central government co-ordination, and your own perception that that is not an issue? Why is there such a difference of view?

**Simon Kirby:** That is an interesting question. Look at some of the improvements to financial guidance, auto-enrolment, Help to Save, Help to Buy, credit union expansion and payday loans. Look at the very recent good news about fee-free bank accounts. Only yesterday, 420,000 new people are paying no fees at all for basic bank accounts. These are all tangible examples of how the one size does not fit all. I am, I suppose, the HMT lead on financial inclusion. As such, I am effectively the Minister for financial health.

There is a co-ordinated, albeit it one-size-not-fitting-all, effort from the Treasury to make sure we include financial inclusion in everything we do as the Government. The Prime Minister has been very clear that we want to build an economy that works for everyone. It is important that when we negotiate our leaving the EU we get a deal that benefits everyone in the UK. These are things that are at the core of Government. Clearly there is work to be done but we have had a great number of successes.

Q235 **The Chairman:** It is helpful to hear that you think that you are the Minister for financial health. That is interesting because we have not heard that statement before. We are still left with the position that we are not aware, as you are saying, that there is any central co-ordinating machinery that you sometimes have in Government in those cross-cutting issues.

On the basic bank accounts—and I was grateful to you for sending that information through yesterday—it is an area where Government have made a very helpful push and nudge. Things have changed as a result. What occurred to me is the way different banks have reacted to this. Some banks have done a lot of these basic bank accounts; Lloyds have done a very large number. Some, like RBS, have done a very large number but are trying to make people switch from the basic bank accounts to regular current accounts as soon as possible. We have heard a lot of evidence that other banks have not taken it up or promoted it very effectively. What do you think your role is next in

trying to get some of those banks who have not been promoting this as hard as you would like to do so?

**Simon Kirby:** The information and transparency is a good start because it enables consumers, Government and the industry itself to see how things are going. It is important to note that the figures are very encouraging; 420,000 new fee-free bank accounts in the first six months is good news.

It is right and proper that different businesses approach things differently but the important thing to stress in all of this is these are accounts open to everyone. It does not matter if you have a poor credit history or have never had a bank account before. They are there to increase financial inclusion and the figures released yesterday will encourage the nine banks to do more and for people to come forward. I am sure the DWP will be encouraging people who do not have bank accounts to open one. Bank staff will be empowered to inform people of the existence of the products.

You are absolutely right: seven out of the nine have provided all the accounts in the six months as fee-free. Lloyds and RBS have done things slightly differently, but, at the end of the day, a quarter of the unbanked people are no longer unbanked. That has to be very good news, has it not?

**The Chairman:** I also note that 18,000 applications in this year alone were turned down. That is for people for whom even basic bank accounts do not seem to be working.

Q236 **Bishop of Birmingham:** I am sure we will come back to that and universal credit, but in terms of joined up, or not joined up, one of the bits of evidence we got was about the vital importance of independent advice for people who are managing unmanageable debt. Caroline Rookes of the Money Advice Service told us that in the last few weeks 13 local authorities have closed down their money advice and debt advice approaches, which she said was terrible. What are the Government doing to protect this particular aspect of the sector in order that people who might be falling through the net in these transitional times could get help to improve their conditions and better manage their debt?

**Simon Kirby:** I can be very clear and helpful. One of my first decisions as new Economic Secretary along with the Minister for Pensions was to look again at how we provided debt advice to make sure that it was not just for people who were in terrible trouble or people with huge pension pots; it was for everyone, from birth to the grave. Financial education is an important thing, not only in school but for people throughout their lives. The Government are considering how we best, after consultation, roll that out.

There will be the same if not more money available, but making sure people have the tools and the access to good, sound financial advice is absolutely essential. The other thing that is essential, as you rightly highlighted, is that it is independent. There is advice out there, some of it quite good, but it leads to certain products or solutions. As a Government, we need to be clear that advice should be independent, appropriate for all and cost effective, so we get the biggest bang for our buck.

**Bishop of Birmingham:** If there is more money available for this very important transitional period for people, what is the best location for that money from the Government's point of view? Is it going to be local authorities

or other bodies that are in touch with local people as they try to work out their financial inclusion?

**Lord Freud:** We have created a series of partnerships with local authorities and the DWP, which again is the universal support framework that currently handles two barriers, one of which is budgeting and the other is digital support. There is now a process for people coming into the universal credit area to be provided that support. There is somewhere around 500,000 or 400,000 people at the moment but that will be growing in the years to come. That is a route through.

The other area that is interesting is we spent a lot of time with the Money Advice Service looking at online support. There was not a real way of helping people handling budgeting, particularly in a UC context. We have been trialling that kind of approach. We do not have enough to lay hard figures down, but my own instinct is for the online support for people, in a large number of areas as a first step, rather than having to provide all that information to people in different areas—whether it is how you better your skills, negotiate bits of bureaucracy, or how you budget. In my view, you would be much better off having a series of online support mechanisms that you can direct people to at the first stage. Encouragement in that direction from this Committee would be one of the most effective ways of trying to help people navigate difficult issues.

**Bishop of Birmingham:** Thank you very much. The aim of digital communication is very well understood and we are in the adventure of that. What we are anxious about are people who are in transition. Some of the most vulnerable people who are navigating either the welfare system or managing their own affairs are not connected up digitally and need face-to-face help at this period. That is where we are asking whether resources can be allocated.

**Lord Freud:** Can I just get some correctives on that? We are all of a certain age in this room. We like face-to-face. As we go into the full service of UC, which is everyone—not just the selective group, which is the JSA group who tend to be younger—I have been rather surprised at how many of them have been using the digital channels as choice. We are effectively in the 90% region with that, which is much more than we thought. We thought we would have to do much more education to get to that.

The other very dramatic thing, and the reason why we are all in the wrong generation, is how the phone has taken off. Fifty per cent of our interactions now are off people's smartphones. When you talk about digital exclusion, which is so closely connected with financial exclusion, this revolution in the use of a smartphone is dramatic right across the range.

We are really working in the trial area really hard, and another trial we are doing, as some of you may have read, is that the fuddy-duddy DWP is the only organisation doing a blockchain test. It is a proof of concept; it is not a trial. Blockchain is what Bitcoin and all of that is about. We are testing with a small number of people, delivering their money—their benefit—on to their phone. It allows them to put it into jam jars themselves, make payments in different ways and see their flows. It is a very interesting trial.

As you think about how we really tackle financial exclusion, it is these new technologies that are going to be incredibly relevant. As you plan ahead,

nothing happens in less than five years if you are lucky. If you plan ahead, you have to plan into the new technologies if you are going to make an impact. I really think this Committee should be thinking about these areas as they start making recommendations on how to help people.

**The Chairman:** The Committee has received a wide range of views on digital initiatives, how they help some groups and other groups they do not. We are going to return to that later on.

Q237 **Lord McKenzie of Luton:** It was agreed that before I ask a question I should place on record that I am shadow spokesperson—or one of them—on DWP for the Opposition. Indeed, I have engaged with Lord Freud over many years on some of these issues—sadly for not much longer. My question is to do with universal credit and the representation received about the gap between people's entitlement and receiving payment in the six or eight-week periods, exacerbated last year by the decision to have a one week waiting period. It must be recognised that creates incredible hardship for vulnerable people.

Is there any prospect of the Government revisiting that particular issue, particularly using technology if it is a question of speeding up the process so that that does not occur? I am aware that there are arrangements for people to have alternative payments but this is not the norm. Do the Government recognise that level of hardship that these arrangements are creating?

**Lord Freud:** We are monitoring this closely. I am on record saying that we are monitoring how waiting days and other aspects are working. I am not quite in a position to say when that will come out but there will be information around that that will help members of this Committee analyse that more precisely, albeit not today. This is a multi-faceted issue. At the first level, there is a gap between the period at which people have been paid up until now and then going on to UC. There is a flow issue that we have aimed to close by using advances. People can get an advance of 50% and the number taking that I think is around 40% currently. I will double-check the exact number.

Likewise, the plan with waiting days is to protect more vulnerable people but try to look at the people who are effectively moving out of a job with payments. They are the ones that see the waiting list. There is a range of protections on waiting days. As I say, there will be more information coming out on that. Other people have issues around whether they are able to handle their finances to the extent they can pay the landlord themselves. That is a different issue and we handle it in a different way, by providing alternative payment arrangements. That process is going through rapid development currently.

One of the most promising developments is the trusted partner trial, which allies ourselves with the social landlords so that they effectively say, "This person should be on an alternative payment arrangement." We do that without questions asked. That has been, again, not yet formally published, so my response is anecdotal. I have been very encouraged by the response of those social landlords, not least because, having put someone on alternative payment, they then work to get them financially able to manage their own payments in the subsequent months, which is the general objective here. There is a lot of work going on in this space. There is a lot of data to come in,

and clearly that will be something members of this Committee will be concentrating on in the months to come, with someone else.

**Lord McKenzie of Luton:** Notwithstanding all of that good work, at the end of the day, for example, when you deliberately have a seven-day waiting period introduced into the system, is that not bound to hurt vulnerable people? What is the purpose of that?

**Lord Freud:** The purpose of it, which we have spent many happy hours discussing, is that we have exemptions designed for the vulnerable people you are concerned about. It is designed so that people who move out of work and are in that transition have payments coming to them in that period, because you are paid in work in arrears. We are trying to match that up. The Chancellor said at the time that the intention was that people should be able to maintain themselves for the first week. Universal credit was not designed for short periods. That was the formal position and that has not changed.

Q238 **Lord Kirkwood of Kirkhope:** Before the Minister hands in his seals of office, can the Committee offer him a return ticket to Coventry? I was lucky to be part of the Committee's very good visit to Coventry. We spent a whole lot of time listening to concerned professionals who were trying to look at the holistic picture facing them. I have been in this subject area for a long time, and what struck me was that they were absolutely convinced that, looked at across the totality of the whole public purse spend, some of the effects of universal credit, late payments, overpayments and the like were costing the public purse more.

That was also reinforced when we had an exchange about this recently with the National Audit Office looking at sanctions. There could be a Minister for financial well-being who was able to look not just at what the DWP was doing—I want to look at universal credit delivered locally as well—but at the totality of homelessness and family disruption. The problem is that the Minister does not get the access to the direct, passionate streams of consciousness from individuals because he is a Minister. It is not a criticism of him; he is as good as any and in fact better than most, but the point is a big one to support what the Chairman said at the beginning: there is nobody looking, and if the NAO cannot say there is value for money in the sanctions regime, that is something that has a direct impact on financial inclusion. I want someone like yourself in the 10 days that are still given to you to solve this before you hand back your seals of office.

**Lord Freud:** My answer is more personal than ministerial at this stage. We have set up a universal support framework that is a partnership between the DWP and local authorities. We have tackled two barriers that people have through that. The point is that you have an envelope in which you can put people where they are supported. What we have discovered is that people have more barriers than those two and they are complex barriers. You need to handle all of those barriers.

They maybe have colossal debt; that needs to be sorted out. They may not know how to budget, they may have an addiction; they may have a mental health issue. You need to get people round the journey in the right order. At the moment, what we do in this country is we may tackle a particular issue,

but that is all we do. Nothing then gets solved because you have not talked all four problems that that person has.

**Lord Kirkwood of Kirkhope:** That is a lack of strategy.

**Lord Freud:** Let me finish the description, because I want you to pick this up and start pushing it. What we are looking at is what we will call expanded universal support: i.e. how many barriers we can get in there and how it would look. The features are that you are put into this either through a universal credit work coach or any other way in. You have a diagnostic or a case worker or whatever—an IPS function, a big function in the local authority situation—and get on an organised journey to handle all of your barriers. The information then is shared on a safe basis round that circuit.

The right way to do data is to give the people control of their own information. They come to the next desk, they give their code and they effectively have a digital wallet with their information. Data is the key here. It sounds awfully dry but the reason we have all these failures of pulling things together is because we have never organised the data provision. The solution that needs to be tested, and I am reasonably confident that we will be testing this, is giving people control of the data on the basis that we can collect the anonymised data for MI, payment by results and all the other releases we wanted.

**Lord Kirkwood of Kirkhope:** I want the Minister for financial well-being to have control of that data as well.

**Lord Freud:** I do not want him to have it because he will screw it up. I am back at my core point. I do not want someone over there in Treasury or anywhere else messing around with an incredibly complicated set-up.

**Lord Kirkwood of Kirkhope:** I agree with that.

**Lord Freud:** You agree with it. That is the point.

**Lord Kirkwood of Kirkhope:** You said two separate things. For the 10% or 15% we are dealing with here, it is the people who are most disadvantaged, both digitally and financially. If you persuaded me of what you have just explained—that someone was really handed on to a desk and not a website—I would be completely sold. You need a warm handover. You cannot say, “We have 10 new websites; here are the URLs,” and send people happily out of the door. There has to be a warm handover to an appropriate authority who is a real person and can take that on. Meanwhile, you can go into the backroom and work with the data. I absolutely agree with that but I still think you need a strategy overseeing it all.

**Viscount Brookeborough:** You said, “You should push it”. I am not sure that we are not working back to front because we have the three people, including yourself, the self-confessed Minister of financial exclusion. You are the people who can put what you are talking about into action and on the ground. We will push it but you are the people that we are pushing.

**Lord Freud:** Yes. That is what I am telling you to do.

**Viscount Brookeborough:** Why should we be the stimulus for you to do your job?



**Lord Freud:** There is a political process going on where putting pressure on Ministers to achieve certain ends is very valuable in terms of allowing Ministers to get on to achieve certain ends. We are not acting in a vacuum. The importance of lobby groups and people who work on solutions is, in our political structure, very important. If this is the direction of travel that you agree with, say so, because it helps Ministers to deliver it.

**Simon Kirby:** Across Government, we will be looking with interest at this Committee's report. Who knows? We may not agree with all of it, we may agree with all of it, but it is clearly an important thing for us to consider. That is worth saying.

Q239 **Lord Empey:** You have already referred to the question of housing and the payment for housing benefit. It goes currently to the individual. I am unconvinced about that. Anybody that has ever dealt with a constituency and individuals will know that there is a level of vulnerability and a range. There is no one size fits all.

What I am concerned about is that those who are in the private rented sector, and that is a growing proportion, have a roof over their heads secured. That is a good thing for family, particularly if you have a lot of single women looking after children. At least if the roof over their head is secure, that provides a basis of stability for the family. While it would be nice to have people learning to handle their own budgets, the fact is that they are subjected to a series of individuals and organisations hitting them the minute they know the money is coming in.

Why did you feel it is so important that the individual pays the landlord rather than paying the landlord directly?

**Lord Freud:** If your prime objective is to give people the independence to be able to go into work and earn their own money, what you do by not paying them their rent directly is that their hassle factor is at the point of going into work and becomes a non-financial barrier to going into work. Interestingly, social landlords now seem to have swung round. They were very keen on maintaining the direct payment of state-to-landlord structure. They are now moving towards seeing it as a real hassle having it paid by the state, and when they get a job having it paid directly, and back and forth. What has been happening is that the number of workless households in social housing has been collapsing. It was never much below 46% at the peak of the cycle; we now have it down to 38%. It is a hassle factor for them and for the individual, but it is a real barrier for the individual. We have some reasonable data points around how many people are able to handle their own housing or can be helped to handle their own housing. We know what happened in private housing where it was introduced that you would pay your own rent. Somewhere around a quarter of people have an APA—a managed payment. In social housing, in the end that will be somewhat higher than that figure. Nevertheless, a large proportion of people can pay their own rent, particularly with a bit of help.

We have done the direct payment project. We found that, after a three-month adjustment process, the majority of people were able to handle paying their own rent. You have given them back their independence by doing that and made them free agents. It is something we are spending an enormous

amount of time on to get right, but rather than tucking people away in little corners where they do not cause us any problems, which was a classic example in the old legacy system, we are trying to give people their freedom and independence. This is key. We cannot not do that if that is our objective.

**Lord Empey:** I fully understand a very laudable objective but, when reality hits, in certain cases it does not necessarily work out that way if the home is insecure. First of all, we heard some of the cases on the Coventry visit: landlords are becoming increasingly nervous. We have a tight supply situation in housing.

We also found out that local authorities were one of the first people to move in if people were in debt. In fact, public authorities were amongst the first to challenge and take people to court. I wonder whether it is appropriate in all cases. If people have the option, then those who have themselves sorted out perhaps are at a benefit while those who still have not reached that point would at least ensure, particularly where there are children, that the home is secure.

**Lord Freud:** We have turned that approach somewhat on its head by saying that in the social housing area, in the trusted partner pilot—I cannot pre-empt whether that goes national at this stage because we need to publish it, but you can hear how warmly I am speaking of it—the landlord says, “This person is not going to handle their own rent. They need to be on managed payment.” We do that without any questions asked. We are developing systems to get that right. There are quite a lot of tests and learnings involved. We are in early days.

Our intention is to make sure that people who can handle it do, the people who never can do not have to and the people in the middle are given all the support we can to move to the independence that we want them to. That is the intention and I am quite encouraged at the development and improvements we are making through the last half-year. It has been quite dramatic in some cases.

**The Chairman:** We need to move on, because we have quite a lot more territory to cover. Could I ask that questions and answers be as succinct as possible?

Q240 **Lord Fellowes:** I have three questions on one theme, primarily for Mr Kirby. The Financial Inclusion Commission recommended that the FCA should play a more proactive role in addressing exclusion with a core objective of promoting financial inclusion. I wonder what the Government’s position is on that. Secondly, do you agree with the Financial Services Consumer Panel’s suggestion that the FCA should be required to impose a duty of care on financial institutions towards their customers? Thirdly, do you have any idea what the banks might feel about the latter?

**Simon Kirby:** They are some very good questions. I will be slightly longer with the first one and slightly briefer with the second and third. The FCA has taken several steps to promote financial inclusion using the current statutory objectives. These include a cap on payday loans, performing a convening role and publishing a number of papers on vulnerable consumer interactions with financial services. I am particularly interested in a current paper on the way older people interact with the financial services industry.

It is worth saying that the FCA's statutory objectives are to protect consumers, enhance market integrity and promote effective competition. It is the last of these that states that the ease with which consumers who may wish to use financial services, including consumers in areas affected by social or economic deprivation, can access them is an important element of that objective. While the FCA is a powerful proactive conduct regulator, focused on securing better outcomes for all consumers, financial inclusion is far more of a social rather than regulatory issue. It is therefore a matter for Government to decide what actions should be taken to ensure financial inclusion.

In answer to your second question on duty of care, this is a decision for the FCA to make. That is right and proper. They are an independent organisation.

On your third question asking me to speculate on how the banks would view this, at the end of the day for the FCA to be effective it has to be held in high regard, not only by Government and consumers but by businesses themselves. I would hope that the banks would understand anything that the FCA decided to implement that was fair, proportionate and effective.

**Lord Fellowes:** You have not given me any idea whether you think it is a good idea to have a duty of care or not.

**Simon Kirby:** That is a matter for the FCA. My view on whether it is a good idea or not is not particularly helpful.

**Lord Fellowes:** Why not? You are very intimately involved in what we are talking about.

**Simon Kirby:** The whole point of having an arm's-length body that is independent is that it is independent. Although I have regular meetings with the FCA, as I am sure you will be pleased to hear, it is not right or proper for me to tell them what to do on an operational basis. It is a decision that they need to make themselves.

**Lord Fellowes:** You cannot tell the Committee whether or not you would support it?

**Simon Kirby:** I have an open mind.

**Lord Kirkwood of Kirkhope:** What about the payday loan cap? How did that come about?

**Simon Kirby:** That is a different issue. I am clear that if there is a requirement to bring about legislation to instruct the FCA how to work, that is something for Parliament to do. In the case of this particular question about duty of care, that is a different thing and it is right, proper and appropriate for the FCA to decide.

**The Chairman:** It might be worth mentioning that we had evidence from the FCA last week and they told us they found it very helpful to be backed up by legislation when introducing the payday lending cap, because they thought it reduced the possibility of a legal challenge.

**Lord Harrison:** It is for Governments to decide what institutions that are created by Government do. Therefore, into your open mind on this issue of duty of care, has it trickled in that it might be a good idea for the Government to give that duty?

**Simon Kirby:** It is the Government's responsibility, with operationally independent bodies such as the FCA, to provide a legal framework on how they should operate. Day-to-day responsibilities and the issue of whether they should or should not impose a duty of care are quite clearly independent decisions for the FCA to make.

**Lord Harrison:** You have just told us you have an open mind. When you said about an open mind, has it trickled in that it might be an advantage to the Government to ask the FCA to adopt that duty of care?

**Simon Kirby:** I do not think it would be appropriate for the Government to instruct the FCA what to do in the case of duty of care—not in every case. It is an independent decision that they need to make.

**Lord Harrison:** I still do not have a clue whether you think it is a good idea or not a good idea.

**Simon Kirby:** My view is irrelevant to answering the question. As a Minister of the Crown it would not be appropriate for me to lead the FCA, who are independent, in one direction or another in the instance of duty of care.

**The Chairman:** Thank you very much. In the interest of pressing on a bit, we are going to move on to the issue of credit unions.

Q241 **Lord Empey:** In many respects, this is perhaps a success story but it is one that we would like to see accelerated. Where I come from, credit unions are well embedded, highly regarded, they are fair and they are not a rip-off. The Government have helped accelerate the process by providing additional resources. What are your intentions regarding the development of these community development finance institutions? In particular, how will the successful momentum built up by the credit union expansion project be maintained in the longer term? Are there any plans for similar public support to community development financial institutions more generally?

**Simon Kirby:** On the issue of the expansion programme, it is early days. The Government want to review the impact and consider how we best continue. It is an exciting scheme. I am sure it will be a great success. Incidentally, I went last week to Edinburgh and met with credit unions there. Credit unions do a fantastic job up and down the country and this Government are clear in their intention to support them and the sector across the UK. I was very pleased to see in the Autumn Statement money from the Proceeds of Crime Act, recovered from illegal money lenders, targeted at expanding the existing credit unions scheme. That is £500,000 but a move in the right direction.

The Government consider carefully, when it comes to all legislation, the role that credit unions can play because we should always remember they are not just there to lend money but are also there for savers. They are not necessarily there for savers of poorer backgrounds; they are open to people who save from all professions and all parts of society. I hope the Government will continue, and it is certainly my intention as the Minister responsible to continue, to do all we can to help the movement in this country.

**Lord Empey:** When you consider the amount of money that has been sucked away from people in these circumstances by these high-interest organisations, surely it is in everybody's interests to try to fast-track and promote the concept of a credit union because the sums of money that are being made by

third-party lenders, payday lenders, other sorts of institutions and even credit cards are so enormous that when you put that against the credit union costs, there is such a dramatic difference. Surely it is in the Government's interest, even from the taxpayer's point of view, to see that sector promoted, expanded and perhaps even given greater scope to involve itself in other products that it could make available to its users.

**Simon Kirby:** I do not rule out further investment. It is right and proper that we carefully consider the effectiveness of the current investment and see how it pans out. One of the things that strikes me about credit unions that is unsatisfactory is they are at a disadvantage to other, more traditional lending people because they do not have the money to invest in advertising and marketing. I am currently looking at whether the Government can do more to help in that area. I am going to hand over to Lord Freud, but I want to reassure this Committee that they are an important part of the Government's thinking, and if we truly want an economy that works for everyone, credit unions have a part to play in that.

**Lord Freud:** DWP has been a traditional supporter, with very heavy sums of money, of the credit union movement. We did a study, run by Deanna Oppenheimer for us, which showed that it was not a viable industry as it is present constituted. It loses a lot of money on every loan it makes. That was why we have taken those two steps: to allow them to charge a bit more, up from 2% to 3% per month, on their loans. That is getting the return base up but the cost base is much too high. That is with the introduction of the new banking platform for them, which we have been supporting with £38 million.

I am pleased to say that the first two credit unions transferred on to that seem to be very satisfied with the process. The new one is retailCURE, which was a new billboard and the other was East London, which is a transfer. That programme can now move to starting to pool the first tranche of credit unions on. When you have a sound base, you can look at expanding industry. Until you have got to that base, it is very hard. It was losing money on every loan it made up until recently, as an industry.

**The Chairman:** I would like to move us on to the very important issue of financial education, on which the Committee has received a lot of evidence.

Q242 **Viscount Brookeborough:** Do the Government intend to implement the recommendations of a report published this year by the Financial Education APPG? In particular, will financial knowledge and skills be incorporated into the Ofsted common inspection framework? This is to do with schools, as well, but you did say that it was now in the curriculum. Most people understand the curriculum to be obligatory subjects at school. First, we understand that the curriculum does not apply to the free schools and the academies. Therefore, it is not obligatory to everyone. Secondly, we understand that Ofsted has nothing to do with it at all and does not inspect it, and would appear to have no wish to inspect it. Would you like to say something about the education and whether you think it should come under Ofsted?

**Mr Gibb:** Yes. That is a broad question. It is in the curriculum. The key thing about financial education is making sure that children are more fluent in arithmetic. We made very significant changes to the primary school curriculum in mathematics following the Teaching and Learning International Survey 2013. According to the survey, of the best-performing countries around the

world in the area of financial education, the jurisdiction that came top was Shanghai, China. They do not actually teach financial education, but there is a direct correlation between mathematics, and fluency in mathematics, and the ability of young people to be able to navigate the complexities of the financial world. We made a huge effort to improve the primary curriculum, in particular. I have spent a lot of time looking at the scripts of GCSE maths—old scripts—particularly the E grade and F grade scripts. It was very clear that there was a basic lack of arithmetic skills and a lack of knowledge of arithmetic that leads young people to not passing a GCSE and to not being able to navigate their way around financial institutions.

**Viscount Brookeborough:** That was not quite what I was asking. I was asking why it does not come within Ofsted's inspection. Secondly, with regard to your first comment, we have the view of Demos, in the form of written evidence, which indicates that academies and free schools are not obliged.

**Mr Gibb:** They are not obliged to teach anything that is in the national curriculum, nor is any independent school required to teach anything in the curriculum. You are now veering into: why do we want an autonomous school-led education system? We do because the evidence from around the world is that they are the most successful education system. Now funding agreements with academies do require schools to have a broad and balanced education, and it is a broad and balanced education curriculum that Ofsted will inspect.

**Viscount Brookeborough:** They do not inspect it. They said that they do not inspect that side of things.

**Mr Gibb:** They do not inspect any individual subjects when they inspect a school. They would be there for several weeks if they did that. We would not be able to afford to inspect schools on that basis. What they do is look at the broad and balanced education, the quality of teaching, and the quality of the curriculum in a school. They do not report on maths or English or history or geography or, indeed, financial education.

In terms of the curriculum, we did change the curriculum. We incorporated financial education into the maths curriculum at key stage 3 and key stage 4. It does not apply to academies, but academies are obliged to offer the GCSE to pupils. If you want to do well in GCSE maths you will have to be able to answer mathematics questions—for example, "The minimum wage for adults was £3.60 per hour. In 2013, it was £6.31 per hour. Work out the percentage increase in the minimum wage." There are questions like that in GCSE maths, because now key stage 3 and key stage 4 of the national curriculum do contain requirements for financial education.

For example, at key stage 3, the curriculum requires pupils to understand the functions and uses of money, the importance and practice of budgeting, and managing risk. At key stage 4, the curriculum requires pupils to understand income and expenditure, credit and debt, insurance, savings and pensions, financial products and services and how public money is raised and spent. We require schools to have a broad and balanced curriculum. Therefore, Ofsted will want to make sure that schools and academies are offering that to their pupils.

**Viscount Brookeborough:** That leads on to Lord Harrison's question, but I have just one more question on that. If that is really happening, why is it that for the vast majority of students leaving school—and, I believe, for the Youth

Parliament—one of the major issues was not having had enough financial education?

**Mr Gibb:** It takes a number of years to do a curriculum review. For example, the citizenship GCSE only started to be taught from September 2016. It took years to draft; we had to consult; we had to give schools a lead time. Exam boards have to prepare the specifications. They then have to prepare the exams. They have to test them. It takes a number of years between wanting to implement a curriculum change and getting that curriculum taught in schools.

Q243 **Lord Harrison:** Minister Gibb, we were repeatedly told that the inclusion of financial capability in the secondary school curriculum has been enormously inconsistent. One of the clues to that is teaching the teachers. We heard a cri de coeur that the teachers do not have the confidence to teach financial capability. What have you done? You have been in the school classroom for ages.

**Mr Gibb:** I am sorry about that. We have changed the teaching standards, so all trainees are required to meet those standards and that does include a requirement to have a secure knowledge in the subject they are teaching. Therefore, we require teachers who teach mathematics or—

**Lord Harrison:** That is entirely rational but what have you done extra to ensure that teachers who are sometimes thrown into it actually have the ability to impart knowledge about financial capability?

**Mr Gibb:** That is not something that we do from the centre. We expect schools to recruit suitably qualified people to teach these subjects. We are recruiting increasingly well qualified graduates to come into teacher training. We offer very generous bursaries across the system to do that. From my own perspective, the key is always mathematics. It really is. We do need, and we are implementing, a step change in the quality of the maths curriculum and the quality of the maths assessment.

This May the first SATs have been set and taken by 10 and 11 year-olds across the country, and on Thursday we will be publishing the final results of those tests. They are on a par with the best curricula in the world. We have revised the GCSE, so the first new GCSE in maths started to be taught in September 2015. The first exams will be next year in that GCSE. This is the key.

**Lord Harrison:** It is not working. That is what we have been repeatedly told by the witnesses.

**Mr Gibb:** It takes time between implementing a curriculum change and seeing that change happen.

**Lord Harrison:** Students will be on pensions by the time this is finished.

**Mr Gibb:** Pensions are a very complicated area of our law. I would be optimistic that we have made changes to the curriculum and that is happening in schools. You do raise an important point. The APPG has looked into this issue as well and I had a discussion with that group last week. One of the issues that concerns me is there is a lack of a good-quality textbook in the subject, and I suggested to Martin Lewis and to the APPG that they might want to commission a really high-quality textbook. In terms of getting the

knowledge into young people and helping teachers with that knowledge, evidence around the world shows that having a good-quality text book is always one of the best ways of achieving this and implementing a high-quality curriculum.

**The Chairman:** I know Mr Kirby wants to come in. Could I just ask: are you going to do a formal response to the APPG report?

**Mr Gibb:** I have given evidence to the Committee and we have discussed these issues with them.

**The Chairman:** So the Government have not yet given a formal response to the report's recommendations?

**Mr Gibb:** I will come back to you on that, Chairman.

**Simon Kirby:** In addition to the importance of teaching young people in schools about financial education, I am very pleased that the new single financial guidance body will have a strategic role to maximise the impact of financial education by industry and charities. Financial education is not something that stops when you leave school. It is appropriate throughout all of our lives and the Government need to do all they can to make sure people are empowered to make the right decisions that affect their financial well-being.

Q244 **Lord Holmes of Richmond:** I have a question that may be for Mr Gibb. The idea of a textbook is a very sound idea and, if you are lucky and they get on with it, you might even get asked to write the foreword. There is something for your Christmas stocking already. What is the experience in financial education in the devolved Administrations of the United Kingdom and what insights and learnings are perhaps there, which may enhance the experience in the schools in England?

**Mr Gibb:** Financial education is compulsory in each system. It is being included in the national primary and secondary curriculum of Scotland, Wales and Northern Ireland. Scotland, Wales and Northern Ireland adopt a cross-curriculum approach when it comes to financial education and, while it is not my area of responsibility, I understand that it covers maths, PSHE, careers and humanities. In England we incorporate it into mathematics and into citizenship.

**Lord Holmes of Richmond:** You have mentioned other jurisdictions. What else would you say in terms of other parts of the world that you believe excel in this area?

**Mr Gibb:** There is a direct correlation between how well OECD countries perform in the PISA test in reading as well as mathematics. The better our country performs in those subject areas, the better our young people will perform in any international test on financial education and therefore, by implication, how well they will be able to navigate what is a very complicated financial system we have in this country.

Q245 **Lord Empey:** Mr Gibb, given that the devolved regions have a different system from England, is there any way you could find out through study, or is there already any evidence, about whether the way they do it works better than the way England does it, or the other way round? What we are looking



for is the model that produces the best outcome.

**Mr Gibb:** Yes. This is something we can look at in the years ahead. I do not think there is any appetite for further curriculum change in this country. We want a period of stability to let what have been very significant changes to the curriculum embed into our school system. We will see, by looking at the PISA studies in the future, how the different jurisdictions perform. We did look very carefully at the high-performing jurisdictions, such as Shanghai, China, and Singapore. We leant very heavily on those countries in terms of the curriculum. We adopted many aspects of the Singapore mathematics curriculum into the primary curriculum, and we have had exchange visits with Shanghai. A few hundred teachers have participated in an exchange. Teachers have gone to Shanghai and Shanghai teachers have come to England. This is so that we can learn the south-east Asian maths mastery method from Shanghai to ensure that every child in the class is taught the whole curriculum. That has not historically been how it has happened in our primary schools with different tables learning different parts of the curriculum and some children not even being taught the whole curriculum. We have leant very heavily on jurisdictions like Shanghai, in terms of how they teach mathematics. Their 15 year-olds are something like three years ahead of our 15 year-olds based on the 2012 PISA study.

**The Chairman:** I want to move on to the very important issue of digital exclusion and its interaction with financial exclusion. Again, it is an area we have heard a lot of evidence on, particularly on its impact on particularly vulnerable groups.

Q246 **Lord Shinkwin:** My question is for Lord Freud and Mr Kirby. Mr Kirby, in your department's press release yesterday about basic bank accounts, which we all welcome as good news through the extra take-up, you did say there was still more to be done and that you were determined to work with the industry to boost financial inclusion. Lord Freud, earlier in this session you spoke about universal credit and being digital by default. You have given us some encouraging figures on those who are digital by choice, and that is fine, but given what you also said about nothing happening in less than five years if we are lucky, I am wondering what each of you think the Government could be doing to facilitate the development of transitional support by industry so that those, such as older or disabled people, who find themselves digitally excluded do not find that that puts them at greater risk of financial exclusion.

**Lord Freud:** The figures are very stark on digital exclusion. Either 95% or 96% of all jobs now require you to have some level of digital competence, using either a computer or another device. If someone comes who is not able to handle digital, it truly is an issue such that you want to try to get them to be able to handle it. That is why it was the first of the barriers that we put into universal support. Having said that, somewhat to my surprise, as a problem it is decreasing every year, because the phone has become a transformative gadget that people can use. Clearly, we have designed the full service of universal credit to be on a phone so you can do these applications. Of our 1 million interactions with the universal credit full service, 90% of them are being done online; half of them are being done on a phone. Those are the raw statistics.

We support people who are in that minority and cannot handle it, both on the telephone and face-to-face. We will go on doing that. There is an issue within universal credit, not of capability but of access in some rural areas. That tells us that the importance of getting access to some of these areas with telephone not-spots or inadequate broadband. The broad capability has been less. What has not been less, and is more of a problem than digital, is the budgeting issue, which we have been talking about. That is something we are going to end up putting in more resource, relative to what we expected at the outset, than digital.

Q247 **The Chairman:** Can I press you on one point, Lord Freud? The figures you have been quoting have been about people in receipt of universal credit and therefore of working age. The Committee has received a lot of evidence, particularly from charities and others advocating on behalf of older people, about some of the difficulties sometimes older people are facing, particularly with an ageing population. We have heard that whilst it works for some, things like banking apps on phones simply do not work for other older people. Are you taking that into account? As other Ministers have said, financial exclusion is something that affects everyone across the whole age spectrum.

**Lord Freud:** Our focus at this stage is universal credit, which is a working-age benefit. On the upside, we have been pleasantly surprised with the acceptability. Interaction for older people is pensions, pension credit and other areas. We are some years off any changes in that area. The dominant group of people who use the Post Office card account is the older people. We are aiming to get the people on UC off that and on to basic bank accounts because they have all the facilities, direct debits and the like, which are far more flexible than POCA. I suspect that, by the time we start looking at the older generations in five years' time, the transformation in our payments systems, which I was talking about with blockchain, will begin to move the dial differently. This is very fast-moving technology, and the implication of that for older people is that there could be much more straightforward and simpler, intuitive ways of handling their finances because the digital offer will be transformed.

**Simon Kirby:** Regarding digital inclusion, I am very interested in fintech. I recently went to Malaysia, Indonesia and Singapore to look at how fintech could be used to decrease financial exclusion. It is about the possibility of providing digital inclusion in a simpler, more appropriate way, and there are some quite exciting things to come in the near future. In the UK we are at the cutting edge, at number one in the world in fintech, and it is rapidly developing. It is also worth saying that access to post offices, for instance, is a very important consideration for a lot of older people. I am pleased that the banks have agreed to work with post offices to get to a position where there is a standardised service and it is a government priority that this conclusion is reached as soon as possible.

You asked me about fee-free basic bank accounts. In broad terms, there were 2 million unbanked people. It is now 1.5 million. I suspect, as the figures were for six months only, that it is now considerably lower than that. I will not be happy until everyone has a bank account because financial exclusion is inextricably linked to people who are unbanked. Chair, you mentioned problems with people being turned down; I think it was 18,000. I am pretty

certain that the vast majority of those people would have been turned down for ID reasons. I am pleased to say that the banks have agreed with the Treasury that universal credit letters will be an acceptable form of identification.

Things are moving in the right direction but, to answer your question directly, I will not be happy until everyone has access to financial services.

**The Chairman:** Could I just ask if Lord McKenzie wants to follow up very briefly on the ID point?

**Lord McKenzie of Luton:** As I understand it, the question is about the difficulties for some people to access bank accounts because of inconsistencies in the approach to ID. It is good news that the universal credit is going to be used but what else are the Government doing to try to iron out those inconsistencies?

**Mr Gibb:** There are a couple of points. The Chancellor in his Autumn Statement announced the guidance so that there will be electronic ID verification, so people will be able to perhaps verify themselves by email. In addition, the guidance from the snappily-named Joint Money Laundering Steering Group is being updated to make sure that as wide a range of identification as possible is acceptable. At the end of the day, we want people to open these accounts. If they are who they are, and can prove it in acceptable means, then they should be able to open an account.

**Lord McKenzie of Luton:** Can you comment on the inconsistencies between the banks?

**Mr Gibb:** That is improving and—it will be on the record now—I fully expect it to be much improved in the new future.

Q248 **Viscount Brookeborough:** You just mentioned post offices. A large number of witnesses, especially banks and others, have used the Post Office, or quoted the Post Office, as being a safety net: "Do not worry; the Post Office will cover." You have just almost said that. We are not very confident that that is actually the case. First, there are a large number of post offices that are closing. Secondly, the banks say that they go into consultation before they close their branches but we have no evidence of a single branch being held open after consultation, so the consultation seems like a paper exercise. What is the guarantee and what are you doing to ensure that post offices are able to step in, and not only just with cheques and whatever, but with shops that need to lodge money and need to get cash out? What are you doing to ensure that when everybody says, "The Post Office will be the safety net," it can possibly be?

**Simon Kirby:** It is important to say that 95% of personal current accounts can use Post Office services. We want that to be universal. There is a review in progress, which I believe closes on 21 December, so we will not have long to wait, but I am quite happy here today, as the Economic Secretary to the Treasury, to say post offices play a valuable part, certainly in our rural areas, and we should be doing all we can to support them. Arguably, banks are independent businesses. We have a banking protocol as to when and where they consider closing branches, but if banks close more branches with the advent of new technology, the post offices become even more important. I am quite happy to be clear on that.

**Viscount Brookeborough:** Will you lead it?

**Simon Kirby:** It will be the Department for Business leading it, but I am quite happy to be clear on the importance that I attach to post offices for banking services.

Q249 **Lord Kirkwood of Kirkhope:** Could I ask the Economic Secretary to look at the work that Sir Brian Pomeroy did? The success of the increased access to the fee-free basic bank account started with that taskforce that was set up by that Government of the day. When the taskforce completed its work, the momentum was clearly lost, to a certain extent. If he is going to do this part of his job as completely as we would like, he actually needs some support of some kind. If it is not a taskforce, it is something that can keep drawing to his attention the importance of this issue. The economy is potentially flat-lining and people will have more problems with debt. Advice and support is going to become a greater priority. Doing that, as well as doing everything else in that very important role, is something that the Committee would like him to think more clearly about.

**Simon Kirby:** I am quite happy. As I said before, I look forward to the Committee's report. It is also worth saying that you have started these evidence-taking sessions before the change in Government. The Prime Minister has been very clear about wanting to share the growth in the economy with everyone, including the people at the bottom and the top, and all of us, throughout Government, will be very aware of that, I am sure.

Q250 **Lord Harrison:** Lord Freud, you are demob happy. What was the best thing you did for people with financial exclusion, and what was the worst thing you did?

**Lord Freud:** That is a terrible question.

**Lord Harrison:** Give me a terrible answer.

**Lord Freud:** This has been going on in the background but I have been working incredibly hard with the Payments Council—now Payments UK—and the banking system to modernise our payments infrastructure because, at the moment, we have a fairly old system. We should be able to modernise it. One of the outcomes of that was that the banks announced, under the Payments Council, that they would now go for a world-class payments system. It does things like have the information around each payment attached to each payment. As you know, when you look at your bank account, you cannot tell what on earth you have spent. That is a minor problem for you. It is a major problem for the rest of the economy. Rather than barrelling along and saying, "We want it for DWP"—and we are the biggest users of the payments system in the country—we have stood back and said that what we want is something that the economy wants, and that we would be the prime customer demanding a better and more modern payments system. A better and more modern payment system is one of these completely invisible things, but one that allows incredible innovation and transformation down the track. Getting that going has been invisibly important.

**The Chairman:** Thank you very much indeed. I would like to thank all three of you for your evidence. It has been a very important session for us this morning. Mr Kirby drew attention to the importance of the whole subject of

tackling financial exclusion and the signals it sends out for promotion of, as the Prime Minister has said, a country that works for all. We think this is a very important area. We will be putting together our report. I am confident we will have some robust but practical recommendations. You, and in Lord Freud's case your successor, will be the people, as Lord Kirkwood has said, who can effect change. We very much hope that this report will lead to some practical change.

As you will understand from the beginning of the session, we are very keen that the Government have a clear overarching strategy in this area. That is so that we can understand how all the individual initiatives you have talked about and filled us in on, which has been very helpful, fit together, are pulling in the same direction, and are more than the sum of their parts.

I would end where I started: on the need, as we see it, for strong co-ordination, which absolutely is not about setting up some big central secretariat controlling body. It is just some mechanism at the centre of Government to try to ensure that this is all co-ordinated, so that all the things you have talked about can move forward together. Thank you very much indeed for your time.

## **Department for Work & Pensions – Supplementary written evidence (FEX0087)**

Dear Lady Tyler,

### **Lords Select Committee on Financial Exclusion**

At the Lords Select Committee on Financial Exclusion on the 12<sup>th</sup> July 2016, I agreed to provide you with some additional information on three areas:

- Devolved funding being ring fenced for Local Authorities;
- Stigma attached to being given a voucher; and,
- Measuring the impact on Financial Exclusion

Please find attached supplementary information as agreed.

Yours sincerely

**Neil Couling**

Director General, Universal Credit Programme

## **Lords Select Committee on Financial Exclusion – Supplementary Information**

### **The impact of Universal Credit on financial inclusion**

You asked whether there was any evidence of the impact of Universal Credit on financial inclusion and correlations from the data.

At the current time we do not have any concrete evidence about Universal Credit and inclusion. UC evaluation has evidence that indicates most UC claimants adjust to a monthly Universal Credit payment and successfully manage household expenses.

Our Post Office Card Account migration strategy is laying the foundation for UC claimants to receive their payments into a bank account and Universal Credit claimants have access to Personal Budgeting Support via Universal Support delivered locally. The single monthly Universal Credit payment allows claimants to plan their finances better and escape the poverty premium by setting up monthly standing orders and limiting disruption in pay cycles if claimants take up work.

### **Prepaid cards and stigma**

You asked if there was any research on stigma attached with vouchers or pre-payment cards

There is some evidence from both the UK and abroad that prepaid cards are potentially stigmatise users. For example:

A 2009 Home Office project survey of 90 users conducted by the Refugee Council in 2010 found that

56% reported feelings of anxiety or shame related to using the card.  
38% felt that retail staff had treated them badly in response to the card and 33% reported hostility from other shoppers.

In Australia in 2010, evaluation of a Government pre-payment card scheme found that embarrassment and stigma was a strong theme associated with using the card. There was evidence of shop workers passing judgement on the items the users were purchasing.

In 2015 DWP conducted a Proof of Concept for pre-paid cards and has recently published the evaluation<sup>209</sup>. Findings were less emphatic with regard to stigma.

A minority had negative views. More positively, evidence pointed to:

*' the prestige, status, and sense of social inclusion associated with having a prepaid card. These are important, if more intangible, benefits that can feed into an enhanced sense of self-esteem. Clients spoke of being able to sign up for goods and services – like internet access, for instance – that*

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<sup>209</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/535234/rr926-evaluation-of-the-prepaid-card-live-test.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535234/rr926-evaluation-of-the-prepaid-card-live-test.pdf)

*they were unable to access before without a bank account and Direct Debit facilities’.*

Prior to this research, Social Justice colleagues at DWP conducted an evidence review. Broadly speaking it found that:

- Voluntary schemes have more positive responses from recipients and that these people are less likely to have feelings of shame, embarrassment.
- Stigma associated with using PPC’s is exacerbated by a prominent and noticeable design. This would be a particular concern if the card was being used by recovering alcoholics and addicts.

### **Ring-Fenced Devolved Funding**

You also asked whether the devolved funding to Local Authorities to replace Community Care Grants and Crisis Loans was ringfenced.

We can confirm that, as a result of provisions in the *Welfare Reform Act 2012*, Community Care Grants and Crisis Loans were abolished from April 2013 and instead funding made available to Local Authorities in England and to the devolved administrations to provide such assistance in their areas as they see fit. The funding is not “ring-fenced” for any purpose, but the Government has set out in a settlement letter on 6 August to Local Authorities from Steve Webb, Minister for Pensions, what it expects the funding to be used for, the underlying principles, and expected outcomes.

The settlement letter said:

“...whilst we do not want or expect you to replicate the current scheme in either whole or part, it is incumbent upon me to say that it is the intention of the Government that the funding is to be used to provide the new provision. Whilst the Government recognises the difficulties relating to the boundary between providing financial support and social services, we expect the funding to be concentrated on those facing greatest difficulty in managing their income, and to enable a more flexible response to unavoidable need, perhaps through a mix of cash or goods and aligning with the wider range of local support Local Authorities/devolved administrations already offer. In short, the funding is to allow you to give flexible help to those in genuine need. I would add that spending decisions are, and will continue to be, a matter for Local Authorities and the Government does not intend to start placing restrictions on any future decisions they may make on funding.”

I have enclosed a copy of the 2012 settlement letter to Local Authorities (see Appendix 1).

There was also an additional question about the provision of goods rather than cash, in relation to the recently devolved Social Fund and the impact of the Local Welfare provision supplying goods rather than money.

A review of the **Local Welfare provision** was conducted by DWP in 2014. That report is attached along with a report produced by the Local Government Association on ‘Delivering Local Welfare’.



The **DWP report** found that Local Authorities have a good understanding of their local community, its demography and what they felt was required to support local people. The report stated that Local Authorities are working closely with a range of different stakeholders and partners in their local area and are delivering partnership services through these established networks. It also indicated that Local Authorities are best placed to help vulnerable people locally and provide a timely and better targeted service than the previous remote telephone service.

The report says:

'A number of respondents have formed partnerships to bulk buy items, negotiate discounts with large retailers or provide a full installation service of white goods. "White goods and beds are most commonly requested so looking to buy in bulk to save costs..."

"Pre-paid food gift cards with Tesco and Sainsbury's are provided, we have agreed a 7% discount on the cash face value of the cards."

"We pay for installation to provide a full service, so the goods are delivered and installed"

The **LGA report** states that the move to in-kind assistance has had two main effects. Firstly, it has reduced the potential for people to abuse the system. Warwickshire County Council reports that some people withdrew their applications when they were informed that there were no cash payments available. Likewise, Solihull reports that they initially saw some people who appeared to be used to making repeat applications to the Social Fund for crisis loans, but who turned down the offer of a food parcel from the Local Welfare scheme. Secondly, the move to in-kind fulfilment has meant that authorities have been able to negotiate bulk purchasing deals with suppliers and, for example as in Lambeth, use local providers, including recycling projects, to both keep the cost of items low and improve the level of service.

In our discussion, I talked about the data we have published showing the number of people **claiming of services digitally**. This report is available here:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/536252/universal-credit-online-channel-usage.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536252/universal-credit-online-channel-usage.pdf)

I also mentioned our research into the number of **alternative payment arrangements** in place for our claimants

This data can be found here:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/536301/universal-credit-data-on-alternative-payment-arrangements.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536301/universal-credit-data-on-alternative-payment-arrangements.pdf)

## **Appendix 1**

### **DWP settlement letter to local authorities**

6 August 2012

Dear Chief Executive

#### **Abolition of the discretionary Social Fund and transfer of funding for a new provision**

I am writing in respect of earlier correspondence on the provisions in the Welfare Reform Act that abolish the current Community Care Grant and Crisis Loan schemes. As you know these schemes will be abolished in April 2013 and in order to avoid a gap in support for vulnerable people new arrangements will need to be in place from April 2013.

I know from discussions your officials have had with my Department that your planning for a new provision is well under way. This letter is to inform you of the indicative amount of programme funding you will receive for your new provision and the amount of set up and administration funding to enable you to do that. Programme funding is indicative because the final figure will be based on discretionary Social Fund spend in your area for the 2012 – 2013 year.

The programme funding has been calculated by looking at the legitimate demand, for those aspects of the discretionary Social Fund being abolished, for your area. We then applied that as a percentage of the Department's allocated £178.2 million to arrive at your figure. For administration funding we are transferring the amount the Department for Work and Pensions spends on administering them. This works out at approximately twenty per cent of the transferred programme spend. For start up funding, we listened to what authorities have told us. The amount to be transferred therefore allows a degree of flexibility according to your intentions, and is in line with expectations that the programme funding will be, in most cases, aligned with existing provisions.

Community Care Grants were awarded for a range of expenses, including household equipment, and were intended to support vulnerable people to return to or remain in the community or to ease exceptional pressure on families. They were also intended to assist with certain travel expenses. Crisis Loans were made to meet immediate short-term needs in an emergency or as a consequence of a disaster when a person had insufficient resources to prevent a serious risk to the health and safety of themselves or their family.

Although you are not expected to replicate the previous Community Care Grant and Crisis Loan schemes, I attach for information a brief reminder of their purposes at Annex A.

As you are aware, the Government has decided that it would not be appropriate to place a new duty on local authorities/devolved administrations in respect of the new provision you are planning. You need to be able to flex the provision in a way that is suitable and appropriate to meet the needs of your local communities.

However, whilst we do not want or expect you to replicate the current scheme in either whole or part, it is incumbent upon me to say that it is the intention of the

Government that the funding is to be used to provide the new provision. Whilst the Government recognises the difficulties relating to the boundary between providing financial support and social services, we expect the funding to be concentrated on those facing greatest difficulty in managing their income, and to enable a more flexible response to unavoidable need, perhaps through a mix of cash or goods and aligning with the wider range of local support local authorities/devolved administrations already offer. In short, the funding is to allow you to give flexible help to those in genuine need.

I would add that spending decisions are, and will continue to be, a matter for local authorities and the Government does not intend to start placing restrictions on any future decisions they may make on funding.

Funding transfer details. <b>[LA name]</b>	
<b>Local Authority:</b>	[LA name]
<b>2012/13</b>	
Set-up funding	£
<b>2013/14</b>	
Programme funding	£
Administrative funding	£
<b>2014/15</b>	
Programme funding	£
Administrative funding	£

**STEVE WEBB MP  
MINISTER OF STATE FOR PENSIONS**

**Annex A - Former Purpose of Community Care Grants and Crisis Loans**

**Community Care Grants** were primarily intended to help vulnerable people live as independent a life as possible in the community. They were awarded to households receiving means-tested benefits such as Jobseekers Allowance. The prime objectives were to:

- help people to establish themselves in the community following a stay in institutional or residential care;
- help people remain in the community rather than enter institutional or residential care;
- help with the care of a prisoner or young offender on release on temporary licence;
- ease exceptional pressures on families e.g. the breakdown of a relationship (especially if involving domestic violence) or onset of a disability, or a calamity such as fire or flooding;
- help people setting up home as a part of a resettlement programme following e.g. time in a homeless hostel or temporary accommodation; or
- assist with certain travelling expenses e.g. for funerals of a family member or hospital visiting.

**Crisis Loans** were intended for applicants who are unable to meet their immediate short term needs in an emergency or as a consequence of a disaster. They were awarded for immediate living expenses in order to avoid serious damage or risk to the health or safety of the applicant or a member of the family.

*15 September 2016*

## **Department for Work and Pensions and HM Treasury – Oral evidence (QQ23-37)**

Evidence Session No. 3

Heard in Public

Questions 23 – 37

Tuesday 7 July 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (Chairman); Bishop of Birmingham; Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of Witnesses

Neil Couling, Director General of Universal Credit, Department for Work and Pensions, and Gwyneth Nurse, Director of Financial Services, HM Treasury

**Q23 The Chairman:** Good morning, everyone. I thank our two witnesses very much for appearing before us today. For the record, we have Gwyneth Nurse, the director of financial services at the Treasury, and Neil Couling, the director-general of universal credit at the DWP. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript will be taken and published on the Committee website, and you will have the opportunity to make any necessary corrections or amendments to it.

Without further ado, I will ask the first question, which is very general and is about government strategy in this area. How do the Government define financial exclusion, and could you give the Committee a brief overview of the Government's strategy to tackle financial exclusion?

**Gwyneth Nurse:** We tend to talk more about defining financial inclusion rather than financial exclusion. They are flip sides. The Economic Secretary to the Treasury is responsible for the financial services sector in the UK. Her role includes making sure that the industry is stable and secure, that it embraces new technologies and that consumers can access the products and services that they need. In particular, the Economic Secretary is focused on making sure that the financial services are there to help people at every stage of their lives so that they can achieve their goals in life. She has been very clear that this must include everyone and that we need an inclusive financial services sector to help us to achieve this ambition.

The Economic Secretary delivered a speech recently at the launch of the FCA's occasional paper on access to financial services in the UK, and she set out three areas in particular on which she has focused in the financial inclusion agenda. I will say a bit about each of the three areas, which are: working in close partnership with the financial services industry to help to open up access to financial services; making sure that consumers are protected in their financial dealings; and making sure that people have the information and the tools that they need to make the best decisions for them at the right point in their lives.

The Government work in very close collaboration with financial regulators as well as across government and with the financial services industry, and have made good progress against each of the areas that the Economic Secretary has set out. In particular, on access, the Government have supported LINK in its work to bring free-to-use cashpoints to remote and deprived areas in the UK where previously consumers had no choice but to use pay-to-use cash machines or to travel to find a machine that did not charge. The Government have been active on delivering an open application programming interface standard in UK banking, which aims to open up data so that firms can come in and help consumers to plan their finances and track spending across their products. That is very much work in progress.

The Government have also played a major role in improving access to banking services, which we will come back to this in this session. We have reached an agreement with the nine largest providers of current accounts to offer new fee-free basic bank accounts that do not charge for failed payments and are available to people who cannot access other types of current account. We are also requiring the banks to provide data on the market share of basic bank accounts. We will publish that for the first time in the autumn and will report on how many customers have been refused a basic bank account. We have also been busy supporting the credit union movement through the DWP credit union expansion programme, which has had £38 million of funding to help the credit unions to modernise the sector, and we increased the amount that people can charge on loans from 2% to 3% a month, again to help the sector to modernise.

On consumer protection, the Government have also taken many steps to help to protect people particularly when they are vulnerable. Here, we have made fundamental reforms to the regulation of consumer credit. We have moved regulation to the FCA and toughened oversight of the sector. We have also taken action to require the FCA to cap payday loans. There will be a question on that later, and I will return to the success of that action later in the sitting. We have also put funding for the important work of specialist teams to tackle illegal moneylending on to a permanent footing. Those are some of the consumer-protection elements that we have focused on.

In order to ensure that people have the information and the tools that they need to use that information, we have introduced a range of reforms so that this starts in school. The Government have introduced financial education into English secondary schools' curriculum, and the Chancellor announced at the 2016 Budget that he was going to introduce the Help to Save scheme, which will make it easier for people on lower incomes to save up for a rainy day.

Also, of course, we are doing a lot on public financial guidance. At the recent Budget, the Government announced that we will bring all the pensions guidance into one body and replace the Money Advice Service with a new money guidance body that will ensure that more funding goes to the front line.

The strategy works around those three areas. That is what the Economic Secretary set out, and those are some examples of how the Government have been making progress against the agenda.

**The Chairman:** Thank you. Just before I invite Neil to come in, I have a quick supplementary. I know that Viscount Brookeborough also wants to come in. To what extent do the Government see their financial inclusion or exclusion strategy as part of a wider strategy to tackle other forms of disadvantage, exclusion and deprivation?

**Gwyneth Nurse:** The Prime Minister's Life Chances strategy—the current Prime Minister's—is where a lot of these different issues are coming together. We wait to see where that goes under the changed Administration, but that is the key place in which some of these things come together.

**Neil Couling:** I am not sure that I have that much to add to Gwyneth's tour de force on the Government's strategy, except to say that these things are interlinked; stuff that we are doing on universal credit will clearly serve greater financial inclusion, and financial inclusion helps universal credit. That

is true for a number of aims across a number of government departments. This is about people being able to participate fully in society. That is what welfare reform is about and what a whole series of the Government's policies are intended to do.

**Viscount Brookeborough:** That is a pretty lengthy strategy that includes an awful lot. I am quite interested in this, because logically if one is looking at the community as a whole, the first stages of learning anything about money are at a younger age. Yet all your strategy is about older people, until you say, "We're involved in schools and it's in the national curriculum". Why is that not No. 1? First, you cannot build on any of the others unless you have cash literacy, if you like, at a school age. Secondly, we have already been told that not all schools are bound by the national curriculum, so surely we are simply not building a bedrock on which to build access to things later, because people simply may not know how to. Why are we not placing more emphasis on education?

**Gwyneth Nurse:** It is certainly something that Treasury Ministers have been interested in, and the economic sector has been very supportive of the action taken by the Department for Education in order to get it on to the curriculum.

**Viscount Brookeborough:** This does not sound very joined up. You have just said that you are interested in it but that it is up to the Department for Education. Is this not one of the pitfalls of government in general: that you have to be bound in it together? It is no good saying simply that it is up to the Department for Education.

**Gwyneth Nurse:** Sure. I can only speak from the Treasury's perspective on the question. I think we think that we have made good progress. I think we think that there is more progress to make. Indeed, I have discussed this with colleagues from the Department for Education. Yes, many schools are not bound by the curriculum, so there is a question about what to do about those that are outside it. I would hope that colleagues from the Department for Education would be able to provide a fuller answer.

**The Chairman:** We will also talk later in this session about the co-ordination of government policy.

**Q24 Lord Harrison:** Chairman, I must now declare an interest, as Gwyneth's father was my dearest political colleague in the 1980s on Cheshire County Council.

Gwyneth, you said that financial exclusion and financial inclusion were flip sides of each other. Is it worth making this distinction, as we have decided to do by talking about financial exclusion?

**Gwyneth Nurse:** If we could get our actions right on getting everybody included, getting people the information that they need, getting people access to the services that they need at the stages of their life at which they need them, I would hope that that would eradicate financial exclusion. People tend to use the terms reasonably interchangeably—tackling financial exclusion or promoting financial inclusion—so I am not sure that the distinction matters that much.

**Lord Northbrook:** Gwyneth, you mentioned capping payday loans, which is excellent, and basic bank accounts, which is fantastic, but when those



unaware of basic bank accounts who have small amounts on current accounts get into the situation of having unauthorised overdrafts, they are paying huge amounts, which are even higher than payday loans. I understand that the Treasury Select Committee may examine this area. Is this the sort of area that you are looking at?

**Gwyneth Nurse:** I think you are right: it is an area where, if you go into an unauthorised overdraft and particularly if you hold it for a number of days, very high costs are involved. Which? has recently published some research showing this. It is an area in which we are interested. Of course, the Competition and Markets Authority has also been looking at this area through its review of retail banking. It is due to publish its final report quite shortly, so we will be very interested to see what it has to say. We shall certainly watch this situation very closely. We are also working closely with our financial conduct regulator, which also has powers in this area. Yes, we are interested in this space.

**Q25 Lord Shinkwin:** I am interested to know, if financial exclusion is the inverse or the opposite of financial inclusion, who you would say are financially excluded. How would you identify those groups?

**Gwyneth Nurse:** I suppose the clearest segment that we have identified over time has been those who are unbanked. That has been an ongoing topic under successive Governments. That is why one of the most important policies that we have put in place has been on improved basic bank accounts. When we looked at this issue with DWP colleagues, when we looked closely at universal credit and the need for people to be banked, we discovered that basic bank accounts were not necessarily fit for purpose and that people were still getting themselves into difficulty through the application of unpaid item fees. That is why we acted and made a new agreement. I think that basic bank accounts are now entirely fit for purpose.

We want to encourage people to take up the opportunity to have a basic bank account and to become familiar with the mainstream banking system. I know that this is a key plank of the universal credit policy. If, through that policy, we get many more people into mainstream bank accounts, that would be a major step forward. I think we have taken steps forward, but people are still a bit tentative about opening a bank account. That is partly about the bad experiences that they have had in the past with unpaid item fees: you cannot have an overdraft, but you could get yourself into trouble with bounced direct debits and standing orders. I was very interested when we did some work on this, because I said that a basic bank account cannot have an overdraft, so there is no way in which it can become overdrawn, but I discovered that it could have a negative balance because of unpaid item fees. If it could have a negative balance but could not be overdrawn, that just did not make sense. We have corrected that, and that is the area that I would like to highlight the most. I do not know whether Neil wants to say anything about that and about universal credit.

**Neil Couling:** You asked about financial inclusion or exclusion. Our aim in life is to get people into work, and once they are in work to increase their hours and therefore their income from work. We know that having a bank account is a key passport to getting a job and to employers considering your job readiness. Remember that the employer is buying the labour, so we need

that. We want to work on this holistically with the Treasury and any other partners we can find. We have been working very closely with the Money Advice Service, for example, on trying to encourage people to be confident enough to open a bank account. They are reticent on occasions because of previous experiences of having a bank account, or because they are worried about the impact that may have on their credit record and their ability to borrow money in the future. There is a confidence issue as well as a products issue to work with here.

**Baroness Primarolo:** I am not quite sure whether this would be your area, Gwyneth, or if this is for Neil to answer. I understand the point that you have both made about the importance of access to bank accounts for job readiness or maintaining work, and for an introduction to mainstream banking. However, you have not touched, unless I missed it, on vulnerable members of our society, of whom there are quite a lot, who cannot manage or are fearful that they cannot manage. They are not caught by your point, Neil, about confidence or worries about their credit rating; the current basic current account just does not meet their needs. Will you say something about that? I would be happy if you want to pick that up under universal credit. I am interested in the very vulnerable and the protection of those people, which does not seem to be included at the moment.

**Neil Couling:** I can say what we are doing practically, unless there is anything you want to say from a policy perspective first, Gwyneth. No, okay.

We recognise this point not just in relation to financial exclusion but in relation to the way in which universal credit works. It is designed deliberately to encourage people to take responsibility, for example for their rent. It pays people monthly, which for some people is a change, given that previously, through the welfare state, they have been paid every two weeks. It pushes the boundary out a bit. We recognise that for a significant part of the population, that will be too much to ask. Through universal support we have an attempt to identify people who are going to need extra help. We will pay people's rent directly to the landlord where they get into difficulties or we think they will do so. We can split payments. We can support people through guidance; most people who claim universal credit will be referred to the Money Advice Service or others for help, where we identify the need for that. We are still learning and we are still exploring and developing some products, but we have very much identified that we need to do something for that segment of the population who will not be able to respond to the greater responsibility that universal credit puts on the majority of the population.

**The Chairman:** We are going to move on to universal credit in a bit more detail now.

**Q26 Lord McKenzie of Luton:** May I follow up that specific point about rent payments? A recent survey by the ALMO association suggests that 80% of council tenants receiving universal credit are in arrears, and that half of them were not in arrears under the old system. How do you respond to that? More broadly, how do you go about measuring the impact of universal credit on levels of financial inclusion?

**Neil Couling:** I will take the second point first. That is rather difficult to do, if I am totally honest. It is very difficult to disaggregate the effects of universal credit from the general level of financial inclusion or exclusion, but we track

things that correlate to greater financial inclusion or exclusion. Yesterday, we published some data on the number of people claiming our services digitally, and for the full service it is up at about 99%. That suggests to us a very high likelihood that individuals will also be banked in that situation and so forth. It is very hard to do. I have resisted the urge to have a separate target for that, because I just do not know how I would measure it with any confidence and without people saying that we cannot disassociate other effects from it.

**Lord McKenzie of Luton:** If you do not know how to measure it, how do you know whether it is a reality and whether it is assisting financial inclusion?

**Neil Couling:** We know through the correlations that I have talked about, such as some of the activities that universal credit will generate. For example, we get more people into work than under the predecessor benefits, and they have a higher propensity to be banked and financially included. Similarly, there is a greater propensity for people claiming online to be banked. I could not look at our dataset and say, "Yes, X number are now financially included because of universal credit". That would be really difficult to do.

I am not going to duck your first question, Lord McKenzie, about what the ALMOs are saying. I have now met the ALMOs twice, with Lord Freud. There is an acceptance that our data and their data shows different numbers. The Chartered Institute of Housing shows very low numbers of arrears. The ALMO numbers show very high numbers of arrears. Our own data suggests that the number is somewhere in between that. We are trying to establish how much of that arrears is generated by universal credit and how much people are bringing those arrears into the system. We have been accused of starting with the easy cases for universal credit, and to some extent that is true: we started with single unemployed people in the first wave of take-up. Actually, they are some of the people with the most disruptive rent records, because the current system, as they move in and out of work, generates arrears. They go from having the responsibility for paying their rent to not having responsibility, and they are in that gap in between arrears build-up. The position is therefore very complicated, given that the ALMOs now accept that you cannot write an easy headline that says that there are more arrears. We need to do more work to establish just what is going on here and the extent to which our work can help to minimise that situation.

The other thing that we have done with universal credit is to increase the amounts by which landlords can recover arrears through universal credit compared to legacy benefits. That means—and the ALMOs have been good enough to say this—that when arrears occur they are extinguished much quicker than they were under the old legacy system. The picture is very complicated. We have to do some more work. Yesterday, we published our first set of data on additional payment arrangements, and I think that will start the discussion going.

**Lord McKenzie of Luton:** Thank you for that. On the support schemes that are there for vulnerable people on universal credit, there is the personal budgeting support and the universal support delivered locally. Those are two separate arrangements. Is that correct?

**Neil Couling:** Personal budgeting support is available everywhere, in every jobcentre and every local authority across Great Britain, and it is intended to provide guidance on how to budget around the monthly payments and identify

people who might be appropriate for an alternative payment arrangement—in effect, paying rent direct to the landlord or splitting payments, and the like. Universal support delivered locally is a pilot that we have been running to see whether you can deepen those services. The assumption is that, because local authorities are in more contact with a broader range of people’s experiences than, say, the jobcentre, we can partner up and in effect use each other’s expertise in that—and we have been trialling 11 variants of that to try to work out what model we might use for the next phase.

**Lord McKenzie of Luton:** Have you had a chance to measure the impact of that personal budgeting support programme?

**Neil Couling:** We are tracking how many people are taking it up.

**Lord McKenzie of Luton:** How about the outcomes of that take-up?

**Neil Couling:** So far, quite low numbers of people have been taking it up, but I would counsel caution in drawing too many conclusions from that. As I said, the people we started with on universal credit, particularly single unemployed people, are not necessarily the ones who will experience the greater difficulties. I am doing a kind of “hold your nerve” piece on this with local authorities at the moment and saying that we should mature the reform a little more before we jump to conclusions.

**Lord McKenzie of Luton:** One last supplementary, if I may. We know that local authorities are under enormous financial pressure. What is your assessment of their capacity to engage in these programmes and to do what they should be doing?

**Neil Couling:** Across the 380 local authorities—it may be wrong to generalise, but if I dare do that—I would say that typically they are keen to play a part. We have had some very robust discussions about funding, which I am sure will not come as a surprise to you. We have overfunded for the volumes that we are getting at the moment, and I have given them a guarantee that, should the numbers coming to them in any location be in excess of the money that we funded them for, I will meet those costs. There are good discussions, and we have delivery agreements with every local authority, I think—it varies as to which have been renewed and which have not. But in general, this has been working across the country quite well.

**Lord Kirkwood of Kirkhope:** Is it true that you have been described as the senior responsible owner for universal credit?

**Neil Couling:** Yes.

**Lord Kirkwood of Kirkhope:** You have our sympathies.

**Neil Couling:** I am the sixth one.

**Lord Kirkwood of Kirkhope:** I know, and you have lasted the longest.

**Neil Couling:** I tend to say, “Divorced, beheaded, died, divorced, beheaded, survived”. We had to learn that in history.

**Q27 Lord Kirkwood of Kirkhope:** You are looking very well on it. You do very important work, and I acknowledge the contribution that has been made over many years. I am interested in what has been happening in Scotland because, for other obvious reasons, other things are happening there. Is it too early to

say that an agreement has been reached between the DWP in Whitehall and Edinburgh about the possibility of choice in payment of rent direct to landlords being a default position? That was the stuff that Lord McKenzie, rightly, probed you on. Is it too early to say that, in Scotland, when people apply for universal credit they will have that choice, which is not available in the default position in the rest of the United Kingdom?

**Neil Couling:** How do I handle this question? I watched the Cabinet Secretary, Angela Constance, before the Social Security Committee in the Scottish Parliament at the weekend. One of the things that the Cabinet Secretary said was that these were still early days in Scotland. We are just about to devolve the first set of powers to the Scottish Parliament, which very reasonably wants to go out and consult the people of Scotland about how they exercise those powers.

However, since the referendum result—the referendum on the independence of Scotland that is; I need to be specific now that both Governments have achieved an equality of esteem by both losing a referendum—we have been working very well together on making sure that both sets of Ministers, in the UK and the Scottish Governments, have the same access to evidence on which to make judgments. We are really encouraged by the way in which a unified Civil Service has made that happen, serving the Governments to which it is responsible but making sure that the quality of administration is really strong. I therefore think that it is too early, Lord Kirkwood, to give you a definitive answer on that, and it would probably be wrong for me to talk for the Scottish Government on what their policy is, but we stand ready to help them to discharge their responsibilities. It is a rather unique—I was going to say “strange”, but that is the wrong word—form of devolution. We are devolving the power to make changes to a GB system. Normally the devolution model means that the responsibility for education is in the Scottish Parliament and that is it—they can go off and do whatever they like. Most of the welfare reforms are based on that model, but universal credit is a shared responsibility. We have to work together; it is a bit like a three-legged race, so we need to continue to work together and not get into the position where one side is saying, “We’ve got to do this”. We have to try to work our way through it, but we are in the early stages and I am sure that you will see a different model emerge.

**Lord Kirkwood of Kirkhope:** But the relationship is positive?

**Neil Couling:** Very.

**Lord Kirkwood of Kirkhope:** There is best practice available to be shared. If design faults appeared in one part of the United Kingdom, they could be picked up and translated through to the policymakers. You are finding no barrier or difficulties?

**Neil Couling:** No. We are talking about our current experience in Great Britain. In Scotland at the moment, we are talking about the stuff that we have learned over, in my case, 30 years in this game. Others have different experiences. We are not trying to dictate; we are just saying, “This is the information. This is our experience. You now have to make some choices”. I think that is a good thing.

**Lord Kirkwood of Kirkhope:** Okay. What I really wanted to put to both of you, and Baroness Primarolo has raised this already, is that there is a concern

that financial exclusion/financial inclusion refers to different parts of our populations. I think that financial inclusion is going well and that the Government's strategy has been rational in the past period. I was a bit disappointed that Brian Pomeroy's task force was not continued, because I think it was successful at putting pressure on Ministers in a positive way. The 70% or 80% of the population who can get through life might find bits of difficulty but their situation is okay. It is the 15% or 20%—the two lower deciles of income—who are failing now, and it is getting worse. My worry is that the policy is not integrated enough yet. My question for Neil Couling is therefore this. When people apply for non-legacy universal credit for the first time, of course the focus is on work, and I do not know whether it is a job contract or a claimant contract—

**Neil Couling:** It is a Claimant Commitment.

**Lord Kirkwood of Kirkhope:** A Claimant Commitment. When the officials at the Jobcentre Plus have that individual in front of them for the first time, it is a wonderful opportunity to get the data that they need in order to decide whether they are a household that is at risk or whether they just need a bit of advice, because they are substantially different and there should be different routes. We heard from Joanna Elson in an earlier evidence session about the importance of warm handovers, which is becoming a term of art in this Committee. Warm handovers are very important. I want to know about universal credit that is locally delivered, although it is confused by the fact that local authorities now seem to be in charge of that. I am disappointed about that because I think it makes it easier for people to get lost. How can we best integrate that initial interview into a process that takes people into support rather than just advice? You mentioned 11 pilots, and I do not know quite what they are doing or trying to achieve. Can universal credit that is locally delivered be integrated with confidence into a national advice service for that segment of the population between now and 2020, in your view?

**Neil Couling:** There was a different question at the end than I thought I might be asked at the start. We are working, in the spirit of what you are suggesting, Lord Kirkwood, on how best to knit services together that are provided by different agencies to the benefit of the citizens who we all serve. Some people need no help at all, some need a bit of help, and some need some quite serious intervention. At the far end of the spectrum in England there is the troubled families programme, the Scottish Government have their equivalents, Wales has different approaches, and we are trying to knit services together. Nobody has yet found the magic solution to this, probably because it is quite hard to do. You can go to certain places and see some very deep integration. I do not know whether the Committee has seen the Margate Task Force, for example. It is quite incredible.

**Lord Kirkwood of Kirkhope:** The Margate Task Force?

**Neil Couling:** Funnily enough, it was a fire service initiative. The fire service was going into people's homes and fitting smoke alarms. It was one of the most successful interventions by government in the past 20 years; the number of deaths from household fires has fallen by 80% to 90% in this country through the fitting of smoke alarms. The fire service was allowed into people's houses to fit smoke alarms and what they were seeing really worried them, not from a fire prevention perspective but because of other things.

They started to refer to other agencies. In Margate, to pay tribute to the fire service, they got all the local agencies involved and said, “We need to put a task force together”, and they have been going from street to street identifying problems. That is at one end of the spectrum.

Other places have lighter-touch approaches. The reason for the “universal support delivered locally” trials and some of the other trialling that we have been doing has been to find out what the best interventions are that one can make. As of today, I do not know the answer to that. We are still gathering data and still looking at what might work, because we are all working in a world where resources are constrained, for all the reasons that we know. We are trying to find the answers to some of this. I agree, Lord Kirkwood, that this is extraordinarily important to do. It is complementary to what the department is trying to do to support people into work. We are big advocates of this. The good news is that the local authorities are, too. I think we will reach a solution, but I am trying to avoid jumping into it too early before we have the data and the experiences.

**Gwyneth Nurse:** I would add only a point about the review of public financial guidance that we have just undertaken. The new money guidance body will spend more of its resources identifying gaps, commissioning things and working closely with DWP colleagues on universal credit, so we are also looking for opportunities to link national money guidance to the work that is going on. Again, it is work in progress, but it is definitely one of our aspirations for the new money guidance body.

**The Chairman:** We need to move on to other areas now.

**Q28 Viscount Brookeborough:** I have a question about post office card accounts. Of those recipients now receiving universal credit, what proportion receive payment into a post office card account and what proportion receive payment into a bank account? May I work backwards a little? We have a long paragraph all about the post office card account that shows that it has had a very unsettled life, to say the least. In fact, at one moment the account was within three months of total withdrawal. It was then decided to give it to the post office. Would you like to explain not what has gone wrong but what has been going on and how it is developing? Can you confirm that the post office card account can be used only for benefits to be paid into it and that it cannot be used for anything else?

**Neil Couling:** I will start with the facts, otherwise I will forget to give them to you and you will be annoyed. Before I come on to DWP payments in total, I will give figures for universal credit. In June, 2.2% of the total volume of universal credit payments were to post office card accounts. That is 4,323 out of 194,250 payments.

**Viscount Brookeborough: That means that 97% were paid into bank accounts.**

**Neil Couling:** Yes. There might be the odd emergency payment outside that, but in general you would not be far wrong. For the department as a whole, 12% of payments are paid into POCAs, and around 87% are paid into mainstream bank accounts. That is predominantly pensioners. The contract for the post office card account runs until 30 November 2021. That is when we have extended it to, and we have no plans to change that commercial

agreement. However, in my area of the department's business—in effect, working-age people—we know that the post office card account is not a suitable product for someone who is in work, so we are trying to encourage people away from post office card accounts into mainstream banking.

**Viscount Brookeborough:** But it is totally necessary for some people. Why has it been so on/off? Presumably, this has not mattered to the customer, because the customer has simply used the account, but in the actual administration of it there seems to have been a lot of doubt as to whether you would continue with it. If some people will always require it—the 2%, or whatever—what would you have put in its place if it had fallen without being accepted?

**Neil Couling:** We are making something like £3.5 billion worth of payments a week in DWP, so making sure that that stream of payments continues to people is objective number one of the department. In the period up to the contract extension, we looked at an alternative to the post office card account and considered whether we could do something else, such as making payments through other bodies. There are other ways of getting money to people now, and we have a very small proof of concept running, such as making payments direct to people's mobile phones. Ultimately, we may emerge with a number of methods to get payments to people, particularly working age people.

The problem with the end of the post office card account contract was that it was probably too soon, as that contract was ending, for those alternatives to be in place to pick up the load there. As I say, our priority is to make sure that people are paid. Some people like the post office card account. To speak very personally—how persuasive an individual am I?—my mother and father both have a post office card account. They are 81, and I have given up trying to persuade them off it, although I have explained the financial reasons. They like having a jam jar to put some of their pension into. My dad is paid another pension that goes in to pay bills through a bank account. People like that ability to pot their money separately. It is a standard way of budgeting, and it is how my parents learned to budget. If we are going to replace it, we will have to invent something that allows that potting to occur.

**Viscount Brookeborough:** Does that mean that you believe that the post office has been a brand name for this sort of thing over many years and that it would be unwise to move it out of the post office, because you would have to rebrand it to somewhere where people felt that it was easy to go to, and that putting it out to contract would mean that it could go anywhere?

**Neil Couling:** I do not know about that. The post office has a very strong brand. We work with it a lot. It now provides some of our identity services on universal credit and is doing very well on it for us. I would not rule anything out at this stage. My career has been bedevilled by people telling me that the changes that we were making were not going to work, from moving away from interviewing people for their claims to claim forms and then moving from claim forms to the telephone. Each time people said, "That's not going to work". We are now moving it online. People have said that that is not going to work either, but it is working. It is a question of how you do it, the time you give yourself to make the change and the support that you give people on the way through. I would not rule anything out. For the moment, we have



committed to this contract until the end of November 2021 and we will stick to that; the Department for Work and Pensions does not break its agreements with people.

**Q29 Bishop of Birmingham:** I have to read out my interests, because this is the first time that I have spoken. I am a member of the Banking Standards Board, and a member of the General Synod of the Church of England in support of the Archbishop of Canterbury's task force on responsible credit and savings. I also chair the University of Birmingham's Policy Commission on the Distribution of Wealth. I think that we have covered most of the points on the post office savings account, but I want to tease out a bit more about the marginal group. This comes back to the point made by Baroness Primarolo about those who are never quite going to join in at the speed at which we want them to. On the success in transferring to bank accounts, have you any data on access to branches? With the post office, people like to go in and be part of something both physical and social, and they like face to face. Are you keeping an eye on that in the next five years?

**Gwyneth Nurse:** I can pick that up. The post office is a very important addition to what we have done on basic bank accounts in particular, working closely with the banking industry on the access to banking protocol, which needs to be put in place if a branch is going to close. One aspect that the bank will look at when considering that planned closure is whether there is a post office in the locality that is offering banking services. That is in place, and is being reviewed this year—Professor Russel Griggs is looking at it, so we will be very interested to see his findings to see whether that is working well, or whether there are areas where it can be improved. Secondly, we are working to see whether the banking industry can agree a set of standards, which every bank will sign up to and which we will offer through the post office. So at the moment, in certain post offices you can do some things but not others, and that is a bit of a confusing proposition for people. It would be much better if people knew whether they could do this thing for sure at their local post office. We are hoping that this is put in place reasonably shortly.

**Bishop of Birmingham:** Thank you very much. On a slightly sideways question, picking up on your interesting point about negotiating fee-free banking for start-up bank accounts, I note that you are going to monitor the data on market share. Is there any thought of doing that by region so that in local participation, linking up with care for people through the universal support system, there could be some more granular understanding of how people are getting access and how the banks are doing with their offer?

**Gwyneth Nurse:** That is an excellent point. With a lot of the things on which we have published data, such as the lending statistics, we have gone for a regional breakdown to add that granularity. We have not yet agreed the format in which we are going to publish this data. In the autumn, we are going to agree it with the banking industry. We are certainly looking to go bank by bank. There has been a suggestion in the past that some banks have been rather keener on offering basic bank accounts than others, so making the data publicly available will put some pressure on and we will see who is the best at offering these accounts and who is offering the least accounts. It is an interesting question whether we also look at that regionally. We can take that away and see what we can do about it.

**Q30 Lord Northbrook:** I move on to the subject of credit unions. By mid-2015, 1.6 million adults were using credit unions, and the Government stated in 2014 that they wanted to increase that number to 2 million by 2020. Following the consultation on the future of credit unions in 2014, the Government agreed to consider legislative amendments to be brought forward in the new Parliament. What was the result of that consultation?

**Gwyneth Nurse:** The result is that it is still under consideration at the moment. I looked at the document and realised that we had said that we would actively consider it—and, indeed, that is what we are doing. It is taking a bit of time to reach a conclusion because the views from the credit unions that came through—we published the responses to the consultation at the end of 2014—are quite varied. It is quite a varied movement in that you have credit unions that want to stay exactly as they are today and that like the rules and a restrictive set of legislation, seeing it as part of the identity of the credit union. Then you have others that are very big and professional and are moving more into the mainstream. There is a divergence of views about what you should or should not do with the legislation. At the moment, we are continuing to engage; the door is open. There are six different trade bodies representing various different bits of the credit union sector. We are talking with each of those and with the individual credit unions, and at some point in the next couple of years the Government will reach a conclusion.

Any legislative changes will obviously be subject to finding a suitable primary legislative vehicle, but the thinking is ongoing. One interesting question that we thought about, which was ruled out in the 2014 paper but not ruled out for ever, was whether you need one set of legislation or need to open up the legislation for the bigger and more capable credit unions, or the more professional ones, and keep the legislation as it is for some of the smaller players, which are quite happy as they are. We reached the conclusion that that was not the right time but that perhaps the right time will come. That is where the deliberations are on the legislation. In the meantime, of course, there is a lot of other action, such as the DWP credit union expansion project, which is helping to meet that 2020 aspiration.

**Lord Northbrook:** There are two other areas on which I thought the Government had agreed to act: funding the pilot savings programme, which was established by the Archbishop of Canterbury's credit union task force; and asking the FCA and the PRA to factor evidence into a review of the credit union sourcebook.

**Gwyneth Nurse:** Indeed. On the Archbishop of Canterbury's task group, the LifeSavers programme, we have provided £650,000 to help fund its initial stages. That is a really great initiative. The scheme goes into schools and is run by children to set savings goals, and it means working in the local community to link credit unions with schools and with the Church. The Government have been very keen on that and have so far put in that sum of money.

On the point about the Financial Conduct Authority and the Prudential Regulation Authority looking at the rulebook, I believe that they have done that and have updated the rules, and I think there were some positive changes. I do not have the exact details in front of me, but I would be very

happy to send information about where they ended up, if that would be helpful.

**The Chairman:** May I ask for clarification on one point that you raised, Gwyneth, about the Government response to the consultation in 2014? Did you say that we might get the Government's formal response to the consultation any time within the next two years, or that we might get it in the two years before legislative proposals are brought forward?

**Gwyneth Nurse:** The latter. We published a response to the consultation in December 2014.

**The Chairman:** But since then there has been no formal response?

**Gwyneth Nurse:** No. There has been no formal publication and no decisions have been taken.

**Q31 Lord Haskel:** I move on to the Social Fund, which deals with the most marginalised people. What have been the effects of the recent changes—for instance, the provision of goods rather than the provision of money—to the Social Fund? It has been moved to locally based support, which from the figures that we have been given in the paper seems to have been considerably underspent. What has the effect of the changes been, and what is happening with the Social Fund?

**Neil Couling:** As at least a couple of members of the Committee know, I have form on this because I led the policy team that designed the reforms that were enacted under the Welfare Reform Act 2012 and because I was running the operations for DWP that endured a tripling in the number of applications for crisis loans from 2006 to 2008, which was pre-recession. The reason for localising the crisis support—crisis loans and the like—was because we recognised that, across the telephone, we were very ineffective at meeting need. It became known what you needed to say to get a payment from the Social Fund. We thought that putting crisis loans back to where they started out—funnily enough in 1948, when the welfare state was originally conceived—would, with local knowledge, enable there to be a more effective distribution of resources. The review that we conducted in 2014 found that.

The underspending was not of benefit to the DWP, because we devolved all the money to local authorities and told them, "If you meet this need more effectively than we are currently doing, we're not going to take that money back off you". That is the nature of the reform. My anecdotal information from talking to chief executives at about that time—I was very interested in how this was going, because it was big departure to localise in this way—was that local authorities embraced it really well. They provided help and support to individuals, some in goods and services and some in cash, so it not as though there have been no cash payments. From the Government perspective, we think that the reform has gone very well, which is what our partners in local authorities also tell us.

**Lord Haskel:** Do you think that one reason for the underspend is the proliferation of food banks? Are the people who look to the Social Fund also the people who have come to rely on food banks?

**Neil Couling:** A lot of work is going on to try to understand what is driving increased food bank usage. The rise in the number of food banks predated the

changes that we made in 2013 to localise the Social Fund. Clearly, some of the people presenting at food banks for help will be presenting with the same needs that they formerly presented to the Social Fund. There are questions that can be asked about how effective local authorities have been in identifying that need and making sure that people are not going to food banks, but I do not think there is straight causality between the localisation of the Social Fund and increased food bank usage.

**Lord Haskel:** From the point of view of this Committee, there is therefore no relationship between the provision of help in kind and the provision of help in money?

**Neil Couling:** On the logic of providing help in kind, all we in the DWP were able to do at the time was to sit at the end of a telephone and issue people with a cheque to provide them with money. That can be an appropriate response, but it can also be an inappropriate one. The logic is that if you see someone face to face, you can judge that person's needs. Money may be the answer for them, but it might not be. That is what we were worried about.

**Q32 Lord Fellowes:** Can you explain to me the capping of payday loans? How does it operate? Surely it is meant to be a preventive measure rather than one for after the event. How do you operate to ensure that you are ahead of the game?

**Gwyneth Nurse:** As I understand it, there are three different elements to the payday loan cap introduced by the FCA: there is a daily cap on the amount of interest that can be charged when you have taken out the loan; there is a cap on the default charges that can be charged if you fail to repay the loan, which is a flat £15 cap in addition to the interest rate cap; and there is a final backstop, which means that the consumer will never have to pay back more than twice the sum they have borrowed. It is a three-way cap. Ultimately, if you borrow £100 you cannot pay back more than £200. That is how it operates technically.

**Lord Fellowes:** That is very kind. Leading on from that, there must be quite a lot of incidences of a person having a good and unblemished record, but for one reason or another not being regarded as a creditworthy by the mainstream banks and financial institutions. Is there a safety net for that person? Can he or she hope to find an understanding ear?

**Gwyneth Nurse:** That is a good question and one that the FCA has focused on. There has been a reduction in payday lending as a result of all the action that has been taken. What has happened to people who previously went to payday lenders and may not now be able to find a place from which to borrow the money they need? One answer is that their ready availability and the fact that payday lenders were sometimes lending to people in inappropriate circumstances means that there has been a reduction in the number of people wanting to take out such a loan in the first place. There is also some anecdotal evidence that people turn more to family and friends than to a payday lender in this situation. Credit unions can also play a role, which is why the Government are very keen on building up credit union numbers and putting in place the credit union expansion programme to help them to professionalise so that they can supply finance to more people.

I am also interested in some work, which I read about in preparation for this Committee, called the rental exchange project. Some of the housing associations have been working with credit rating agencies to help people paying rent to build up a credit history, much as people do when they buy for a mortgage. That is a very positive pilot: 75 housing associations are involved in it at the moment. There are a variety of different measures that we are trying to take to help people, because it would obviously be better if people could access mainstream credit.

**The Chairman:** Before we pursue the issue of short-term lending in a bit more details, which I know other colleagues want to explore, could I check that you want to ask just one further supplementary on the Social Fund, Lord McKenzie?

**Lord McKenzie of Luton:** Yes, although I have two if I can get away with it. The first is that I remember that when the change was made there was a big debate about whether the funding that was devolved should be ring-fenced for local authorities, for obvious reasons: they were under pressure and we wanted to ensure that the funding would be used for the purpose for which it was devolved. From recollection, I do not think that is where we ended up. At the start of the process, there was a line in the local government settlement that showed what had been included, but it was not ring-fenced and could be used more generally, as I understand it. Has that changed at all? You can understand the downward pressure on local authorities, given everything else that is going on.

**Neil Couling:** My understanding is that we specified it in the 2013-14 and 2014-15 spending review period. If I am wrong I shall write to the Committee and correct this, but I am pretty certain. This was money that in effect went to councils after the local government spending resettlement, so it was identified there.

**Lord McKenzie of Luton:** But not ring-fenced.

**Neil Couling:** No, which is what the local authorities wanted; they did not want it ring-fenced, they wanted it to be identified but not constrained by ring-fencing. There has never been a ring-fence and there is no ring-fence. After that period, no separate line was identified for the next local government spending review, simply because—the Treasury can probably explain this better than I can—at each point at which the Government set their budgets there was no longer any money to come over from the DWP; it was already in the calculations that the Treasury made with Communities and Local Government and the devolved Administrations for the money that was available for local authorities. If that is wrong, I will write to the Committee, because I am skating a little beyond my competence.

**Lord McKenzie of Luton:** My other question was about the provision of goods rather than cash and whether we have undertaken any assessment of the impact and the stigma that might be attached to somebody being given a voucher for specific outlets that identifies them as, "Here we are. We are poor. We have been given this to buy these sorts of goods", rather than having the freedom that others of us have.

**Neil Couling:** I do not know of any research on that, but I will check whether there has been any. I know from previous experience of historical assessments of things like free school meals. There has been a lot of thinking

in schools about how to deliver free school meals. When I was at school they used to give out the vouchers in front of everybody. I do not think that happens in schools now, thankfully. There has been some thinking about how you can do this.

**The Chairman:** If you do find any research on stigma, could you write to the Committee?

**Neil Couling:** Of course.

**The Chairman:** That would be very helpful. We are going back to short-term credit.

**Q33 Lord Shinkwin:** I am very interested to know a little more about the regulation of the high-cost, short-term credit sector. As we know, reforms came into effect in January 2015. I appreciate that it is quite early days, but I am interested to know your thoughts on the effectiveness of those reforms, and particularly how that effectiveness is best measured. You referred, I think, to anecdotal evidence. Even though only 18 months have passed, what indicators are being used to measure the effectiveness of those reforms?

**Gwyneth Nurse:** As you say, we are in a reasonably early phase, but we have some evidence on the payday lending cap, which was allied to other changes that came in when consumer credit was moved across to the Financial Conduct Authority, such as limiting continuous payment authorities to two unsuccessful attempts on any loan. There was a raft of changes, and then the payday lending cap came into complement them.

On the question of how effective the reforms have already been, there has been a significant decline in the number of payday loans being made by lenders since the introduction of the new regulation. I have some numbers here. The number of payday loans fell from 6.3 million in the first half of 2013 to 4.2 million for the same period in 2014, and to 1.8 million in 2015. Those numbers come from the FCA. Allied to that, Citizens Advice has also been looking at this issue, and in June 2015 it reported that the number of problems reported to it about payday loans had almost halved compared to the period before the regulation was introduced. Therefore in January to March 2015, it helped with about 5,500 payday loans, which was a fall of around 45% on the same period in 2014. That was probably the immediate effect of the payday lending cap itself.

On the question of what we will do in the future, the FCA will conduct a proper review of its price cap after two years of its operation. That will happen in early 2017, so it will be interesting to see what that reports and whether further changes need to be made then. The FCA is also monitoring the market continuously to see whether there are any unintended consequences of the price cap for consumers or for firms. There is a continuous monitoring operation, and I am not aware of any problems having been raised yet through that mechanism.

The FCA is also working closely with the illegal moneylending teams that are out there in England, Wales and Scotland to make sure that there is no increase in the number of loan sharks moving into the space. That is another element of the monitoring that is going on.

**Q34 Baroness Primarolo:** I want to pick up the point about short-term lending, but first I have to say that I am really concerned that it sounds as though the Government's policy is potentially—I qualify this—pulling in two different directions: the first relates to responsibility and inclusion and is about pulling people into bank accounts; the second is about trying to identify those who are vulnerable and having special strategies in place but in doing so perhaps reinforcing the stigma that is attached to being more vulnerable and forcing those people to change their behaviour and adjust to desperate circumstances.

Gwyneth, you have talked about payday loans, but can you say more, because we are seeing an apparent expansion of that short-term lending at exorbitant rates, particularly to the vulnerable. I have in mind here the BBC reports that we have seen about rent-to-own firms, whereby people who have nowhere else to go or people who are less than clear about what they are signing up to end up in the same dire position. That seems to apply particularly to those whom the DWP has already identified as being on benefit and in debt. I have heard nothing so far to be grateful for from Gwyneth on the FCA and Neil on the DWP strategy about how you are going to deal with this, because you are in danger of inadvertently isolating and stigmatising the vulnerable and leaving them with no alternative but these mushrooming firms. It is a bit like tax avoidance: you change one scheme down and another one appears somewhere else. It is a big question, so could you just give headlines for now? We might want to follow this up in more written evidence from you.

**Gwyneth Nurse:** Sure. I will start on the Financial Conduct Authority point. I agree that it is a bit like tax avoidance: you squash it down somewhere and it appears somewhere else. I, too, have been following the recent coverage on rent to own, and there are aspects of it that look very much like the payday lending practices that we introduced new regulations to stop. I checked this out before the session; the FCA has the power to introduce a cap on the rent-to-own lending if it chooses to do so, because it has that power in the consumer credit regulation that we transferred to it. The Government mandated the FCA to act on payday lending, because there was such a mushrooming in that regard. If problems emerge with rent to own, I think there are tools in the armoury to deal with it. That is something that no doubt the FCA is looking at.

**Baroness Primarolo:** I am going to ask you quickly before Neil comes in—you may legitimately say that this is not a question for you, and I appreciate that—whether the Government think that rent-to-own loans are legitimate in a sense or should be out there in the first place and on offer to very vulnerable people.

**Gwyneth Nurse:** I am not sure that the Government have a view on that that I would be able to express to you today.

**Baroness Primarolo:** Okay, that is fine.

**Neil Couling:** On your questions, I agree and disagree. I do not think that government policy is acting in different directions, although I suppose that I would never say that. But you are right to identify the danger of stigmatisation here if we get this wrong. I can tell a safe story. When we first started to identify basic skills in jobcentres about 15 years ago, we got into

rather tricky situations, because we were basically saying, “Can’t you read and write?”, and stuff like that. People were insulted by that and would not identify that they had a problem. Why would they? It was almost as though they were a bit ashamed at not being able to do things. So we had to find different ways into that in order to encourage people to open up without making them feel that they were somehow being judged by the adviser in front of them. That is what we are trying to do here, which is why to the question asked by Lord Kirkwood I said that we are not yet ready to say that we have the answer on some of this, because there is a danger that people will feel stigmatised. We have tried to design the system so that it is as light touch for the mainstream as possible and then increases in the help that it gives, although that carries the risk of stigmatisation, as you say, if we get that wrong. There are people who know a number of things about the citizen in front of them, so we have been thinking about how we can access that in a simple way or how we can refer on rather than it being judged exactly in the jobcentre. That would be a better way in which to proceed. As I said, we do not have the answer yet, but you are right to identify the risk.

**Gwyneth Nurse:** We consider the stigma point very carefully when it comes to the basic bank account agenda, because we are very keen for the basic bank account to be part of the offering of a bank. We do not want people to go into a bank and someone reaches into a dusty drawer and makes them feel as though they are asking for something that is not quite legitimate, so we work closely with the banks to make sure that the basic bank account is part of the normal suite of banking products, and we are very keen to monitor that to make sure that it is.

**Bishop of Birmingham:** Has any study been done on connecting up a person who needs a washing machine as an emergency—one of the classic cases of rent-to-own decisions being made very unwisely—with the underspent Social Fund?

**Gwyneth Nurse:** Not that I am aware of, no.

**Lord Haskel:** You mean giving goods instead of money?

**Bishop of Birmingham:** I mean giving the right amount of money—the market price and not the inflated market price, so that you are not paying prohibitive premium on the washing machine. It could be the money, not just the goods.

**Baroness Primarolo:** I want to come back on that point about goods rather than money. If insurance companies can do it—you put in an insurance claim and they replace the goods—why cannot the department find a way in which to have not a direct provision but something through a not-for-profit organisation that does the same thing? That would cut out the issue of money.

**Neil Couling:** As a matter of government policy, we do not do so, but I know of organisations and charities that provide such a service, and run cards and repayment schemes at zero rates of interest, or near-zero, to do so.

**The Chairman:** Thank you. I move on to an issue on which we touched earlier: the co-ordination of government policy.



**Q35 Lord Empey:** Thank you, Chair. I want to follow up on matters such as paying housing benefit. In Northern Ireland we deliberately pay that to the landlord, because then at least the tenant is guaranteed a roof over their head. If you have that sort of money coming in to somebody every month, I understand that the idea is to make people more responsible and to handle it and so on, but you can see the sky blackening with the vultures gathering at a particular date every month. Unscrupulous elements would pounce on young mums in particular. We therefore take the view that we should at least pay the rent in that way. Then people are not chasing after arrears, with all the hassle that goes with it, which means that people go down and down. It is the biggest single transaction that anyone would have, although that is just an aside.

How is the policy to tackle financial exclusion co-ordinated across government? To what extent is there co-ordination with devolved Administrations across the UK? I was the Minister responsible for friendly societies and credit unions for more than three years, and I do not recall ever having any policy discussion with the Treasury about it. Has that improved now? Is it more up to date?

**Gwyneth Nurse:** I think it has improved. We have an active programme of engagement with the credit union sector, so I would be happy to assert that it has improved from the situation that you described. As for how financial inclusion policy is co-ordinated across government, the Government decided, when they decided not to continue with the financial inclusion task force that was based at the time in the Treasury, that financial inclusion should be embedded in policy-making across different departments, so each department takes responsibility for the particular area of financial inclusion that falls within its remit. As I set out at the beginning, the Economic Secretary has responsibility for financial services, takes a keen interest in this across government and has conversations with her ministerial colleague and officials. Particular issues arise, such as basic bank accounts, which we have spent a fair amount of time discussing today. Very efficient work was done on that between the Treasury and the DWP. Then there is the credit union expansion project, again worked on by the Treasury and the DWP. That is basically how it is organised, with the normal channels of engagement between departments. There is no single committee that sits and looks at those issues.

**Lord Empey:** Viscount Brookeborough made the very important point earlier that unless this is fixed from the ground up for future generations, somebody needs to ramrod this policy. We all know how departments work. Everybody has to look after their own bailiwick at the end of the day, and co-ordination sounds good, but you know, because you have been at it for years, that you have meetings with different departments and they all sit around and do their bit, but somebody somewhere has to say, "This is or is not being done properly, and it needs to be fixed". Are we going to get into a situation with the devolved Administrations where we have a policy that I detest and which I call "Devolve and forget"? I think that is happening. With financial services and so on, which are so transportable, people move about from one part of the country to another, and they will all be in different regimes.

**Gwyneth Nurse:** Of course, financial services policy is not devolved, so the policies that we make in the Treasury will apply everywhere, but various

aspects of financial inclusion are devolved. I agree that it is a question of having to work very closely together—we have lots of conversations with the devolved Administrations, as do our Ministers—but it is a good point.

**The Chairman:** May I just press you on the point about co-ordination between government departments? We have both the Treasury and the DWP before us today, which is great. We also have BIS, and we have talked about the Department for Education. In my view, the DCLG has a role to play. The Financial Inclusion Commission came up with up a series of recommendations for improving both the leadership and the co-ordination of policy in this area, which have obviously not been acted on yet. Have the Government actually rejected those recommendations? What has their response to them been?

**Gwyneth Nurse:** Ministers are obviously interested in the Financial Inclusion Commission's work. In fact, when I met Sir Sherard recently, we looked through the recommendations and commented on how many had been actioned or were being actioned across the piece. As I think Lord Kirkwood said, it felt as though good progress had been made. On the specific points about a Minister for Financial Health and about co-ordination, the Government has not taken a view on those things. I think those are questions for Ministers.

**The Chairman:** When we have Ministers before us later on, we can press them on those points.

**Q36 Bishop of Birmingham:** May I ask about the broader area? We are near the end of our time, so thank you very much for all your answers in this intense sitting.

**Neil Couling:** It is a dangerous moment.

**Bishop of Birmingham:** It is not that broad. On the whole area of financial technology, the Government said, as long ago as September, that they wanted to lead the world in financial technology. There are two questions. First, what is the approach of both your departments to the use of financial technology in this area of financial exclusion and inclusion? Secondly, as this spreads out, as it surely will, how can we ensure that it does not inhibit further inclusion in relation to some of the policies, which we have talked about already, that are less digital at the moment?

**Gwyneth Nurse:** Perhaps I can make some overarching comments and Neil can come in on more of the specifics. You are right about the Treasury agenda, the Government's agenda; the Chancellor has been very clear that we want the UK to be the centre of excellence on fintech. The strategy that we have adopted is very much focused on, I guess, increasing competition in financial services, using innovative and disruptive technologies to put pressure on the incumbents to achieve better outcomes for consumers.

It is interesting that existing players are innovating and that new entrants are trying to disrupt them. We have new challenger banks, and more of them are in the pipeline. Some challenger banks want to do business only through online methods, and we have waiting lists of people who want to use those services. It is interesting, in relation to the inclusion agenda, that a segment of the population, particularly the younger part, might prefer to do business on their mobile phones rather than going anywhere, speaking to anybody or

even making a phone call. It is all done by way of an app, and they are facilitating that.

The incumbents, the existing sector, are innovating to make access to banking easier. I am interested in a programme, Barclays Digital Eagles, that one bank is running that aims to improve people's confidence in using digital channels, whether or not you are a Barclays customer. There is something online, and you can also do something face to face, so they are trying to cater for lots of different people. Nationwide is out there with a new video advice service whereby you can go into one branch and if nobody is available to help you there you can be video-linked to a branch somewhere else where somebody has time to see you. It is really interesting: we are on the cusp of lots of changes to make things easier for people.

I talked earlier about the application programming interfaces. That is a technical term, but it means in effect that the banks together will open up their systems to fintech firms, which can come in and help people to look across the whole of their finances and at their budgeting to see what is going in and what is coming out. A lot of innovative firms are very keen to get into that space, but first we need to set a standard so that they can plug into each person in the same way rather than have multiple different ways of doing so.

**Bishop of Birmingham:** This is the open banking standard.

**Gwyneth Nurse:** Yes, the open banking standard. There is a lot of activity, and it is a really exciting time at the moment.

**Neil Couling:** I am delivering the biggest change programme in government at the moment. There is a tension between wanting to do that safely and embracing what is new in the market. I have what I might describe—perhaps others would not—as a very small toe in the water. I am very mindful that, over the next five years, I have to pull 7 million people on to universal credit. I want to do that safely. I do not want their payments to be interrupted. I do not want to add to the sum of human misery through what we are doing. I want it to go well, because if it goes well we will get more people into work and the policy will be a success.

We are looking at this, because certainly some of the stuff on blockchain looks interesting. I am not sure whether it is the answer for us as a department, which is essentially a big thing, to use to pay millions of people, but it might be. We have a little proof of concept running on that. Ministers announced it the other day. I have been trying to tell people that it is a proof of concept. It is very much the universal credit approach of testing and learning and of taking a look at it, not a presumption that this is the direction in which we will go. Quite frankly, I have my hands full at the moment in trying to deliver universal credit. I have the joy of the Public Accounts Committee in a couple of weeks, which I am sure will encourage me to enjoy delivering it.

**Lord Kirkwood of Kirkhope:** It is very compelling television at the weekend. It is much better than "Strictly Come Dancing".

**Neil Couling:** I am pleased that I at least make your weekends, Lord Kirkwood.

**Lord Kirkwood of Kirkhope:** I do watch it.

**Neil Couling:** Seriously, there is potential here. I am also mindful that our financial services industry is one of the competitive advantages that we have over the rest of the world, so why would we not want to get involved? As I say, we are getting involved. It is very early days. I think there are about eight people on the trial at the moment, so the numbers are tiny, but we are taking a look at it. If the technology proves to be something that we could exploit, we will exploit it, but we have not made any strategic decisions yet.

**Lord Empey:** I have a quick supplementary on a related matter. Because different bits and pieces of social security are becoming devolved in different parts of the UK, where is the software to back it up? If you are running different regimes in different places, some things are universal throughout the UK but is the software supportable any longer? The stuff we had was old, and if we are now moving away from the GB mainland—we always had a policy of parity—and Scotland is now coming into the picture, where is the software to support all this?

**Neil Couling:** We are mindful that we will have to run different instances of the service in Northern Ireland—although less so in software terms—particularly for the mitigations in the welfare reform agreement there, and in Scotland for the flexibilities. The two Governments are refining their policies exactly. In effect, they will come to us and say, “These are our requirements for running it in Scotland and in Northern Ireland”. We will need a period of time in which to write that software and make sure that it works not just for Scotland and Northern Ireland but for the rest of Great Britain. That is why I said earlier, I think in answer to Lord Kirkwood, that we are in partnership and that we must stay in step.

**Lord Empey:** Who is going to pay for it?

**Neil Couling:** The agreements are that the devolved Governments will pay for the—

**Lord Empey:** Variations.

**Neil Couling:** —changes that they want. However, we are a Government of the United Kingdom, so where we are doing things where a tiny tweak to how we set systems up is doable along the way, we will do that at no cost. I have also said that to Scotland and Northern Ireland. Tommy O’Reilly, the chief executive of the Northern Ireland Social Security Agency, sits on our programme board, and we have very good discussions with him in that respect.

**The Chairman:** We are technically at the end of our time, but two colleagues would like to come in with very quick follow-ups. Do you have another five minutes?

**Gwyneth Nurse:** Yes.

**Neil Couling:** Yes. I am sure we will regret it.

**Q37 Lord Haskel:** I will be very quick. The fintech that you describe—the distributed ledgers and everything else—is very effective in handling small amounts. In fact, it is very cheap to handle small amounts. However, the people who need small amounts are the very people who might be excluded. Are you taking any steps to make sure that they are not excluded? For

instance, does the personal budgeting support that you provide include assistance for what we call fintech?

**Neil Couling:** The little proof of concept that we are running—we are working with GovCoin, Barclays and a couple of other providers in a little consortium—is looking at whether we could provide payments directly from our systems to people’s mobile phones. They would then use Apple Pay to make purchases and get around the need to have a bank account, but they would be financially included. The trial at the moment involves a bank account that actually makes the payment right away. We are not at the point of having developed systems that allow us to work directly to a mobile phone, but that is the kind of thing that we are looking at.

On the question I was asked earlier about the post office card account—I cannot remember whether it was Viscount Brookeborough or Lord Harrison—I said that there was probably a series of solutions. It is not a one size fits all, with everybody on a mainstream bank account: bang, bang, bang and away we go. It is probably a case of picking up a number of products and including people through the development of technology that works for them. Smart phone usage in this country is rocketing and is continuing to rocket. Surely we can exploit that. I just do not want to run so fast on this that I set something up that collapses while I am trying to do the rather difficult task of getting universal credit in safely and securely.

**Lord Haskel:** But you have to show people how to do it.

**Neil Couling:** Exactly, and we need to talk people through how they might use this kind of capability. That is what we have learned. We ran a payment card trial in Kent recently, and some of the learning from that was that people did not know what product they were getting or how they could exploit it and use it. There is a fair amount of coaching to do—I do not want to sound patronising—such as how to exploit the stuff they already have on their phones. There is a whole job there. This takes us back to the point about education, although I cannot remember who raised that now. This is a big live issue for the country.

**Lord Kirkwood of Kirkhope:** I have a general, quick question. How do we nudge this subject more into political salience? It is not a question that I should address to public officials, because it is for us to do that. We have a new Government—you will be writing the new folders for them—and the concrete sets over a period, but we now have an opportunity. Are there any obvious nudges that we as a Committee could give to make this a more highly significant public area for consideration by Ministers during the next six months?

**Gwyneth Nurse:** I guess that by forming this Committee and having these discussions you are already putting a spotlight on this area. Certainly, our existing Economic Secretary would say that she is very seized of the issue and keen on the recommendations of the Financial Inclusion Commission, which we have discussed today, many of which are already in train. I think she would say that the record is actually quite good and that we are making some really good progress in this area. I think that would be her answer.

**Neil Couling:** Dare I say that this pretty much cuts across the political spectrum? I have never yet met a Minister who is in favour of greater financial exclusion. I would not put it beyond the bounds of possibility—who knows?—

but I have never met anybody like that. When we think about citizenship in this country and what it means to live and work in the modern world, financial inclusion has to be part of that, as does digital inclusion. Officials can try to encourage the development of the way in which we deliver services that enable some of that to happen, and that is what we are about with universal credit. I know that others across government are trying to do that in their space, too.

**The Chairman:** Thank you both very much. It has been a very rich and wide-ranging session and we are very grateful to you. I just have two points to make, if I may. I think that one or two supplementary follow-ups will arise from this session. Is it all right if the secretariat writes to your departments with follow-up points that we have not been able to cover today?

**Gwyneth Nurse:** Yes.

**Neil Couling:** Of course.

**The Chairman:** Neil, you said something, when we were talking about measuring the impact of universal credit on financial inclusion, about working on a list of correlations from the data? Would you be able to provide us with a note on that?

**Neil Couling:** I could certainly give you a note on what I think might be correlating bits of evidence. I was trying to say that I do not think it is possible for me to isolate the impact of universal credit on financial inclusion, but by looking at some of the stuff I have already published and some of the stuff we are planning to publish, I could certainly do that for you.

**The Chairman:** We would find that extremely helpful. Thank you again for your time. This has been very helpful.

Department for Work & Pensions, Department for Education and HM Treasury – Oral evidence (QQ 231-250)

**Department for Work & Pensions, Department for Education and HM Treasury – Oral evidence (QQ 231-250)**

[Transcript for Lord Freud et al. to be found under Department for Education](#)

Disability Rights UK and Age UK – Oral evidence (QQ 61-68)

## **Disability Rights UK and Age UK – Oral evidence (QQ 61-68)**

[Transcript to be found under Age UK](#)



## **Equality and Human Rights Commission – Written evidence (FEX0089)**

### **Executive summary**

1. The Equality and Human Rights Commission (the Commission) welcomes this opportunity to contribute to the inquiry of the Lords Financial Exclusion Committee. Our submission focusses on the financial exclusion faced by disabled people.

2. We consider the financial exclusion of disabled people to include not only the barriers that prevent disabled people from accessing mainstream financial services or undertaking financial transactions, but also those barriers which prevent disabled people from having equal financial resources which allow them to participate equally in society. Based on this definition, the barriers disabled people face to financial inclusion include being unable to find a job; being paid less; the impact of welfare changes; additional costs associated with their impairment; and barriers to accessing financial products and services.

3. As the body tasked by statute with enforcing the Equality Act 2010 and encouraging compliance with human rights instruments, we have set out the relevance of these standards for the financial exclusion of disabled people.

4. Parliament has an important role to play in scrutinising the UK's compliance with its obligations under international human rights standards. We would encourage the Committee to explore and make recommendations on the extent to which the Government is complying with its human rights obligations in this respect, and how it can secure better compliance in the future.

### **Government's obligations when making policy affecting disabled people**

5. The UN Convention on the Rights of Persons with Disabilities (CRPD)<sup>210</sup> sets out what human rights mean specifically for disabled people. By ratifying CRPD in 2009, the UK took on obligations which are binding under international law to ensure that disabled people enjoy those rights in practice.

6. The right of disabled people to control their own financial affairs is particularly important, because it is key to autonomy and independence. Article 12 of the CRPD provides that, "States Parties shall take all appropriate and effective measures to ensure the equal right of persons with disabilities to own or inherit property, to control their own financial affairs and to have equal access to bank loans, mortgages and other forms of financial credit, and shall ensure that persons with disabilities are not arbitrarily deprived of their property".

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<sup>210</sup> UN CRPD, Available at: <http://www.un.org/disabilities/convention/conventionfull.shtml>

7. A number of other Articles are relevant to disabled people's financial inclusion. 'Accessibility' is a General Principle in the Convention, and Article 9 requires the Government to take appropriate measures to ensure that disabled people have access to "Information, communications and other services, including electronic services and emergency services". Article 5 sets out the right to equality and non-discrimination and Article 21 enshrines the right to freedom of expression and access to information.

8. Section 149 of the Equality Act 2010 imposes a public sector equality duty (PSED), requiring public bodies, including Government Departments and Ministers, to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations when exercising all of their functions. In developing proposals which have an impact on the financial exclusion of disabled people, the Government should ensure it complies with this duty.

### **Definitions and impact of financial exclusion**

9. Financial exclusion can refer to the barriers that prevent disabled people from having equal financial resources to participate equally in society, and accumulate wealth and assets. It may also refer to measures which prevent disabled people from accessing mainstream financial services or undertaking financial transactions, such as opening a bank account or filing VAT returns. Being financially included also means having enough money to build a financial safety net, and not having to rely on high interest loans and credit.

10. Disabled people experience higher levels of socio-economic disadvantage and poverty, before taking into consideration the additional costs associated with having a disability. Thirty per cent of people in families containing a disabled person are living in poverty.<sup>211</sup> Families with at least one disabled person are more likely to live in both relative<sup>212</sup> and absolute<sup>213</sup> poverty than families without.<sup>214</sup> In 2014/15, the figures were 18 per cent and 20 per cent respectively for disabled families, compared with 13 per cent and 14 per cent for families with no disabled person. A recent IFS report<sup>215</sup> evidenced the limitations of income poverty alone in capturing which households have the lowest current

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<sup>211</sup> <http://www.jrf.org.uk/data/percentage-people-poverty-disability-status>. Source : households below average income, (HBAI) DWP , UK data. November 2015.

<sup>212</sup> people living in households with income below 60% of median household income. The median is the point at which half of households have a lower income, and half have a higher income.

<sup>213</sup> people living in households with income below 60% of the median in some base year, (DWP HBAI use 2010/11) uprated for (RPI) inflation.

<sup>214</sup> Department for Work and Pensions (2016) Households below average income: an analysis of the income distribution 1994/95 to 2014/15. Department for Work and Pensions.

<https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201415>

<sup>215</sup> Belfield, C., Cribb, J., Hood, A. and Joyce, R. (2016) Living Standards, Poverty and Inequality in the UK: 2016. Institute for Fiscal Studies. <http://www.ifs.org.uk/publications/8371>

living standards. It found that even disabled households above the poverty line were still more likely than the average to be materially deprived.<sup>216</sup>

11. For disabled people, financial exclusion presents itself not only as having less money but also owning fewer assets. The longer someone experiences disability the greater the wealth and asset gap. Disabled people are unable to save and accumulate assets to anything like the extent of their non-disabled peers because of lower long term income and extra costs associated with disability. In 2008/10 disabled people were living in households where one study estimated the total household wealth (i.e. income, assets and savings) was on average £184,000 less than for non-disabled people (after controlling for differences in age, marital status and dependent children)<sup>217</sup>. This gap is likely to be larger now because this figure does not take into account subsequent house price inflation because disabled people are much less likely to be owner-occupiers.

### **The employment gap for disabled people**

12. The employment rate of disabled people is critical to financial inclusion and a source of financial exclusion. Disabled people in England in 2013 had an employment rate of 48.4 per cent. In the first quarter of 2016, 46.9 per cent of disabled people in the UK aged 16-64 were in employment, compared with 79.9 per cent of non-disabled people, a disability employment gap of 33.1per cent.<sup>218</sup> Employee rates vary by type of impairment. In the UK men with a mental disability experience particularly low rates of about 20 to 23 per cent with no change in the gap from 1997 to 2014. ONS data by impairment type found employment rates were lowest for people with severe learning difficulties, mental illnesses or nervous disorders, and depression or anxiety.<sup>219</sup>

13. Employers often do not understand the duty under the Equality Act 2010 to make reasonable adjustments for disabled people, in many cases believing it to be discretionary. A quarter of disability discrimination-related enquiries to the Equality Advisory and Support Service (EASS) concern failures to make reasonable adjustments in employment and service-provision. The Commission

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<sup>216</sup> The material deprivation rate for families with children in income poverty that contained a disabled member was 59% compared with 36% where no one in the family was disabled. The material deprivation rate for families who were not in income poverty and had a disabled member was 25%, compared with 9% where no family member was disabled. The average material deprivation rate overall was 20%.

<sup>217</sup>Centre for the Analysis of Social Exclusion (CASE), (April 2014) Abigail McKnight, Disabled People's Financial Histories: Uncovering the disability wealth-penalty..

<sup>218</sup> House of Commons Library Briefing Paper No.7540 (Clarke, 2016): Key Statistics on People with Disabilities in Employment. This uses LFS 2016 data covering the UK,

<sup>219</sup> ONS (2011) People with Disabilities in the Labour Market, UK

has made a number of recommendations for the Government to reduce the employment gap.<sup>220</sup>

- The Secretary of State must report on progress in reducing the disability employment gap by impairment type, and on steps it plans to take if progress is insufficient.
- The Government should encourage organisations in the private and public sectors to set their own disability employment targets.
- The Government should review its policy of imposing fees for Employment Tribunal applications, which deters disabled people from claiming against employers who may not be fulfilling their duty to make reasonable adjustments.

### **The pay gap for disabled people**

14. Incomes in the UK are lower for disabled people. In the fourth quarter of 2014, average gross hourly pay for disabled employees across Great Britain was 14.8 per cent lower than that of non-disabled employees.<sup>221</sup> Average pay for disabled people has declined in England, Scotland and Wales from 2008 to 2013, although only significantly in England.

15. Working part-time is the top factor driving pay gaps for all disabled groups, followed by over-representation in lower-paid occupations, particularly for people with mental health conditions and lack of qualifications equivalent to NVQ level 4 or higher. Discrimination in recruitment and failure to make reasonable adjustments account for a substantial proportion of the disability pay gap.<sup>222</sup>

16. Forthcoming research from the Equality and Human Rights Commission will explore pay differences between disabled and non-disabled workers in the UK.<sup>223</sup>

### **Additional costs faced by disabled people**

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<sup>220</sup> EHRC (15 June 2016) Response to a call for written evidence from the Equality and Human Rights Commission: Work and Pensions Committee Disability Employment Gap Inquiry. Available [here](#)

<sup>221</sup> Trades Union Congress (2016) *Disability and Employment*. 8-10  
<https://www.tuc.org.uk/sites/default/files/Disability%20and%20employment.pdf>

<sup>222</sup> The Disability Employment Puzzle: A Field Experiment on Employer Hiring Behaviour Mason Ameri, Lisa Schur, Meera Adya, Scott Bentley, Patrick McKay, Douglas Kruse National Bureau of Economic Research NBER Working Paper No. 21560, September 2015. Also see note 8 on reasonable adjustments.

<sup>223</sup> The research compares pay of disabled men to pay of non-disabled men, and pay of disabled women to pay of non-disabled women, to avoid including the effects of gender

17. Disabled people have additional costs related to their impairments, estimated to be on average £550 a month,<sup>224</sup> which restrict their choices and reduce standards of living. Almost all disabled people report higher transport costs, most report difficulties affording insurance and many pay more for housing, fuel and energy.<sup>225</sup> Disabled people are less likely to be able to cope with financial shocks and more likely to have to turn to payday loans to help with everyday living.<sup>226</sup>

18. Research indicates that as many as three million disabled people feel that they are either charged too much for insurance or denied cover.<sup>227</sup> This may impact on their ability to live independently and to travel. Using actuarial data, which insurance companies use to estimate the probability of an insurance claim being filed, is not unlawful discrimination under the Equality Act.<sup>228</sup> The Commission recommends that the Government should review how the insurance market is working for disabled people, considering how better quality actuarial data on disabled people can be used<sup>229</sup>, and how the industry can support a wider range of insurance products for disabled people.

### **The impact of welfare reform on financial exclusion for disabled people**

19. An assessment by the Equality and Human Rights Commission of the extent that the UK Government's 2010 Spending Review complied with the requirements of the Public Sector Equality Duty found weaknesses in the decision making process and that the impact of decisions, including on welfare and public services affecting disabled people, was not always fully assessed. The Commission carried out a programme of follow-up work with HM Treasury to improve the way that equality evidence is collected and used across government to make budget decisions.

20. In 2015, EHRC commissioned the development of Cumulative Impact Assessment (CIA) modelling methodology and found that such assessments are both feasible and practicable. The research used the modelling developed to assess the cumulative impact on income of tax and welfare reforms 2010 -15. The Commission has continued to call for government to carry out a CIA to make the combined effect of policies clear so that mitigating steps can be put in place. In the absence of this, the Commission will carry out a further project:

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<sup>224</sup> Scope. (2014). Priced Out, <https://www.scope.org.uk/Scope/media/Documents/Publication%20Directory/Extra-Costs-Report.pdf?ext=.pdf>

<sup>225</sup> Extra Costs Commission, 2015

<sup>226</sup> Bawn, 2014

<sup>227</sup> Extra Costs Commission, 2015

<sup>228</sup> Equality Act 2010 Schedule 3 para 21.

<sup>229</sup> For instance, see the Financial Conduct Authority (September 2016) Feedback Statement on Big Data. It outlines both risks and opportunities. Available [here](#)

- To assess the cumulative impact of reforms to tax, welfare and public spending on the right to an adequate standard of living of groups protected under the Equality Act 2010 - to establish if some are disproportionately affected.
- To assess the effectiveness of welfare to work programmes by understanding the opportunities and challenges individuals face in seeking and staying in work, and identifying approaches which are successful or not.
- To highlight where improvements are needed to policy, programmes and practices to alleviate entrenched inequality and disadvantage and support access to sustainable work.

The Commission notes that the Committee on the Rights of Disabled People has just published its inquiry findings into the Government's social security changes and called for a cumulative impact assessment of those measures.<sup>230</sup>

### **Barriers to accessing financial products and services**

21. Disabled people often face additional challenges accessing services or products provided by their bank or building society. This can include difficulties with physical access to a building, transportation, or the way information is communicated. For example, changes to terms and conditions or notice of costs incurred from an overdraft will often be communicated online or in a letter. Financial literacy is often lower amongst disabled people and those with learning disabilities can face particular barriers to accessing banking services, including problems producing the right identification, lack of accessible information, and lack of assistance at branches, for example, help with PIN numbers.<sup>231</sup>

22. Disabled people are less likely than non-disabled people to have received professional financial advice. Research shows that 79 per cent of disabled people have not received any professional advice in the previous five years, compared to 70 per cent of non-disabled people.<sup>232</sup> The Committee should explore whether enough providers offer advice on structuring of disability related finance, for example, how to maximise direct payment income.

23. The Financial Conduct Authority's research on vulnerable customers, found that bank staff may have no understanding of the Mental Capacity Act 2005 or the role of deputies and attorneys.

24. A significant minority of disabled people cannot access their bank at all. Only 64 per cent of disabled people have access to the internet, compared to 86

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<sup>230</sup> Available at: <http://www.ohchr.org/EN/HRBodies/CRPD/Pages/InquiryProcedure.aspx>

<sup>231</sup> DOSH Financial Advocacy (2014), Access to banking for people with a learning disability, Beckford, M

<sup>232</sup> Wealth and Assets Survey, analysed in Ipsos MORI (2013) Disabled People and Financial Wellbeing

per cent of non-disabled people<sup>233</sup>, and almost half (48 per cent) of disabled people said they would prefer to receive advice in person, rather than over the telephone or via email. Yet one in eight disabled people (12 per cent) had found it difficult to physically access their bank or building society in the last 12 months.<sup>234</sup> Online access and support is not always a suitable alternative to visiting the bank. Banks and building societies should consult with disabled customers and consider suitable ways to support them to manage their money, for example, home visits.

25. Technology can have a significant role to play in financial inclusion by breaking down communication barriers for those with accessibility issues. However, it can also create barriers. The Extra Costs Commission has said that digital exclusion is a significant barrier to disabled people engaging effectively in some markets.<sup>235</sup>

26. The British Banking Association Vulnerability Task Force recommends better publicising of services for disabled customers, and highlights the importance of ongoing evaluation and monitoring especially as firms do not often explore whether there is a different course of action which would be more helpful to the customer. Firms should look at how their policies and procedures impact on disabled customers to ensure they are providing services on an equal basis, and to identify improvements where necessary.<sup>236</sup>

27. The Equality and Human Rights Commission guidance on the Equality Act 2010 underlines the central importance of the duty to make reasonable adjustments when communicating with customers.<sup>237</sup> To this end, the Commission has had to exercise its legal enforcement powers on a number of occasions in respect of discriminatory service by several financial institutions to disabled customers. The detail of these cases is confidential. However, they do highlight the recurrent failure of the financial industry to make reasonable adjustments.

28. The European Union is currently considering a new “European Accessibility Act”, which would set accessibility standards in banking and related areas, aligned with the requirements of Article 9 of the UN Convention on the Rights of Persons with Disability. The Act consciously sets out to influence markets and reduce the extra costs on disabled people, as well as setting accessibility standards for products and services, including computers and operating systems,

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<sup>233</sup> Ipsos Mori (2013) Disabled People and Financial Wellbeing, available [here](#) [accessed 10 August 2016].

<sup>234</sup> *ibid*

<sup>235</sup> Extra Costs Commission, Driving Down the Extra Costs Disabled People Face (June 2015)

<sup>236</sup> The British Banking Association Vulnerability Task Force, 2016

<sup>237</sup> Financial Conduct Authority (February 2015), Occasional Paper No 8 – Vulnerable Customers. Available [here](#). [Accessed 4 November 2016]

ATMs, ticketing and check-in machines, smartphones and banking services. The Commission recommends that the Government should consider implementing this legislation when it comes into force, whether or not the UK has left the EU at that time, and ensure that the standards set out in the Act are retained once we leave the EU.



## **About the Equality and Human Rights Commission**

The Equality and Human Rights Commission is a statutory body established under the Equality Act 2006. It operates independently to encourage equality and diversity, eliminate unlawful discrimination, and protect and promote human rights. It contributes to making and keeping Britain a fair society in which everyone, regardless of background, has an equal opportunity to fulfil their potential. The Commission enforces equality legislation on age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. It encourages compliance with the Human Rights Act 1998 and is accredited by the UN as an 'A status' National Human Rights Institution. Find out more about the Commission's work at: [www.equalityhumanrights.com](http://www.equalityhumanrights.com)

*16 November 2016*

## **Experian – Written evidence (FEX0078)**

### **Introduction**

Experian warmly welcomes the opportunity to submit written evidence to the House of Lords Select Committee on Financial Exclusion.

Experian is the leading global information services company, providing data and analytical tools to our clients around the world. We help businesses to manage credit risk, prevent fraud, target marketing offers and automate decision making. We also help people to check their credit report and credit score, and protect against identity theft.

We employ approximately 17,000 people in 37 countries and our corporate headquarters are in Dublin, Ireland, with operational headquarters in Nottingham, UK; California, US; and São Paulo, Brazil. Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. In 2015 and 2016 we were named by Forbes magazine as one of the 'World's Most Innovative Companies'.

Our credit report and scoring services enable us to identify and advise where and when financial exclusion becomes a significant risk. For example, Experian, in partnership with Big Issue Invest (the social investment arm of The Big Issue Group) have been working together since 2012 to develop The Rental Exchange, to tackle the financial, digital and social exclusion challenges faced by rental tenants in the UK compared to homeowners.

The Rental Exchange incorporates a tenant's payment history in their credit file in a secure and compliant way, with no cost to either the housing provider or tenant. By observing rental payment data in the same way we view mortgage payment data, we can unlock a range of benefits for tenants, housing providers and credit providers.

### **Response to call for evidence**

#### ***1. Definitions and causes of financial exclusion***

- *Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?*
- *Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how,*

*does financial exclusion affect those living in isolated or remote communities?*

- *What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?*
- *Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?*

1.1. Financial Exclusion is first and foremost defined by a lack of access to financial services, even those as basic as a current account. Every consumer is different so the causes of this problem are numerous and complex but there are a number of common factors which limit a person's access to financial services.

1.2. Income is clearly an underlying contributor to financial exclusion whereby consumers are not able to afford the services they require. The issue of bank branch closures has also been a recurring theme, particularly with recent press attention. This may be compounded if users have restricted mobility which is a growing concern with an ageing population.

1.3. Using our own proprietary sources and modelling, Experian is able to develop a clear picture of the UK in terms of debt, poverty and financial exclusion. A key input for this modelling is Mosaic Public Sector, a version of Experian's consumer classification but designed for use in the Public Sector. In the past, we have used this information to highlight specific regions in the UK which are most likely to contain households at risk of financial exclusion. We are more than willing to work with the Committee in this space to assess those parts of the UK most at risk from financial exclusion, develop remedies and help target interventions.

1.4. Additionally, our previously mentioned work with Big Issue Invest highlighted a number of interesting considerations about how financial exclusion can affect different groups; in this case the split between tenants and homeowners.

- 1.5. Research carried out in 2009/10 by Big Issue Invest supported by Friends Provident Foundation and the Joseph Rowntree Foundation revealed similar levels of credit applications between tenants and homeowners. However, in general, tenants are twice as likely to be declined as homeowners, and despite credit screening are twice as likely to default.
- 1.6. This makes lenders wary of the tenant market, yet interested in the potential of new data to improve their credit assessment process for tenants. Adding in social housing rent-payment data to an industry-standard, credit scoring model developed by Experian resulted in a significant improvement in the predictive power of this scorecard for the thin and empty file population. The analysis also found that rent-payment data sharing would significantly improve tenants' ability to pass electronic identity authentication tests, which are routinely used to access financial and other services.
- 1.7. Recent analysis based on the Experian Rental Exchange database validates the original research thesis and demonstrates the following benefits to tenants:
  - Electronic identification – test data shows an increase from 39 per cent to 84 per cent in digital authentication rates for social tenants when rent data is included in credit files
  - Building a positive payment performance history – in over 70 per cent of cases, tenants with no significant arrears see a positive impact to their credit score

## 2. Financial education and capability

- *Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?*

- *How can financial literacy and capability be maintained and developed over the course of a person's lifetime?*

2.1 Effective financial education is crucial in tackling financial exclusion. We need to be mindful of varying consumer needs – for example, young people face different challenges to old people – and tailor our approach accordingly.

2.2 Experian supports the work of charities in this space, such as Young Enterprise, who have developed a financial education framework for young people. This provides a starting point for teachers and others involved in financial education to identify key topics that are appropriate and relevant to young people of different ages.

2.3 We support the inclusion of financial education into citizenship classes in schools. In order to maximise the impact of these changes, we need to make sure that those delivering the education are well trained and have access to the latest resources. Research carried out by the *Money Advice Service* has shown by the age of seven children have developed their attitudes and values towards money, so intervention at a younger age also needs to be considered.

2.4 We have done a lot of work in this space, including through a partnership with the *Personal Finance Education Group* (pfeg), to ensure that children develop a better understanding of money at a young age through the creation of centres of excellence schools around the country. In 2012 Experian also launched a free, online financial education resource for teachers and pupils called Values, Money & Me which many schools are now using to help deliver money lessons in a fun and engaging way.

2.5 Outside of the education system, the private sector is playing an increasing role in helping adults to understand their personal finances. Much of this has come through technological innovations, giving consumers access to banking services on their mobile devices and online.

2.6 Experian has run a wide-ranging consumer education programme for the last twenty years to help people understand credit reporting and use that knowledge to better manage their borrowing, develop stronger credit histories and qualify for better deals. Developing a credit profile also helps people pass online identity checks as many of these now are powered by credit history information.

### 3. Addressing financial exclusion

- *What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?*
- *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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?*

3.1. Encouraging people to take responsibility for their own financial affairs is important but access to services and information is a precursor to this. Early intervention in schools, as described above, is an effective way of ensuring that generations to come are aware of financial services and do not suffer from avoidable financial difficulties. This is being achieved through a successful partnership between government, charity and the private sector.

3.2. A greater, and arguably more pressing, need is to address those in the adult population already suffering from financial exclusion.

### 4. Accessing affordable credit

- *What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans – on those facing financial*

*exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?*

4.1 We broadly agree with regulatory steps to cap payday loans. Aside from the additional debt burden associated with these loans, our experience suggests that many lenders view payday loans as a sign that an individual's finances are under pressure and are likely to make their lending decisions on this basis. This is a matter for the lenders themselves but we welcome any steps which have a positive impact on consumers' credit report.

4.2 Ensuring that consumers have access to affordable credit can be achieved, at least in part, by ensuring they are fully aware of the factors which affect their credit score. As well as our work in education, Experian provides free advice and online resources to all of our customers to help them improve and manage their credit score. We would welcome further cooperation with Government in this specific area to raise awareness of the factors affecting credit scores and the steps people can take to increase their access to affordable credit.

4.3 In 2016 Experian launched a new free online price-comparison service CreditMatcher that gives everyone free ongoing access to their Experian Credit Score and then helps them use it to get better deals on cards, loans and mortgages. The service is designed to help people find credit products they are likely to be accepted for that can save them money.

## 5. Government policy and regulation

- *How effective has Government policy been in reducing and preventing financial exclusion? Does the Government have a leadership role to play in addressing exclusion?*
- *What has been the impact of recent welfare reforms on financial exclusion?*
- *How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction*

*between the work of central Government and the work of local and regional authorities, and the devolved administrations?*

- *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? What balance should be struck between regulations and incentives for financial institutions?*

5.1 Government has a role to play, but we believe that any meaningful change must be brought about through a partnership between policymakers, industry and charities – who, as we have already outlined, are already effectively working with the private sector in this space.

5.2 In terms of the impact of governmental reforms, we would welcome the opportunity to work with policymakers to assess the impact of any reforms or proposals. Addressing financial exclusion is a long-term issue and our data and modelling can be used to indicate shifts in poverty, debt or financial exclusion levels.

## 6. *Financial technology (Fintech)*

- *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?*

6.1 FinTech has two advantages: (1) financial management on the go (“mobile”); and (2) automation (“do it for me”). Both these factors lead to simplification of financial tasks. Not only can they be done at a time convenient for the consumer, they can also be automated, for example by displaying aggregated income and expenditure data, mobile alerts and notifications, automation of transfer of information, and greater security (e.g. fingerprinting).

6.2 Financial exclusion can be helped when looking at financial services from a distribution angle – where consumers are and then being there for them – in FinTech’s case, on mobile, and doing so in a way that is highly automated, but personalised and timely. The government can help with encouraging and



regulating FS providers to open up data sources which then facilitate automation and information exchange. This will enable FinTech developers and other FS providers to come up with needs-based services that help consumers manage finances in a way that's convenient and understandable to them.

*15 September 2016*

Fair Finance, Association of British Credit Unions Limited (ABCUL) and British Bankers' Association – Oral evidence (QQ 150-158)

**Fair Finance, Association of British Credit Unions Limited (ABCUL) and British Bankers' Association – Oral evidence (QQ 150-158)**

[Transcript to be found under Association of British Credit Unions Limited \(ABCUL\)](#)

## **Fair for You Enterprise CIC – Written evidence (FEX0004)**

### **House of Lords Select Committee on Financial Exclusion – Call for Evidence**

**Submission by:** Fair for You Enterprise CIC and Fair for You Ltd (Registered Charity)

- 1 Background: Fair for You Ltd is a registered charity, wholly owning Fair for You Enterprise CIC which holds a full FCA lending licence. It started trading in December 2015, and offers low cost loans (average value £300) to lower income households to buy essential items for the home (and baby), from its 'digital high street' - [www.fairforyou.co.uk](http://www.fairforyou.co.uk), thus challenging the highly-criticised Rent to Own sector. It charges interest at rates comparable to credit unions, but does not provide cash loans. It delivers to the whole of the UK.
- 2 We do not feel able or qualified to answer all of the questions that you have posed, but we do have two specific elements of feedback for you.
- 3 You asked a specific question about the availability of affordable credit post the introduction of Welfare Reform. Rather than provide our own response, we undertook a text survey of 300 randomly-selected customers, and asked the question: "Has affordable credit become more difficult to obtain since the implementation of Welfare Reform?" 82 replied. Nearly ¾ said it had - 60 said YES (73%), 22 (27%) said NO.
- 4 Financial exclusion is the lack of access to financial services that meet their needs and provide them with the tools to maintain financial wellbeing in their household.

### **From listening to our customer focus groups prior to starting trading, and what we have learnt since we have started lending it is our view that:**

5. As our second Social Impact report (undertaken on our behalf by the Centre for Responsible Credit, and to be published early-September – extracts are included in the Appendix) clearly demonstrates that it is not financial education of the customer that is needed, instead it is the type and range of financial services products and their design that needs addressing.
6. Their research shows that anxiety is created by the available forms of credit. Those with young families, lone parents, and those with disability in the household feel most benefit from having had access to the better credit solution that Fair for You provides; one that is structured to meet their needs.
- 7.1.1 We also see that penal behaviour in credit sector causes several other major issues. The original debt is often significantly increased due to fees and interest, making it harder for the customer to repay. The debt is then written off, so the company takes a tax benefit on the whole amount of the new debt, which often bears no resemblance to the value the customer received. After the tax write off, the company then sells the

whole debt on, for several % of its value. The debt collection company adds on its fees and then pursues the customer for a sum of money that is many times the original value they had.

- 7.1.2 This has two consequences: first, there is a considerable burden being shouldered by low income households, who have become over-indebted, whilst at the same time not benefiting from having enjoyed the goods. Secondly, there is a burden on the taxpayer, with many of the companies operating these systems not being UK-based.
- 7.1.3 As a result, the main beneficiary of these products lie with the credit firms that start with a small loan that was affordable to the customer, and preys on the vulnerability (as highlighted in the FCA Occasional Paper No. 8 on Customer Vulnerability<sup>1</sup>), and where the amount required is often sub £300.

Arising from this, and what we are seeing, we propose the following:

### **RECOMMENDATIONS:**

- 8 Credit products must have high visibility and clear structure, with straightforward terms and pricing to address the needs of the needs of 'vulnerable customers', as defined by the FCA.
- 9 Customer communication must be multi-channel – text, paper or email notifications to suit the customer.
- 10 Products must be flexible to reflect the move to fluctuating income sources in the UK. Few low income households have a single salary on a monthly basis. It is therefore illogical that payment structures and options should be rigidly set. The customer must be able to choose weekly, fortnightly, four weekly or monthly to suit their requirements.
- 11 When customers get into financial difficulty, they should be encouraged and assisted to get back on track, rather than be automatically penalised, and pushed in to further debt.
- 12 There needs to be the removal of, or at the very least, a limit to, penal pricing structures. Most financial services products provided to lower income families generate high levels of income from non-lending sources, such as late fees, arrangement fees, exit fees, change of contract terms, warranties and insurances. Collectively, these often earn equal or higher amounts than the principal lending; this plays upon the customers' vulnerability at the time of taking out the loan.
- 13 We recommend a simple structure that limits the income that could be earned from non-lending services by credit firms, pro rata to their direct lending income via interest.

#### **NOTE**

1. 'A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care'. FCA Occasional Paper No. 8 February 2015.

### **APPENDIX**

Extract from *Social Impact Report* (September 2016), and which is based upon 523 customers who responded to Fair for You's customer satisfaction survey

(sent automatically to all customers once they have been approved for a loan), and from the outcome of 44 phone interviews with customers, undertaken by Centre for Responsible Credit

Benefits identified as arising directly as a result of having a loan from Fair for You:

- 58% were better able to run their home (rising to 67% for lone parents)
- 51% were better able to save money (rising to 63% for lone parents)
- 50% were better able to budget and manage money (rising to 61% for lone parents)
- 45% felt less anxious, stressed or depressed (rising to 61% for lone parents) \* specific reference made to having items that made life easier (such as a washing machine) and that they were relieved to find a source of affordable finance to meet their ongoing needs
- 37% felt they were better able to pay rent, utilities and council tax
- 33% identified that their children's health and wellbeing or opportunities had improved (rising to 51% for lone parents)

### **Case study 1 – Nicola, lone parent in work as a nursery assistant.**

*"I've lived in my house for a while and I've always worked, but when I moved in I had to get everything second hand from friends and family. My cooker and fridge weren't working properly, so I stopped cooking, it had no appeal to me. It affected what we were eating and it was affecting our health. My daughter is a fussy eater and we were living on microwave food. Now I love standing there and cooking a roast meal, I can steam the veg and we're eating more healthily." She also said that having new appliances "makes me feel happier about my home and inviting people in. People can be very judgemental, it's just material stuff but when you work hard it's nice to be able to get items like that. I can't afford to buy items outright but I can spread the cost."*

### **Case study 2 - Kelly has two children in work on a zero-hours contract.**

*Kelly has had three loans from Fair for You, one of which is fully paid back, including making a lump sum payment when she had the money to pay it off early and save interest. She has previously used BrightHouse. She said "During the summer holidays I would just be paying BrightHouse with all of my money, but this summer I've been able to take my kids for trips out to the seaside. I had to cut back on everything before, shopping, everything. My whole life revolved about BrightHouse, my money came in and it went straight out again to BrightHouse. Fair for You is cheaper.*

*I looked at BrightHouse and a washing machine was £600 cheaper at Fair for You. They take the money every two weeks, whereas BrightHouse was weekly, so I know the money is for me every other week and we've been able to spend it on other things.*

### **Cash study 3 - Ashley and her partner have five children and live in council housing.**

*Ashley had previously got appliances from BrightHouse but a fridge freezer and tumble drier from there had broken so she returned them and got new ones from Fair for You. She had asked family for loans to buy previously but they*

*hadn't been able to afford to lend any money. Ashley said "I couldn't pay rent because I was paying more out to BrightHouse so I got into rent arrears. Fair for You take a reasonable amount and you can pay as little or as much as you want. Now I can afford to pay rent and I'm getting back on track with the council."*

*"I only had a problem twice when my money didn't go in. it went in the following day and Fair for You took that payment when I asked them to – it makes me feel great. I've got the cooker, I'm paying it off and it's mine – it's credit that I can pay for."*

*6 September 2016*

## **The Finance Foundation – Written evidence (FEX0079)**

### **Response by the Finance Foundation**

1. The Finance Foundation is an independent think tank that aims to encourage informed debate about financial services, explain what the sector does, and suggest ways it could work more effectively – see <http://www.thefinancefoundation.org.uk/>
2. We have recently conducted detailed quantitative research on how the over 80s manage day to day financial transactions, which will be published at the end of September 2016 in a report titled: "*When I'm 84". Locking the door on the Older Old – the Challenge Facing Britain's Banks*. It will include a Foreword by Christine Farnish OBE. Opinium Research, who conducted the survey-based element of work, has submitted it for a Market Research Society Award in the category Financial Services Research.
3. The report identifies those in later old age (aged 80 and over) as a group that is now at high risk of financial exclusion, arguing that we should 'question the assumption that financial exclusion is primarily about the unbanked or those with very poor financial capabilities. The unique physical and cognitive challenges faced by the older old and their clear requirement for a more traditional way of managing financial transactions now also puts this growing section of the population at risk of financial exclusion as more and more bank branches are being closed down in response to the increased automation of everyday banking tasks'.
4. We have been working closely with Age UK, the FCA (liaising with the team working on the ageing population strategy) and have had conversations with Professor Russel Griggs to inform the work he is doing at the moment to evaluate how the British Bankers' Association protocol on branch closures is operating. Griggs' report is due for publication in October 2016 and is likely to address issues around the risk of financial exclusion among the older old, amongst others.
5. This submission responds to the questions of who experiences financial exclusion, what causes it and whether it affects different sectors of society in different ways. It also includes the list of recommendations for further action that will be published with our report. We have included an annex summarising our research methodology and some key findings, in advance of publication of the full report. If you would find it helpful to see the full report sooner, I would be prepared to give early access to this on a confidential basis, if you would like to contact me.

### **Definitions and Causes of Financial Exclusion**

6. In our report we use one of the conventionally accepted definitions of financial exclusion, namely, the inability, difficulty or reluctance to access

mainstream financial services.<sup>238</sup> We argue that the very old, those aged 80 and over, are at particular risk of financial exclusion, and that this is highly significant given that they are the fastest growing section of the population. Currently numbering just over 3 million, this will increase to 3.5 million by 2020 and a staggering 5 million by 2030, of whom 1 million will be over 90.

7. Unlike other groups, where financial exclusion may be driven by poverty, disadvantage and poor financial capability or indebtedness, the experience of the older old is different. As a group they are vulnerable to exclusion, whatever their background, for the following reasons:

- They do not use either internet or smartphone banking. Our research found only 7% of those aged 80 and over are using internet banking (which tallies with Ofcom's findings that just 11% of those aged 75 plus are doing so).<sup>239</sup> When asked why they don't use the internet for financial matters, three-quarters of non-users said they did not have the internet, and many also raised hypothetical worries over fraud or making mistakes.
- Given these levels of digital exclusion, it is no surprise that we also found that older people are highly dependent on cash for daily purposes, such as paying for small amounts of shopping or reimbursing people who do work/shopping for them. Around half also relied on regular cash withdrawals as their key budgeting tool, using cash as a very simple and tangible method of controlling how much they have to spend.
- Older people place a very high valuation on face to face contact in carrying out transactions. Nearly all of those in our survey who were not using the internet for financial matters said it was because they wanted to deal with people, not machines. A desire to be able to continue to have access to personal contact via physical bank branches was also their most frequently mentioned priority for the future.
- Physical and cognitive changes that are experienced as people age make it difficult for them to adapt to and use technology. Many are fearful of technology and worried about privacy, security and fraud as well as finding it difficult and daunting to use. For instance over a third of our sample of people aged 80 and over said they either never used ATMs to take out cash or avoided them if they could. 4 in 10 cited physical issues to do with capacity to use an ATM, perhaps due to sight problems or stiff fingers and a similar proportion were concerned about doing something wrong or being expected to be too quick. Others have documented the problems that complex security screening and passwords present for the older old when using technology, including phone banking.

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<sup>238</sup> McKillop, D. and Wilson, J. (2007) Financial Exclusion. *Public Money and Management*, 27(1), p. 9.

<sup>239</sup> Ofcom (2015) *Internet use and attitudes*. Metrics Bulletin, p. 9 and p. 11.



- All of these issues make older people far more dependent as a group on the continuation of an effective branch banking network where they can go to get cash, pay bills and conduct other routine banking interactions. They are therefore being disproportionately affected by the continuing contraction of local branches, only partially compensated for by the services offered in Post Offices, which cover some but not all routine banking functions, and which often lack privacy or appropriate facilities.
- Older people are also more likely, particularly as they become more challenged by physical or cognitive change, including dementia, to become dependent on care and help from others, including informal care from family and friends. This can accentuate the risk of financial exclusion if banks and others are not offering appropriate third party access short of full transfer of control via an LPA. Many older people resort in these circumstances to handing over their debit card and PIN where they are not able to access services themselves, exposing themselves and their carers to a range of risks.

8. Our report suggests that these issues are likely to become of increasing importance:

- As life expectancy rises we will in effect have a group of older people who are not just living longer than previous generations, but who are also living for many more years with a limiting illness or disability – current estimates are that men will have around eight and women around ten years of disability at the end of their lives.<sup>240</sup> As a recent Government Office for Science report succinctly puts it, we can expect to see 'a relative shift away from acute illness towards chronic conditions, multi-morbidities, cognitive impairments and long-term frailty'.<sup>241</sup> Moreover, the number of health conditions an older person is likely to have will increase as they get older: for those aged 80-84 it is most common to have two conditions, by the age of 90-94 – one of the key growth areas demographically – five is most common.<sup>242</sup>
- All of these challenges mean that the sector cannot rely on younger cohorts migrating to digital banking as they age. The fact that people currently in their 50s and 60s might be adept at using technology for managing their finances, or with a little extra support could become adept, does not necessarily mean that this will continue into later life in all cases. Older people may at a certain point become less capable at these sorts of tasks and potentially more likely to make mistakes. Many of the carers in our study reported that the person they help was

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<sup>240</sup> Mortimer, J., and Green, M. (2015) *The Health and Care of Older People in England 2015*. Age UK, pp. 11-12.

<sup>241</sup> Government Office for Science (2016) *Future of an Ageing Population*, p.10.

<sup>242</sup> *Ibid*, p. 16

becoming confused or unable to focus (32%) and 12% identified anxiety or depression as being a problem, with nearly one-quarter citing these issues as a reason why they got more involved with giving support.

- Older people are also known to be more vulnerable to scams, fraud or error, particularly online or over the phone, partly because they are deliberately targeted, but also because ageing brings subtle changes in the way information is processed and decisions made. This may actually expose older people to greater risks of serious mistakes or sophisticated fraud when using technology than if they had stuck with conventional transactions methods, based on cash and other more tangible and familiar forms of transfer that they can be more confident and secure in using.
  - Aside from these very important issues around how changes in cognitive functions may affect the ability to use technology safely, many older people, as already discussed, may also have sensory and physical challenges, often combined with illness or frailty. If you are suffering from macular degeneration, are semi-paralysed by a stroke or suffering the side effects of chemotherapy, using self-operated technology – whether ATM, phone or computer – may prove too much of a challenge. And that is before considering whether continued rapid changes in technological interfaces will be something that the older old are able to deal with as cognitive faculties and confidence in doing new things decline.
9. Our report concludes, therefore, that ‘the confluence of radical change in the banking infrastructure with longer periods of multiple health-related disability at the end of people’s lives, combined with older people’s inclination to seek straightforward, safe and familiar ways of doing things and to maintain social, “non-machine” forms of contact, risks creating a significant tranche of people in the very oldest age groups who will, unless new solutions are found, become financially excluded as they age.’

## **Government Policy and Regulation**

10. We agree with comments made at the recent Select Committee hearing on the appropriate policy response required to address financial exclusion, including as it affects those in later old age. Leadership within government and the industry is key, as is age-appropriate design of services. Additionally we would argue that, while there are some business, legal and regulatory incentives for firms to act, at a certain point it has to be recognised that the market is unlikely to provide a full solution. Over the medium term protecting access to a viable and safe physical banking infrastructure for all older people, whatever their challenges, needs to be viewed as a public good:

something that the market does not have sufficient incentive to deliver, but that society overall values and supports. Collective funding is therefore needed to overcome the cost barriers and free-rider issues that mitigate against the industry responding voluntarily.

11. Potential sources of funding might include a dedicated industry levy (with costs potentially passed on, hence becoming a form of cross subsidy to fund the older population's needs) or support from the charitable or public sector, depending on the nature of the service being provided. Whatever the mechanism, funding would need to be identified and justified on a preventative rationale by considering the greater costs of *not* providing an effective banking and payments service to this age group. Where people's capabilities and circumstances in very old age risk excluding them from continuing to carry out daily financial transactions in the future, then just as with other daily functions, they will become fully dependent if they are not enabled to overcome the barriers. From society's point of view that is by far the more costly option.

12. Drawing these strands together our report makes the following recommendations for action:

### **Governance and regulation**

Recommendation 1

**Champions tasked with embedding age proofing in financial services** should be appointed at government, industry and institutional levels to ensure that sustained action to tailor policy development and service delivery to the needs of the older population becomes the norm. This should be supported by **repealing the sector's exemption from age discrimination legislation.**

Recommendation 2

The FCA should be given a stronger role in promoting and supporting age-inclusive products and services, with the **potential for a new statutory duty to promote financial inclusion.**

### **Protection/remodelling of a viable physical infrastructure**

Recommendation 3

The industry should **commit to long-term funding of a national physical banking infrastructure** that includes a face-to-face service for all customers who require it, to replace the continuing loss of bank branches. This should either be via the existing Post Office partner banking service or a similarly inclusive solution giving access to the services of their own bank in a convenient local outlet.

Recommendation 4

The industry should be supported to **develop innovative ways of providing services to older people in their homes**, including a service to deliver cash

by post or as an add-on to other home delivery services and, where required, arranging home visits for specific purposes.

#### Recommendation 5

There should be a national initiative supported by government and the voluntary sector and funded collectively to provide **pop-up banking services within existing day facilities** for those who, due to mobility, frailty or other issues, cannot use mainstream outlets for everyday tasks and need to have a supported environment with specialist assistance.

### **Provision for delegation and support to families**

#### Recommendation 6

The industry and regulator should continue to work to develop **new and better ways for older people who do not yet want to activate a Lasting Power of Attorney to give some powers to trusted carers to help them manage their affairs** without giving up their independence. This should include products that can be tailored to particular needs and reviewed as appropriate.

#### Recommendation 7

Where carers do need to take greater control the industry should ensure that there are **common processes and minimum standards in place** to deliver on this, including making sure that staff have the **training and expertise to support older people and their carers** in identifying options and implementing timely solutions, within a legally supportive set of structures.

#### Recommendation 8

The industry should continue to work with carers and, where appropriate, other authorities to **protect the interests of older consumers where abuse, fraud or declining capabilities are leading to significant risk** or detriment.

### **Age-appropriate design and practice**

#### Recommendation 9

The government and regulator should **consider how further innovations in age-friendly design of products, services and technology might be encouraged**, and work with the industry and other organisations to develop new ideas, provide safe spaces to innovate and leverage intelligent technology to support older people in staying financially included.

#### Recommendation 10

As new physical banking services are developed, older people's need for adapted spaces should be considered and designed for from the start. **All staff involved in service delivery should be equipped to support older people** by communicating effectively, helping them adapt to changes and identifying areas where they may be at risk or need further advice.

## **Annex – Further detail on Finance Foundation Research: “When I’m 84”.**

Our objectives in conducting this research were:

- To identify the challenges faced by people aged 80 and over in managing day to day finances and to include the perspective of those who provide informal care and support to them
- To conduct original research using both qualitative and quantitative methods on the nature and extent of the problems and barriers encountered
- To make recommendations for industry and policy makers on the changes needed to support the older old, including examining how these needs may change over time.

Much research on older people fails to recognise the specific issues that arise in later old age. Older people tend to be defined as a residual group – just all people over a certain age, often retirement age, but sometimes younger. In addition, data collected about older people often emanate from projects covering a wider span of the population using methodologies such as online or phone surveys which are simply not suited to accessing a broad and representative sample of the older old.

Our research seeks to tackle these problems. In the first instance, we focused specifically on those aged 80 and over, recognising that they may face quite distinct issues from the “younger old” (the 65 to 80 year olds) who are often active, reasonably able-bodied and not yet facing significant challenges. Secondly, the quantitative research that forms the core of the work was carried out face to face. Although more challenging than the now ubiquitous phone and electronic survey techniques, we felt this was the best way to guarantee an inclusive sample of the older old.

Uniquely, we also included evidence from informal carers – family members or friends – who support older people in managing their finances. This enabled us to explore a wide spectrum of experiences among the over 80s from those still independently managing their day to day finances right through to those who, as a result of illness or frailty, rely increasingly on family support.

In summary our research combined:

- Qualitative discussions with people aged over 80 and with carers to explore the issues
- Face to face quantitative interviews with 175 people aged 80 and over around the country
- An online survey of 250 informal carers

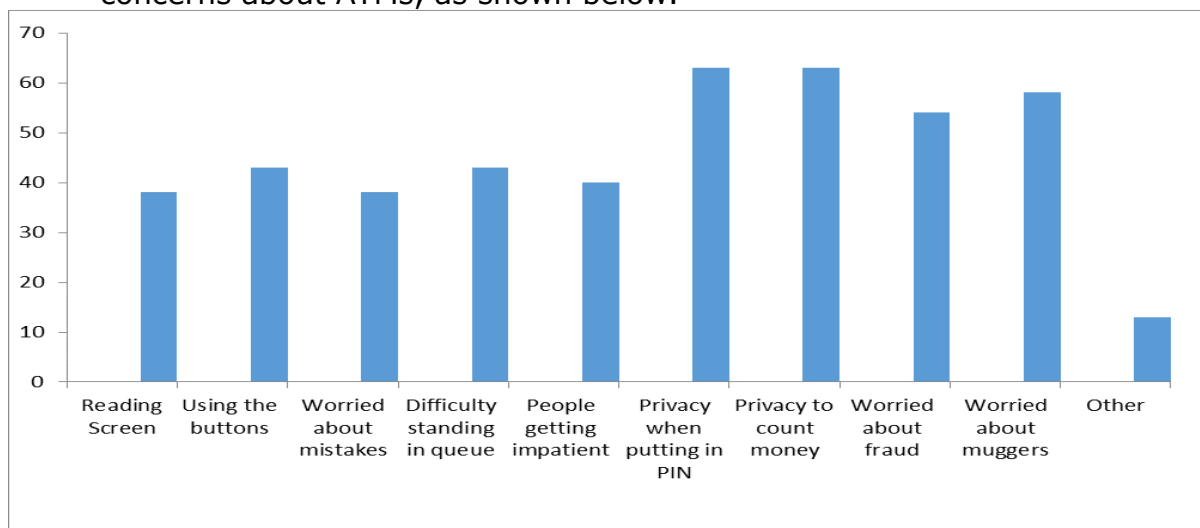
## Key findings

### The very old value the immediacy, familiarity and tangibility of cash

- Older people are highly dependent on cash for daily purposes and for paying people who do work/shopping for them
- Cash is also seen as key to budgeting and keeping track for around half of those responding. Nearly two thirds saw no need to use credit cards or were positively opposed to them

### They are fearful of technology and worried about privacy, security and fraud, as well as finding it daunting and difficult to use

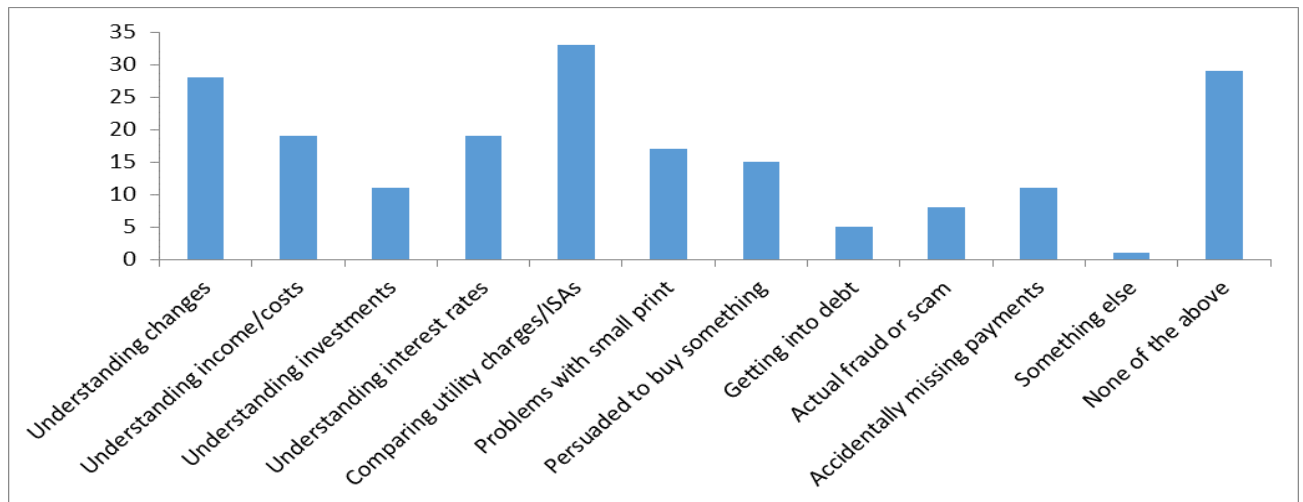
- Over a third never used ATMs or avoided them if they could and the majority of those using them only did so inside banks, with only one in five using them in the street. Older people have a wide variety of concerns about ATMs, as shown below.



- For the 74% who take money out over the counter, worries about privacy when counting money and issues over staff attitudes to elderly people, training and the impact of branch closures were all frequently raised.
- 87% of the older old never use the internet for any type of financial transaction, and those who do use it are generally doing internet shopping – just 7% use internet banking. Reasons for non-use included not having the internet (75%) and a range of hypothetical worries over fraud, making mistakes and an overriding preference for interacting with people.

### Carers get involved as older people become less physically capable, get more confused or experience bereavement

- Support from carers ranges from routine matters such as going to the bank with them or checking insurance quotes, to more hands on involvement such as checking statements, setting up internet payments or writing cheques. Carers report a wide range of challenges faced by the older old.



- Carers find it difficult to get support or expert advice from banks in managing their role, encounter barriers to setting up appropriate third party access arrangements, and worry about older people's vulnerability to fraud, scams and mis-selling.

16 September 2016

## **The Finance & Leasing Association (FLA) – Written evidence (FEX0015)**

### **INTRODUCTION**

1. The Finance & Leasing Association (FLA) is the leading UK trade association for the asset, consumer and motor finance sectors. Our members include banks, subsidiaries of banks and building societies, the finance arms of leading retailers and manufacturing companies, and a range of specialist lenders.
2. FLA members provided £110 billion of credit to UK businesses and households in 2015. Of this, £81 billion was in the form of consumer credit, representing almost one-third of new UK consumer credit. FLA members provided £28.3 billion of motor finance to consumers in 2013 and financed over 80% of all new private car registrations.
3. It is important not to conflate access to financial services with exclusion from financial services. Although the two can be closely and in some cases inextricably linked, they are very different. Access issues may cause or exacerbate financial exclusion or they may simply represent a minor challenge that can be easily overcome, but it is important to recognise that challenges in accessing financial services do not in themselves necessarily indicate the person is excluded.

### **QUESTIONS**

***Q1. 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. We have no particular comment to make on the distinction between financial exclusion and financial inclusion. An individual might be excluded from consumer credit markets for a variety of reasons and this will depend on particular personal circumstances. However, exclusion is not necessarily an inappropriate outcome in every case. For example, it might be entirely inappropriate to lend to someone who is in financial difficulty. In such a case, exclusion from lending product might well be the right course of action.

***Q2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?***

5. This would depend on the nature and extent of the exclusion relative to the financial service being sought. A person living in a remote area might find that they have limited access to the internet which, in turn, limited their ability to search for and compare products to obtain the most suitable or best price. It may also inhibit access to products that are only offered online.



6. Equally, those on lower incomes might find that, although they are not excluded as such, their choice of products is limited either by commercial attitudes to perceived risk or by say a smaller number of providers offering products that meet their particular needs (for example, weekly rather than monthly instalments).

***Q3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem indebtedness play in financial exclusion?***

7. No person has a right to access credit or a right to obtain credit on particular terms. Lending decisions in the consumer credit market will normally be based on the extent to which the credit is affordable to the prospective borrower, including the apparent ability of the borrower to repay that credit in a sustainable fashion and without undue strain on their financial circumstances. Other factors will be taken into consideration such as eligibility criteria and the level of risk that the lender is prepared to tolerate in lending decisions generally but these remain a commercial decision for the individual firm.
8. Different levels of disposable income and different lender risk appetites will influence the choice, cost and availability of consumer credit products. Problem indebtedness is likely to reduce borrowing options and, depending on the individual circumstances, may well prevent access to credit entirely if further borrowing is judged unaffordable to the borrower. Exclusion on such grounds would be entirely appropriate. As the consumer's financial position improves, so their prospects for accessing credit should improve.
9. It is unclear what forms of other exclusion, disadvantage or deprivation the call for evidence has in mind, but other factors might also limit access to credit or types of credit. For example, some products may only be available to homeowners meaning a consumer with no fixed abode may find accessing credit more difficult.

***Q4. Do individuals with disabilities, or those with mental health problems, face particular issues in regards to financial exclusion?***

10. Neither disability nor mental health problems will necessarily exclude consumers from accessing credit though much will depend on the individual circumstances and the extent to which the lender is made aware of them. A lender will want to understand fully how the disability or mental health problem affects the individual's ability to operate the product and interact with the lender before making a decision to enter into a relationship. Where financial difficulties arise at a later date, information can be provided by consumers or mental health professionals on their behalf using mechanisms such as the Money Advice Liaison Group's Debt and Mental Health Evidence form.
11. Either situation may, however, give rise to potential challenges that might make accessing the products more difficult. For example, a disability that does not impair the ability to absorb and understand the information provided

concerning a transaction but does impair the individual's ability to communicate both that understanding and acceptance of those terms may require a more nuanced approach. The existence of either may also make managing relationships more challenging for both creditor and borrower.

12. Of course, where the consumer lacks mental capacity this may well limit access to credit, but again depending on the individual's particular circumstances. Where the disability or mental health problem adversely affects the consumer's ability to perform his or her obligations under a credit agreement that may influence a lender's willingness to enter into a relationship if they cannot readily make any necessary adjustments.

***Q5. Are there appropriate education and advisory services, including schools, for young people and adults? If not how may they be improved?***

13. We have no comment.

***Q6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?***

14. The Committee may wish to consider the work currently being undertaken by the Money Advice Service on promoting financial capability. It is worth stressing that without personal responsibility it is unlikely that either financial literacy or financial capability will in themselves address financial exclusion specifically, or indeed poor borrowing decisions more generally.

***Q7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?***

15. The question might usefully be reframed as asking what role the individual has in contributing to financial inclusion. As noted, financial exclusion might occur for a variety of reasons some of which the individual can or may be able address themselves relatively easily to improve their situation. For example, ensuring that they are on the electoral register and that credit reference files are up to date are simple steps that could mean the difference between being able to access credit and being excluded. With lenders looking at wider financial circumstances and crucially beginning to have access to more detailed financial information, ensuring that bills (not just credit commitments) are paid on time is also a simple step that can have significant benefits.
16. As in any relationship, there must be a degree of balance between the parties and that necessarily means accepting or exercising a degree of personal responsibility. Disabilities and mental health problems might likely be beyond the control of the individual, but that does not prevent the individual from alerting a lender to the existence of such a problem from the outset so that reasonable adjustments can be made where appropriate.

17. Similarly, advice organisations routinely report that consumers in financial difficulty often wait a year or often more before seeking advice but these individuals may never have approached or otherwise engaged with their lender. The effect of non-engagement can be a significant worsening of financial situation which in turn can lead to future, albeit normally transitory, financial exclusion. Again, such an effect is, if not always avoidable, at least capable of mitigation by the individual. It can also have the unfortunate side-effect of delaying financial rehabilitation unnecessarily.

18. Nevertheless, in the main an individual will themselves, and should be, responsible for determining whether to borrow and, if so, on what terms.

***Q8. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?***

19. The consumer credit market is large and diverse, in terms of participants, business models, products offered and areas of society served. The decision to lend or not will be a commercial one but the most likely reasons why consumers may find it difficult to access credit. It will be linked to the level of risk posed by lending to the individual or that the individual's current circumstances mean that they cannot afford the credit concerned. Inevitably there will be consumers who are unable to access credit or unable to access credit on their preferred terms. For some individuals, alternative structures such as credit unions or community based lending might be appropriate.

***Q9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans – on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?***

20. It is unclear what recent changes the call for evidence has in mind other than the capping of the cost of credit payable on payday loans. Although responsibility for regulating consumer credit passed to the Financial Conduct Authority in 2014, this resulted in a more strenuous test for entering the market, and greater and more flexible powers for tackling misconduct. Many of the detailed requirements for dealing with consumers, which have been developed over many years, have remained largely unchanged.

***Q10. How effective has Government policy been in reducing and preventing financial exclusion? Does the Government have a leadership role to play in addressing exclusion?***

21. We have no comment.

***Q11. What has been the impact of recent welfare reforms on financial exclusion?***

22. We have no specific view on welfare reforms. However, we understand that some changes will have had a bearing on disposable income for some consumers and therefore will presumably limit access to credit, most likely on the grounds of affordability. Given that some of the reforms are being phased in, it is currently difficult to gauge their impact at this stage.

***Q12. How effectively are policies on financial exclusion co-ordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of regional authorities, and the devolved administrations?***

23. We have no comment.

***Q13. 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? What balance should be struck between regulations and incentives for financial institutions?***

24. Regulation may influence lenders' willingness to operate in particular parts of the consumer credit market or to lend to particular consumers. Ultimately, however, the decision to lend or not will depend on a variety of factors and will be a commercial decision for the lender concerned.

25. While some alternative consumer credit products and providers may assist with financial exclusion, considerable caution should be applied to adopting or incentivising a different regulatory structure. In part, doing so may give rise to competition considerations depending on the individual facts, but of greater concern is the need to ensure equivalence from a consumer protection standpoint.

***Q14. 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?***

26. We have no comment.

12 September 2016

## **Financial Conduct Authority (FCA) – Written evidence (FEX0083)**

### **Executive Summary**

This submission outlines the FCA's current activities and responsibilities on financial exclusion. We also directly address questions posed in the Committee's Call for Evidence about our work.

- Financial exclusion is a complex topic - one organisation alone cannot tackle all the potential issues. A joined-up approach between all the stakeholders involved in financial services is needed to tackle this issue. We welcome the focus of this Committee as further stimulus to do so.
- The FCA is responsible for making financial services markets work well and regulating the conduct of financial services firms. Both the design of market frameworks and the behaviour of firms in those markets can have an impact on people's access to financial services, and we can and do consider access in those contexts. However, there are other aspects of access and financial inclusion that come under the remit of Government policy rather than market regulation. The FCA's remit does not, for example, extend to imposing public service obligations, or compelling one group of customers to cross-subsidise another.

### **The legal position of the FCA's mandate is:**

- When considering what degree of **protection for consumers**<sup>243</sup> may be appropriate, we must have regard to, among other things, the differing degrees of experience and expertise of different consumers. We are also required to have regard to the general principle that consumers should take responsibility for their decisions<sup>244</sup>. We recognise that consumers can only do this if they have access to appropriate financial services that meet their changing needs. Under our objective to secure an appropriate degree of protection for consumers we must have regard to the consumers' needs for timely provision of information and advice that is accurate and fit for purpose.
- Under our statutory **competition objective**<sup>245</sup>, we have regard to how easy it is for consumers to access financial services, including consumers in areas affected by social or economic deprivation.
- Commercial decisions which do not conflict with our objectives are ultimately a matter for firms. In this context, please note that we do not have a universal service obligation, unlike utility sectors that have more explicit 'Public Service Obligations' regarding access.

### **Our main observations are that:**

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<sup>243</sup> Financial Services and Markets Act 2000, Section 1C the FCA's Consumer Protection Objective

<sup>244</sup> Financial Services and Markets Act 2000, Section 1C(2); the FCA's Consumer Protection Objective

<sup>245</sup> Financial Services and Markets Act 2000, s1E(2))

- We carried out a large-scale programme of work to find out about consumer experiences of financial exclusion. This fed into our publication of Occasional Paper No. 17: Access to Financial Services in the UK<sup>246</sup> in May 2016, which was authored by leading academics alongside FCA experts. Rather than present a definitive FCA view, we intended it to prompt debate by bringing together a range of key issues of consumer access.
- Over the last year we have developed a strategy to ensure the needs of the ageing population<sup>247</sup> are met, and have worked with the Treasury on the recent Financial Advice Market Review (FAMR)<sup>248</sup>. We have also published both a Discussion Paper and Consultation to help firms develop smarter consumer communications<sup>249</sup> and delivered both public and firm-facing work to make it easier for people to shop around and better understand annuities<sup>250</sup> and cash savings<sup>251</sup>. Since the independent Access Occasional Paper was published, we have organised meetings with major retail banks to discuss the work they are doing on financial access and to look at further opportunities to improve access.

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<sup>246</sup> Access to Financial Services Occasional paper - [www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf](http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf)

<sup>247</sup> DP16/1 Ageing Population and Financial Services - [www.fca.org.uk/news/dp16-01-ageing-population](http://www.fca.org.uk/news/dp16-01-ageing-population)

<sup>248</sup> Financial Advice Market Review: final report - [www.fca.org.uk/your-fca/documents/financial-advice-market-review-final-report](http://www.fca.org.uk/your-fca/documents/financial-advice-market-review-final-report)

<sup>249</sup> DP15/5: Smarter consumer communications - [www.fca.org.uk/news/dp15-05-smarter-consumer-communications](http://www.fca.org.uk/news/dp15-05-smarter-consumer-communications)

<sup>250</sup> Annuity comparator: our research - [www.fca.org.uk/news/annuity-comparator-our-research](http://www.fca.org.uk/news/annuity-comparator-our-research)

<sup>251</sup> Cash savings market study - [www.fca.org.uk/news/cash-savings-market-study](http://www.fca.org.uk/news/cash-savings-market-study)

## **Our role and regulatory approach**

- 1) The FCA was set up by Government in April 2013 and acts as the conduct regulator for authorised financial services firms in the UK and prudential regulator for financial firms not authorised by the Prudential Regulation Authority (PRA)<sup>252</sup>. In April 2014 our regulatory remit was extended to cover firms previously regulated for consumer credit activities by the Office of Fair Trading (OFT). We currently regulate around 56,000 authorised financial services firms. These include small firms in the consumer credit sector offering services such as car finance or payday lending as well as large retail firms operating in, for example, the banking and insurance sectors. We have a duty to protect consumers from failures by firms to meet our standards.
- 2) The FCA's strategic objective is to ensure that the relevant markets function well. Our three operational objectives are to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system and to promote effective competition in the interests of consumers.

## **Our approach to financial access**

- 3) Our research programme on access aims to understand the issues of concern to consumers. In 2014 we began a large-scale programme of work to better understand consumers' financial exclusion problems.
- 4) This work identified five examples of access issues, linked to larger societal and technological trends. These were:
  - how consumers' access to financial services is affected by the digital transformation of the financial services industry
  - the impact on access to banking services of 'Know Your Customer' and 'Anti-Money Laundering' requirements, as part of financial crime prevention
  - how access to consumer credit is shaped by automated processes
  - the use of data in general insurance risk assessment and underwriting, as part of a wider trend to segment markets to a more granular level, and
  - access to mortgage borrowing for an ageing population
- 5) These themes do not represent all the access issues that consumers face, but they do represent some key types of access issues and potential ways to address them.
- 6) This work fed into the launch of our 'Occasional Paper No. 17: Access to Financial Services in the UK<sup>253</sup>' in May 2016. Our research, and the independent report it fed into, shows that although financial services are

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<sup>252</sup> The PRA is the prudential regulator and supervisor for around 1,700 banks, building societies, credit unions, insurers and major investment firms. The conduct of these firms is also regulated by the FCA.

<sup>253</sup> Access to Financial Services Occasional paper - [www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf](http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf)

readily available for many people, financial services do not appear to be a viable option for a significant number, for several reasons. The work shows that financial exclusion is a vast and complex topic and one where one organisation alone cannot address all the potential social policy issues.

- 7) We received a positive response to the paper from industry and consumer groups. We have used the paper's findings to raise the profile of access issues and to start discussions with firms, Government, consumer organisations, other regulatory organisations and within the FCA.
- 8) Some of the activities resulting from this work include collaborating with Scope and the Financial Inclusion Commission to hold a roundtable on access to insurance for those with disabilities and other characteristics, such as having past convictions. We are working with the Financial Inclusion & Capability committee, which is led by the British Bankers' Association, which is holding a national conference on financial inclusion and we are talking directly with firms. We know that at least one retail bank is also holding a conference on financial access which we are participating in. We have also given presentations on issues raised in the paper at a number of cross-industry forums. This work supported the creation of an industry-led working group to examine whether the industry is giving enough relevant feedback to consumers rejected for credit.
- 9) As part of our supervision of firms, we are assessing how firms respond to access issues, with a specific focus on access to banking.
- 10) We also want to work more with industry and other stakeholders to help provide an appropriate environment for firms to use technology to tackle access issues and share experiences and best practice in the interests of consumers with financial access issues. For example, we held an event earlier this year which involved a cross-section of financial services providers and technology companies to look how technology solutions could help address particular access issues.
- 11) Financial exclusion is and will remain an important priority for us. However, progress requires a combined effort from Government, industry and consumer organisations as well as the regulator. We are able to act within our statutory remit but it is more appropriate and effective for other stakeholders to deal with the aspects of financial inclusion policy which do not overlap with our objectives.



## **Our response to the Committee’s specific questions:**

### **Definitions and causes of financial exclusion**

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

12) For the purposes of our work in this area, we have defined access as ‘the ability of consumers to engage with and use the financial products and services they need over their lifetime’ – so they are financially included. The Occasional Paper on Access to Financial Services in the UK showed one method of categorising the barriers that people face in trying to access financial services. It also highlighted the types of barriers that exist and the types of access issues people may face (see Annex A for details).

*Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?*

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

13) An earlier Occasional Paper we commissioned analysed the experience of vulnerable consumers in financial markets<sup>254</sup>. It found it is almost inevitable that vulnerability will impact everyone to some extent at some point in their lives. Access was one of the problems identified. Access issues do not just affect the vulnerable – they affect consumers across the spectrum. This situation is not static and new access issues emerge, often unexpectedly, because of social and technological change.

- a) While financial exclusion can affect anyone at any stage in their life, there are particular groups who are more likely to be financially excluded. These include people living in remote communities, people with disabilities and people with mental health problems.
- b) Our work on the ageing population has shown that age can be a relevant factor in a consumer’s ability to engage effectively with financial services. Of course, all older consumers do not have difficulties accessing financial services, but we have found a number of areas where this problem is more likely. These include in markets with upper age limits, such as General Insurance and Mortgages, or where older consumers need someone else, such as a formal or informal carer, to help them manage their finances (see Annex B for detailed case studies).

*What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?*

14) Financial exclusion can affect all sections of society. However, it has a particularly negative impact on people in low income households or those

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<sup>254</sup> Occasional Paper No. 8: Consumer Vulnerability - [www.fca.org.uk/news/occasional-paper-no-8](http://www.fca.org.uk/news/occasional-paper-no-8)

struggling with problem debt. Both of these are risk factors for increasing the likelihood of a person becoming vulnerable and especially susceptible to poor results from financial services. As we showed in our Occasional Paper on Consumer Vulnerability 2015<sup>255</sup>, consumers are especially at risk when their circumstances change, as this often leads to a financial shock or drop of income. Links between low income and problem debt with access issues and consumer vulnerability are well documented. There is some research<sup>256</sup> that suggests that people on low incomes, including the unemployed, those unable to work through ill-health or disability, carers, single pensioners, single parents and some black and minority ethnic groups are more likely to experience significant access problems.

- 15) However, as we illustrate in Annex A, there are other sizeable consumer groups who are not on a low income or vulnerable but who also have significant access issues. These include people who live in rural communities, people new to the UK and those who frequently move job or home. The Occasional Paper on Access to Financial Services examines the relationship between financial exclusion and other forms of exclusion, disadvantage and deprivation.

### **Financial education and capability**

*How can financial literacy and capability be maintained and developed over the course of a person's lifetime?*

- 16) The Money Advice Service (MAS)<sup>257</sup> is the UK-wide organisation with responsibility for helping people to manage their money better. It is an independent body set up by Parliament. The FCA have oversight of the MAS, which involves approving its budget and business plan. Funding for MAS comes from levies on the financial services industry, which we collect.
- 17) MAS has been working with a wide range of stakeholders, including the FCA, to develop a Financial Capability Strategy for the UK. Its 10-year nationwide Financial Capability Strategy was developed with the objective of improving financial capability across the UK. Launched in October 2015, it is overseen by the UK Financial Capability Board which has a membership of experienced figures from across all sectors - including the FCA.
- 18) The Financial Capability Strategy aims to improve people's ability to manage money well, both day to day and through significant life events, and their ability to handle periods of financial difficulty. The Strategy's main focus is on developing people's financial skills and knowledge, improving their attitudes and motivation and improving access to the appropriate financial products and services.

### **Addressing financial exclusion**

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<sup>255</sup> FCA, Consumer Vulnerability, 2015 [www.fca.org.uk/news/occasional-paper-no-8](http://www.fca.org.uk/news/occasional-paper-no-8)

<sup>256</sup> (Kempson and Whyley, 1999; Kempson et al, 2000; Blake and de Jong, 2008; Mitton, 2008; Khan, 2008; Consumer Focus Wales, 2011) as cited in

<https://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf>

<sup>257</sup> <https://www.moneyadviceservice.org.uk/en>

*What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?*

*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) When we consider what degree of consumer protection may be 'appropriate', we must have regard to consumers' differing levels of experience and expertise. We must also take into account the general principle that those who provide regulated financial services are expected to provide consumers with a level of care that is appropriate to their capabilities. However, we are also required to have regard to the general principle that consumers should take responsibility for their decisions<sup>258</sup>. We will be publishing a consultation paper on our mission this autumn, followed by an intensive period of public consultation. This will include how to balance the duty of care towards consumers, the duty of responsibility of consumers for their decisions, the role of firms and the role of the regulator.
- 20) The Occasional Paper on Access highlights a number of examples of initiatives and good practice from industry, government, regulators and charity/consumer groups to tackle a variety of access issues. However, despite these efforts, consumer research shows that clear gaps remain – both in providing appropriate products that meet the needs of different types of consumers and support for those who are financially excluded.
- 21) While financial services play an essential role in people's lives, firms are can use their commercial judgement when considering whether to provide products. This judgement takes into account, among other factors, their own commercial appetite for risk and relevant rules or regulations. With the exception of basic bank accounts<sup>259</sup>, consumers do not generally have an absolute right to access financial products and services. The relationship between pricing and access is also complex. Lower prices, for example, do not necessarily mean increased access because firms. For example, firms may be unwilling to service particular markets if they think the risk is not reflected in the price. The product provided may also be low cost but represent poor value for money.
- 22) Ensuring that consumers who would normally be turned away have access to services may create other challenges. These could include a trend towards cross-subsidy from public funding or from other customers, so it is important that interventions are carefully considered.

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<sup>258</sup> Financial Services and Markets Act 2000, Section 1C(2); the FCA's Consumer Protection Objective

<sup>259</sup> <https://www.fca.org.uk/firms/payment-accounts-directive>

## Accessing affordable credit

*What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?*

- 23) The FCA took on responsibility for regulation of consumer credit in April 2014. In April 2016, Tracey McDermott, then Acting Chief Executive, set out a summary of our work in this area in her speech to the Credit Summit<sup>260</sup>.
- 24) When developing new policy initiatives on consumer credit and particularly on high cost products, we always consider the possible impact on financial exclusion.
- 25) When designing the High-Cost-Short-Term Credit (HCSTC) loan price-cap, we carried out extensive research to assess the impact on some consumers of losing access to HCSTC. This included consumer surveys and analysis of anonymised credit records for 4.6 million people. In deciding where to set the level of the cap was a matter of finding the balance point at which, on average, consumers using HCSTC would benefit from lower prices, but those who could no longer access would, on average, benefit from no longer borrowing HCSTC. In our consultation paper<sup>261</sup> which proposed the cap, we estimated that 11% of those who would otherwise get HCSTC (about 160,000 people a year) would no longer get loans when the cap was in place. However, we took the view that, for most of those people, a payday loan or other form of HCSTC would not be the best outcome because of the high costs, particularly if they are unable to make payment on time. We said that the effect of the cap would be to prompt more people in financial difficulty to seek other ways of handling their situation, such as seeking debt advice. We considered that, over time, these customers would be better off having not taken out a loan.
- 26) We will start a full review of the price-cap in the autumn. The review will be completed in the first half of 2017 and we will publish our findings. The review will include an assessment of the impact on consumers of regulatory change and market changes, and whether consumers have suffered because they have been excluded from accessing HCSTC. Ahead of this formal review, we have been monitoring changes in the HCSTC market. Borrowing levels were already dropping when we took over responsibility for regulating consumer credit in April 2014 and significant decline has continued. The number of loans made in the first half of 2015 dropped to 1.8 million compared to 6.3 million in the first half of 2013. There has been an improvement in the standards of affordability assessments in firms and debt advice organisations have told us that they see substantially fewer problems with HCSTC debts than has previously been the case.

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<sup>260</sup> [www.fca.org.uk/news/consumer-credit-regulation-the-journey-so-far](http://www.fca.org.uk/news/consumer-credit-regulation-the-journey-so-far)

<sup>261</sup> CP14/10 - Proposals for a price cap on high-cost short-term credit - <http://www.fca.org.uk/your-fca/documents/consultation-papers/cp14-10>

- 27) We have a role to ensure that firms have the right processes to make appropriate decisions about affordable and sustainable lending, and that their business models and products treat consumers fairly. We encourage innovation in this sector and have introduced the Innovation Hub<sup>262</sup> to support firms in developing new products and models that benefit consumers. We have described this further below.

### **Government policy and regulation**

*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? What balance should be struck between regulations and incentives for financial institutions?*

- 28) The FCA is responsible for making financial services markets work well, and regulating the conduct of financial services firms. Both the design of market frameworks and the behaviour of firms in markets can have an impact on access to financial services, and we can and do consider access in those contexts. However, there are other aspects of access and financial inclusion that lie in the remit of Government policy rather than market regulation. For example, our remit does not extend to imposing public service obligations, or compelling one group of customers to cross-subsidise another.
- 29) While there remains much to do to address financial exclusion, we have undertaken significant work in this area within our remit. Our work on the UK's ageing population<sup>263</sup>, for example, has shown us that financial exclusion is an increasing problem for this population and aims to develop a regulatory strategy to ensure this population's needs are met. We have also worked with the Treasury on the recent Financial Advice Markets Review (FAMR)<sup>264</sup>, made efforts to simplify consumer communications<sup>265</sup> and worked to make shopping around easier and clearer in annuities<sup>266</sup> and cash savings<sup>267</sup>. In our recent credit card market study, we evaluated how effectively competition was working for higher risk consumers. We have put in place remedies which include promoting and enabling the use of quotation searches to help those for whom the risk of low credit scores acts as a barrier to access.<sup>268</sup>
- 30) We have also started a programme of work to engage with industry and identify further opportunities to improve consumer access. We will play a

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<sup>262</sup> <https://www.fca.org.uk/firms/project-innovate-innovation-hub>

<sup>263</sup> [www.fca.org.uk/publication/discussion/dp16-01.pdf](http://www.fca.org.uk/publication/discussion/dp16-01.pdf)

<sup>264</sup> [www.fca.org.uk/publication/corporate/famr-final-report.pdf](http://www.fca.org.uk/publication/corporate/famr-final-report.pdf)

<sup>265</sup> [www.fca.org.uk/sites/default/files/dp15-05-smarter-consumer-communications.pdf](http://www.fca.org.uk/sites/default/files/dp15-05-smarter-consumer-communications.pdf)

<sup>266</sup>

[www.fca.org.uk/publication/research/consumer%20engagement%20in%20annuities%20market.pdf](http://www.fca.org.uk/publication/research/consumer%20engagement%20in%20annuities%20market.pdf)

<sup>267</sup> [www.fca.org.uk/news/press-releases/fca-publishes-new-data-interest-rates-and-update-cash-savings-remedies](http://www.fca.org.uk/news/press-releases/fca-publishes-new-data-interest-rates-and-update-cash-savings-remedies)

<sup>268</sup> [www.fca.org.uk/your-fca/documents/market-studies/ms14-6-3-credit-card-market-study-final-findings-report](http://www.fca.org.uk/your-fca/documents/market-studies/ms14-6-3-credit-card-market-study-final-findings-report)

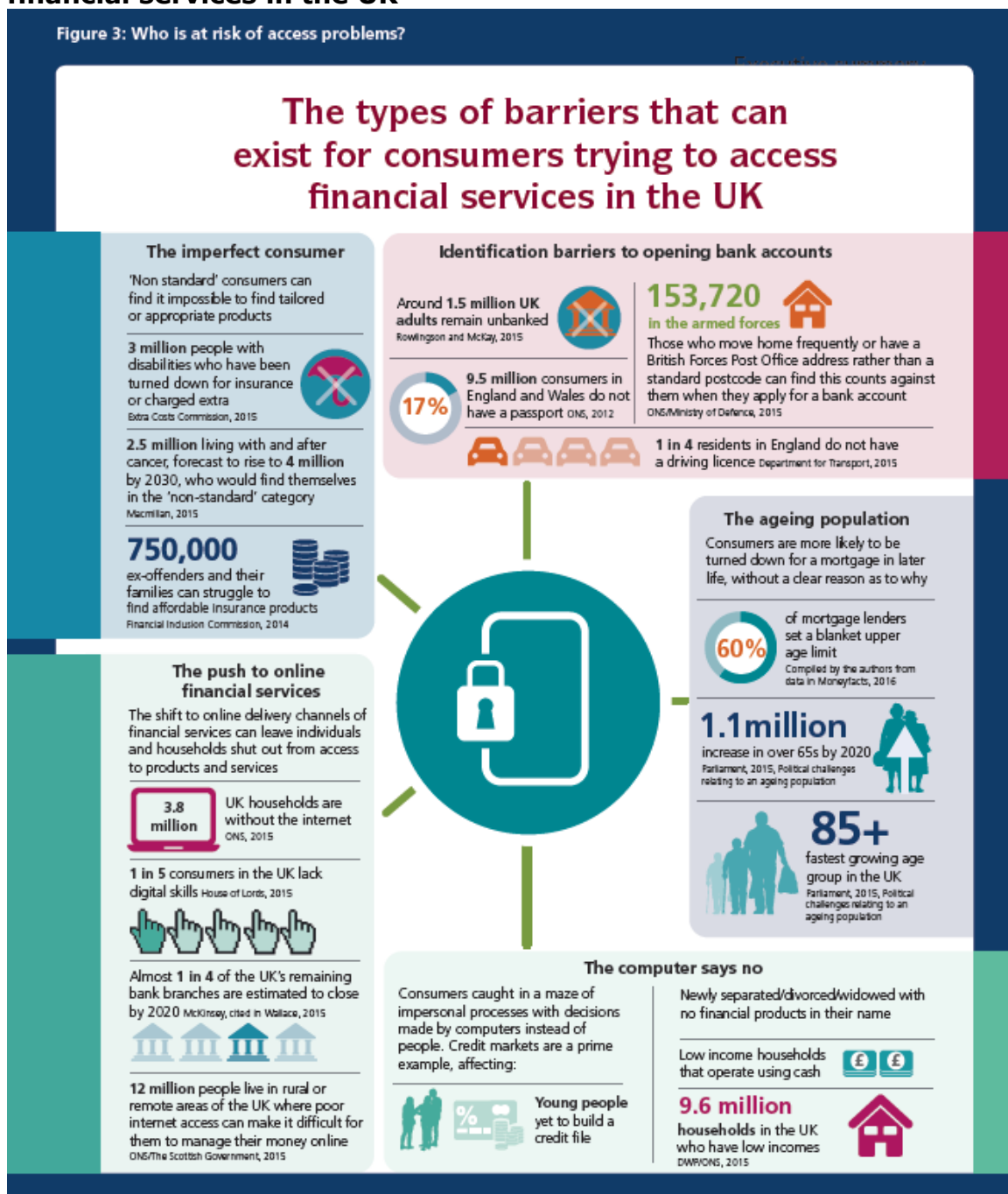
coordinating and facilitating role, using our existing partnerships with consumer organisations and our relationships with firms.

- 31) Central to our commitment to promote effective competition is our focus on technological innovation. For example, we launched Project Innovate in October 2014 to encourage disruptive technology and new services in finance – known as 'Fintech'. Our Innovation Hub provides direct support to all innovators that meet our criteria, including start-ups and regulated firms, to help them understand the regulatory framework and how it applies to them. We also launched a 'regulatory sandbox' earlier this year to enable businesses to test out new financial products in a 'safe space' without immediately having to meet all the usual regulations when doing so, while ensuring consumers are protected.
- 32) Anti-Money Laundering (AML) and financial crime are priorities for us, but it is important that we minimise the unintended consequences of AML regulation. We believe that technological solutions have a role to play here in making sure that firms' AML controls do not unreasonably exclude consumers and organisations from using financial services. We are currently agreeing the range of our work in this area.

**Annex A**

This annex includes graphics illustrating the analysis of the Financial Access Occasional Paper

## 1. The types of barriers that can exist for consumers trying to access financial services in the UK<sup>269</sup>



Meaningful access to financial services is essential for participation in society. Barriers to access affect many different types of consumers across the UK.

Please note that the numbers above apply only to known examples of access issues. Previous research shows that personal preference, perceived irrelevance

<sup>269</sup> Access to Financial Services Occasional paper - [www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf](http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf)

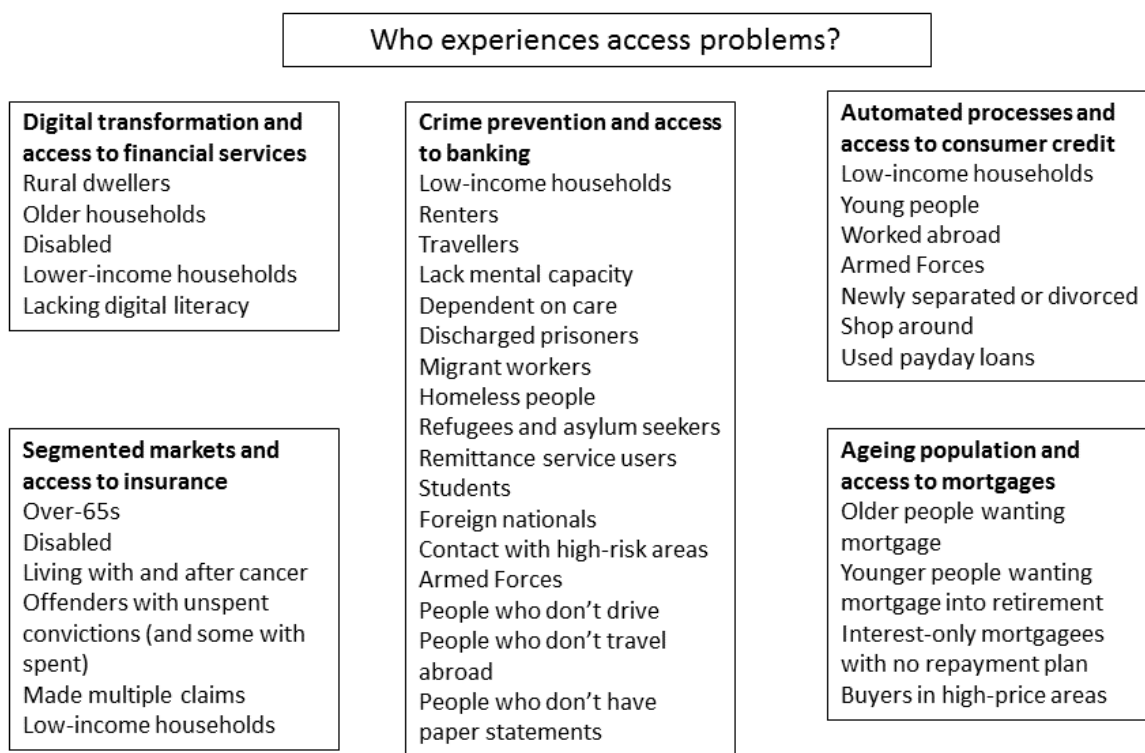


and affordability can prevent consumers from considering insurance and savings products, particularly in lower-income households.

## 2. Types of access problems

Across consumer journey	Consumers cannot communicate with firms using a channel that suits them, at a cost they can afford or that represents value-for-money								
Researching & choosing financial services	Consumers cannot easily find out about different products and services using a communication channel that suits them		Consumers cannot easily compare key features of different products and services, to help them choose the right one		Consumers cannot easily understand the terms and conditions of products and services, to help them choose the right one		Consumers cannot easily discuss what they're looking for or ask questions pre-purchase		
Buying financial services	There are no products or services on the market that meet consumers' needs		Consumers cannot find the product or service they want at a price they can afford or that represents value-for-money		Consumers are turned down for reasons that are not clear or are not properly explained		Consumers are turned down for reasons that are perceived to be unfair		Consumers are not signposted to other providers or sources of help when they are turned down or cannot find what they want
Using and switching financial services	Consumers pay more to use non-standard products or services	Consumers pay more than they expected to use a product or service	Consumers cannot use the product or service in the way they want	Consumers cannot pay in the way that suits them without incurring extra costs	Consumers cannot easily talk to someone if they have a concern or a query	Consumers cannot easily switch or exit a product or service	It costs consumers more than expected to switch or exit		
Getting help	Consumers cannot easily access regulated financial advice			Consumers cannot easily access money advice <sup>(1)</sup>		Consumers cannot easily make a complaint or seek redress			

## 3. Types of consumers who may be potentially affected by access issues is provided in the FCA Occasional Paper on Access



## Annex B

### Case studies

The Occasional Paper explores five core examples of access issues, linked to larger societal and technological trends. Examples of case studies we saw linked to these areas included:

#### **Digital transformation and the shift to online delivery channels**

Tim lives in retirement accommodation and uses a wheelchair, and is often frightened to go out without his wife. He can use the local Post Office for small transactions, although it doesn't deal with everything he needs and is only open one morning a week.

The nearest bank is about 20 miles away and he struggles to get the bus. There is a woman in the next village who gets on at the stop before Tim's who also has a wheelchair, which means she takes up the only wheelchair space and the bus driver won't let him on. There are currently only two buses a day. When Tim and his wife do go to town they need to get a taxi, which costs £16 each way. Recently they've been using a doorstep lender for the ease of accessing credit.

*'We just can't get to the normal bank. It's almost impossible without spending a lot of money on taxis. Door-step lenders are the best option'.*

## **Crime prevention and the impact on access to banking services**

Fedyenka is a businessman looking to relocate his technology start up to the UK from Paris. When he arrived, he made appointments at seven different banks to open both a personal account and a business account. Out of the two who managed to keep their scheduled appointment time, neither were able to help or offer any guidance about how he could open an account with the range of ID documents he currently had. In the end he found a bank employee who had experienced a situation like his before, and was able to offer more constructive advice. The whole process wasted a lot of time and effort - leaving him feeling that the UK was not 'open for business'.<sup>270</sup>

*'I didn't need them to just tell me what was there, I need them to problem-solve, to help me work out what was possible'.*

## **Automated processes for credit**

Our researchers spoke to consumers who received poor explanations for being turned down for credit. Poor signposting to alternative products and/or providers can serve to push consumers ever further away from mainstream options.

Where recommendations are given, they can be insufficient and inappropriate. In some specific circumstances consumers told us that they were directed towards payday loans when told they would most probably be ineligible for a loan at their current bank. In such circumstances consumers were left confused by mixed messages about payday loans, and less likely to seek out a mainstream credit product in future.

*"I went to the bank and asked for an overdraft and they said no because I had poor credit. I didn't get why I had poor credit and they didn't give me a reason. I was living with my parents at the time and working for my dad and I didn't have any debts or anything. A few weeks later, I got a letter from a company saying that they could give me a credit card and help me build my credit score so I took a card with them even though the interest was really high." (Consumer, Glasgow)*

## **Segmented markets in insurance**

Alison was diagnosed with terminal cancer in 2014 and had orthopaedic surgery to remove tumours, including a hip replacement. She has been given two to five years to live but currently takes medication that means she is in good daily health. Alison tried to find travel insurance to enable her to go on holiday with friends and family, after her recovery, and her consultant was very happy to write her a letter to say she was fit for travel.

She tried multiple insurers to get cover for a ten day cruise, ended up costing as much as the cruise itself. On another trip, the problem seemed to extend to family members travelling in the same party, as Alison was down as the

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<sup>270</sup> Mind the gap: consumer research exploring experiences of financial exclusion across the UK - [www.fca.org.uk/your-fca/documents/research/mind-the-gap](http://www.fca.org.uk/your-fca/documents/research/mind-the-gap)

'organiser' and this meant that they couldn't secure their own insurance, independent of Alison's. Alison also sought help and advice from various sources, including the BIBA helpline. At no point was Alison signposted to better deals which might have helped her.<sup>271</sup>

### **The ageing population and access to mortgage borrowing**

In a case study provided by the Financial Ombudsman Service<sup>272</sup> Mr and Mrs N had a mortgage with flexibility that allowed them to withdraw up to £75,000 from the loan at any time up to their 75th birthdays. When they were both 68, they asked to borrow £15,000 from their mortgage to carry out some home improvements. But they were told that the lenders new rules meant that that type of borrowing was no longer available to anyone over the age of 68.

Mr and Mrs N told the Financial Ombudsman Service they had only chosen this particular mortgage because of the 'drawdown' facility. Following the Ombudsman's involvement, the lender agreed to look again at whether it could offer additional borrowing as an 'exception' to its usual rule. The lender decided Mr and Mrs N could have the facility up to the age of 75 as originally agreed and made a payment for the inconvenience caused.

*"They said they wouldn't give me a mortgage, despite being for only 25 per cent of the property value and me having more than enough salary-wise. It was because of my age, but it was a ridiculous decision. They should have been able to easily see that I could pay it back."* (Consumer interview, Watford)

19 September 2016

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<sup>271</sup> Mind the gap: consumer research exploring experiences of financial exclusion across the UK - [www.fca.org.uk/your-fca/documents/research/mind-the-gap](http://www.fca.org.uk/your-fca/documents/research/mind-the-gap)

<sup>272</sup> Financial Ombudsman Service, 2015c: 12, 17 - <https://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf> pg 111

## **Financial Conduct Authority – Oral evidence (QQ 203-218)**

Evidence Session No. 21

Heard in Public

Questions 203 - 218

Tuesday 6 December 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (Chairman); Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Northbrook; Lord Shinkwin.

## Examination of witnesses

Andrew Bailey, Chief Executive, Financial Conduct Authority and Christopher Woolard, Executive Director of Strategy and Competition, Financial Conduct Authority.

Q203 **The Chairman:** Thank you very much indeed for coming to the Committee. Please make yourself comfortable; have a glass of water. I must apologise; I have a bit of a sore throat this morning. If we just deal with the formalities first, welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live, via the parliamentary website, and a transcript of the meeting will be taken and published on the Committee website. You will have the opportunity to make any necessary corrections to that transcript. Could I ask you for the record to introduce yourself: who you are and where you are from?

**Andrew Bailey:** Yes. I am Andrew Bailey; I am the Chief Executive of the Financial Conduct Authority.

**Christopher Woolard:** I am Chris Woolard. I am Director of Strategy and Competition at the Financial Conduct Authority.

**The Chairman:** Thank you very much. As we go through the session and ask our questions, if you both want to respond, that is absolutely fine, but if it is an area where, when one of you has responded, the other does not have anything they particularly want to add, that is also fine.

**Andrew Bailey:** We got the message that you wanted to be quite disciplined about the time, so we have done an informal divvying-up and we will try to keep that to a minimum.

**The Chairman:** That is very helpful indeed, thank you very much.

**Lord Empey:** We will soon put a stop to that—it will not last long.

**The Chairman:** I will kick off, if I may, with the first question. The FCA currently has the power to “have regard to” the ease with which consumers in areas affected by economic or social deprivation can access financial services. If this was made into an obligation, as has been suggested by the Financial Inclusion Commission, how would that change the work you do? In answering, could you give some examples of occasions where you have used your power to have regard to those issues, and what the effect has been?

**Andrew Bailey:** Perhaps I could start with that and then draw out the conclusion. I want to start by saying that, in my organisation, it was apparent to me coming in as chief executive at the beginning of July that the FCA takes the whole issue of exclusion very seriously. As you may be aware, just over a month ago we published what we called *Our Future Mission* document for consultation. In there we have sought to tackle some of what I call the big questions that we face.

Because the FCA is on such a big playing field and makes a lot of choices as to the things it focuses on, it is incumbent upon us, not least of course for parliamentary accountability, to explain ourselves. One of the questions we came to that is obviously germane to this was the question of our objective in statute in respect of consumers and how we interpret that. Very broadly, you

could think about that in one of two ways. You could think about it as saying, “We, in a sense, interpret that as having a responsibility to all consumers all the time, broadly equally”. However, bear in mind that alongside that consumer objective there is also a duty on consumers—that is important.

To avoid, as I might say from an economist’s point of view, getting lost in endless arguments about moral hazard—and I would observe that this is in the DNA of the FCA—we tend to use the term “vulnerability matters”. It matters in terms of interpreting the objective and the duty. One way to, in a sense, put those together is to say that the duty operates differentially, and for the excluded and the more vulnerable, clearly the duty does not operate, and we should not assume it does, and the objective does. Therefore, we should have more emphasis on vulnerability, and we have set that out explicitly for consultation in the mission document.

I do not think that goes against the grain of what the FCA has been seeking to do. I can point, as you asked me to do, to particular things that we have done or are doing. An example of that would be the cap on payday lending. A second example would be that last week we announced that we would review the whole shooting match, if you like, of high-cost credit, because we recognise that you can get what we tend internally to call the “waterbed effect”—you push down on payday lending, but of course the risk is that it comes up somewhere else. We will be looking carefully at that. By the way, the evidence we have and get from the debt advisory services and from the numbers is that payday lending has declined. I give you those two examples of areas where the FCA has been very focused, and it has not required an obligation to do that. The “have regard to” is operable there. It is not that we ignore it.

The final point I would make is a bit of a scene-setting point, if you do not mind. We are trying, in an overarching sense, to encourage competition, because that is in our objectives. As Chris will come on to in some of the later questions, we are very keen to enable innovation, and particularly enable innovation that can help more vulnerable and excluded communities and people, because that is something we are doing, and we can give some examples.

However, we recognise that in terms of that overarching objective of competition, there are areas where we need to act to provide protection to the vulnerable, and do so, and work with the Government. As we will probably come on to later, the duty of a number of banks to provide basic bank accounts is another example where to us it makes sense to supplement competition and the market solution with an obligation sitting under it. So I hope that is useful scene-setting in the context of the first question.

**The Chairman:** That is very helpful, thank you. In terms of your own internal governance arrangements, do you, for example, once a year review how you have made use of that power?

**Andrew Bailey:** We review all our powers, in the sense of what we have done, once a year. We form a business plan, and part of that comes out of reviewing what we have done. Obviously, in terms of forming that business plan, this would form part of the thinking behind the business plan. There is a reason for doing the mission both internally and externally. Externally, as I mentioned earlier, the reason is in terms of transparency and accountability

and people understanding the choices we are making. The same point, on the latter point, applies internally. The reason for doing the mission is to ensure that our staff understand why we are doing it.

There I do hope and expect that we will strengthen that, if you like. If you take the vulnerability point for a moment, whereas I would observe that, as you come into the FCA, it is in the DNA of the place, it is much better if we formalise that. That will give us a stronger approach to the question that you ask.

**The Chairman:** Just finally, I want to make sure I entirely understand where you are coming from. Please correct me if I have this wrong. Would I be right in saying that you do not feel at the moment that there is a particular need to strengthen it to a duty, inasmuch as you would not need to act any differently from the way you do at the moment?

**Andrew Bailey:** No, I do not think so. We have had some debates in the past, and Parliament has acted in the past, on the payday cap, for example, and again we might come on to this later in answer to one of the later questions. If you take the payday cap as a case in point, Parliament did quite helpfully create an obligation in that context. I would say on this—and it is before my time, so Chris is better placed to talk about it—that it is not that it changed the mindset of the FCA but that it did make it easier to do it.

**Christopher Woolard:** Just to reinforce that point, when we approach the question of particularly caps and restrictions of that nature, we have two tests, broadly, that we have to think about. One is whether it is appropriate to place a cap in the first place or whether there are alternative options, and then, secondly, what is the appropriate level of the cap. In that particular instance, the first question and the work around it, and indeed the legal defence that we would have had to have, was basically taken off the table because we had a very clear instruction from Parliament saying, “There will be a cap”. Then it was just up to us to determine the level.

Q204 **Lord Harrison:** Good morning to you both. In that same *Our Future Mission* document you talked about, you disagreed with the Consumer Panel’s idea that the FCA should be required to impose a duty of care on banks in their dealings with customers. Andrew, you have already invoked the idea of vulnerability as a dividing line between those who might be so covered. Why did you do that? You also mentioned competition. Finally, are there any unforeseen consequences that you have divined that led you to that conclusion?

**Andrew Bailey:** The reason, which we did set out in short order in the document, is not that we disagree on the principle of the duty of care. It is that we took the view, and take the view, that the principles we have already set out, and to which we hold firms, in essence encapsulate what the duty of care would provide. The precise point was one of “Do we think it will add significantly to the regulatory toolkit?” and we are quite doubtful on that.

However, I was very keen that we open this up to public debate. One reason for that, on which I had quite a few discussions with the Consumer Panel, is this—and it is a bit of an imponderable. They may or may not agree precisely with what I have just said, but some of them, at least, I think, would take the view that, if you had the more explicit duty of care, it would be much more,



as I said, explicit. That might enable in a sense a reduction in the amount of detailed regulation you need to do in order to get firms to do what you want them to do. Essentially, an overarching duty would substitute.

Honestly, that is a matter you can debate. We are somewhat sceptical about that, based on the history of supervising firms. When you have supervised these firms for the last 10 years—actually, more than 10 years—you become, I have to say, a little sceptical about the history of that sort of thing, and the need to be more precise in terms of what you do to get the results you want. That is a debate, but the reason for opening it up in the mission is that it is a debate I am very happy to have in the broader public consultation process. I have said this to the Consumer Panel. However, I would just re-emphasise that there is no difference in terms of our underlying philosophy.

**Lord Harrison:** Could you or Christopher give us an example of where invoking the idea of vulnerability makes that difference in approach?

**Andrew Bailey:** Do you mean between the Consumer Panel and us?

**Lord Harrison:** I mean how you distinguish where you go in with full guns blazing and where you do not.

**Andrew Bailey:** Obviously—going back to the point I made about the fact that the FCA operates on a very big landscape—we have to make a lot of choices about where we go, frankly. We cannot expect to be everywhere. That is fine, because in a sense we are making those judgments according to the harm we see to the objectives that have been given to us by Parliament. I discussed this a number of times with the Panel. The Panel was keen that we did the work across the board on high-cost credit and I think was somewhat critical that it had not happened up to now.

Personally, coming in, I was keen that we did it. There was an example where I said, “Look, this is a high priority, and we agree on it”. An example, I think, where we have had a difference with the Panel is one of the other competition and market studies we did earlier this year, which was on credit cards. I should reserve my position; we have not produced all the remedies yet, so there is a way to go on this, but I think the Panel was of the view that we should have taken a stronger view on persistent high credit card indebtedness. I would only say it is not over yet as a story. Indeed, in terms of the high-cost credit story, it will feature in there as well.

Christopher, you were involved in that as well, so you may want to use that as an illustration.

**Christopher Woolard:** Yes. In terms of trying to think about a rule of thumb, one of the questions we look at is: what is the amount of harm? What is the amount of consumer detriment? As a matter of common sense, for someone who is on a very low income, a detriment of £30 or £40 to that individual will be proportionately much more significant and much higher than it would be for someone who is a far more sophisticated investor with lots of money to invest. So that is one of the things that guides us towards particular targets and particular issues.

The other piece, just on Andrew’s example, is that when we came to look at the credit card market, we can divide the more problematic end of that market up into a number of different camps that have significant numbers of people in them. Some of those questions we look at and say, “This is about

making sure that there are the right nudges, for example, in the market to try to get to the right outcome”—for example encouraging consumers towards making slightly higher repayments, which will clear up the debts more quickly. Those are the kinds of ideas that we are testing and trying at the moment.

However, there will potentially always be in such a market a group of people who do need much stronger intervention in terms of trying to deal with the detriment they are experiencing.

**Lord Harrison:** Thank you very much. We will watch that space with credit cards.

Q205 **Lord Northbrook:** Do you think that a well-functioning, competitive market could provide solutions to all aspects of financial exclusion? Or will there always be a need for other social policy measures? I note that one of the recommendations of the Financial Inclusion Commission’s 2015 report was to place a statutory duty on the Financial Conduct Authority to promote financial inclusion as one of its core objectives. In your *Our Future Mission* statement you seem to consider this quite carefully but come down more in favour of competition than inclusion.

**Andrew Bailey:** It goes back to what I said in response to the Chairman’s question. We start from wanting to encourage a market in which there is competition and innovation. However, we recognise that, frankly, for the market to work there do need to be some underpinnings that impose duties and obligations. A case in point—this is an interesting one in the sense that the Treasury have created the obligation but we will essentially enforce it—is the duty on banks to provide basic bank accounts.

We think that makes sense: there is a basic model of competition, but there is an underpinning, which is that we do not want that competition to work in ways that could be counter to inclusion. We think that is a sensible way to do it, with the emphasis on competition and then an emphasis on identifying areas where it is not necessarily going to function to provide the outcomes that we want.

**Christopher Woolard:** Perhaps I can just build on that for a second. While the theoretical answer is, “Yes, a well-functioning, competitive market should meet all these needs”, we know in practice that there are areas where the market will not get there. In the discussion document on access that we published earlier this year, we identify three broad groups. One is around simply what is termed “the void”: in other words, there is just an absence of a particular product or a particular service in the market that meets a particular need.

There is a question around how consumers navigate the space, and if there is a lot of complexity that stops people getting to the right solutions for them. Then there is a question around particularly eligibility: even if you need a particular product, do you have a mixture of the right identity and the right credit score—whatever it might be—to access that particular product? So there will be those gaps that are there.

On the competition piece, one of the things it is worth stressing in the context of the work we have done around encouraging innovation and in particular the regulatory sandbox is that people tend to think of this as a very high-end, high-tech series of initiatives—and of course they are, but there are services

in there that are focused on how to encourage things like micro-savings and how to meet the needs of groups of people who might not access the banking system in a mainstream way. That is one of the things we are very keen to encourage. It is that blend of formal interventions and trying to get people to come in to fill some of these gaps on a more commercial basis as well.

**Lord Northbrook:** Is there any more you can do to explain the cost of products to consumers so that people with less knowledge and ability do not go for the higher-cost product?

**Andrew Bailey:** Yes. That is an important area, and one where we are doing a lot of work. This really comes, as you rightly say, to the question of what information is useful information in the context of the judgments that consumers make. One of the challenges that the FCA has made to the industry in recent years, and continues to make, is to challenge the assumption that more information is always for the best. We have done a lot of work in what tends to be called “behavioural economics” to start to understand what particular pieces of information consumers respond to in the ways we would like them to.

I will give you an example of something that is coming in next April, although it is not particularly at all related to exclusion; it is a general point. This is in the context of premiums in insurance policies. We are introducing a requirement for the industry to quite simply tell somebody, “This is what the proposed premium is for next year, and this is what you paid last year”—not huge masses of information around it. The FCA did quite a bit of testing on consumers to say, “What is it that people will respond to?” and that conclusion came through. You raise a very important point there about countering the assumption that more information is always for the best in terms of understanding.

**The Chairman:** Thank you very much. We will be coming back to basic bank accounts and ID and one or two of those issues later on, but thank you for that.

Q206 **Lord Haskel:** You published an occasional paper on access to financial services earlier this year. Have you taken any further action since the paper, or was that it? Do you have a strategy for embedding access into the work of the relevant staff at the FCA?

**Andrew Bailey:** I will ask Chris to start on that.

**Christopher Woolard:** The first thing that is probably worth saying is that we published it as a discussion paper. This is an area where we are acting in a slightly different way as a regulator. We are not acting in isolation. We are trying to work with a range of different partners to try to work out what some of the solutions might be in this space. That said, there are some very specific things that we have done. To give you one example, we have a piece of work ongoing on the needs of the ageing population in general, which we hope to bring to a conclusion this side of the summer. In it, we will publish a strategy on what we intend to do as a regulator and how that work should work with the wider industry.

We are also looking at how we think about and build access questions and vulnerability questions into the work that we do day-to-day as supervisors. When we are talking to firms, what are the kinds of things that we are looking

for? Again, one of the things that was highlighted in that particular document was that there is often what we call a policy and practice gap. We often find firms really thinking very carefully and hard about some of these issues at headquarters, but then the experience that people might have in a branch, particularly around questions such as power of attorney, is far more mixed. The question is how we encourage them to begin to close some of those gaps.

**Lord Haskel:** You have told us about the work you are doing. How many people do you have working on this—how many equivalent full-time staff?

**Christopher Woolard:** Within my division we have a team that looks just at consumer issues and the issues thrown up by these kinds of papers. Just over a dozen people do that on a full-time basis. We then have specific project teams. For example, at the moment we have around five staff working on a full-time basis on the ageing population work and the strategy around that. Other pieces of work, again, are similarly resourced.

**Andrew Bailey:** I should say that all our supervisors have to take this forward with firms where we are seeking particular outcomes.

**Lord Haskel:** In your mission statement, then, what is the priority of providing access? Is it near the top of the priority list?

**Andrew Bailey:** It is near the top of the priority list in terms of access to what I call “core financial services”. We put a strong emphasis on this. We will seek to do that in a number of ways, and we can come on to discuss some of those. Some of them will involve other authorities, but it is very high on our list of priorities, because obviously if we have a population that does not have access to financial services, frankly we are not really achieving our outcomes.

Q207 **The Chairman:** Could I just come back on that? I am very interested indeed to hear that you are working on a paper about the needs of an ageing population. I have a particular interest, both in social policy terms and in personal terms: I have an awful lot of experience of going into banks with power of attorney documents. As you say, it has been a very mixed experience. Could you say how you are getting views fed in, particularly from the sector that represents older people, and how you are getting a full range of perspectives for that work?

**Christopher Woolard:** We have been taking this work in a series of stages. Perhaps unusually for us as a regulator, one of the first things we did was to put together a document effectively as a consultation document. Rather than us writing it, however, we got all sorts of different stakeholders to write their particular perspectives, including a number of the groups you referred to. So we have tried to make this as broad a conversation as we can from the start.

The second thing is that we are trying to ground this very much in practical experience and consumer research around what people encounter and find, rather than, “What is the theory here?” We want to try to get to a series of practical solutions. Finally, as I said in my opening comments, this is less about us acting as a regulator with a big stick. It is more about using some of the softer convening powers that we have, and bringing to the table a variety of people who, for the most part, do want to try to do the right thing here, but there is a very complex landscape to negotiate.

**Andrew Bailey:** You interestingly raise the question of power of attorney, and I have had the same experience as you in the last few years as well. We are not alone, clearly. However, that is an example of a public policy issue that is outside our remit. In the mission document we did explicitly raise this question about being clear on the boundaries where our responsibilities come up to the responsibilities of other parts of public policy.

That is an area where what we can helpfully do, with you and with Parliament, is highlight the issue. It will require addressing by another part of Government, effectively, because it is more into the legal domain than we would naturally operate in. It clearly is relevant to us, however, for the reason you give, which is that it can have a direct effect on people's ability to access financial services when they are in a condition of vulnerability.

**The Chairman:** Thank you very much. It is very interesting to hear about your wider remit and how you discharge that.

Q208 **Lord Empey:** Good morning. What impact, if any, has the Access to Banking protocol had on the way bank closures are carried out, and how do you see this in the future? I obviously would refer you to the FSB's report, *Locked Out*, where it said, "Awareness of consultation or engagement exercises on behalf of banks is effectively zero". Do you recognise that sort of response as what is happening on the ground?

**Andrew Bailey:** I had some sympathy—and this was the point made, if I remember rightly, in the Griggs report. The word "consultation" is possibly somewhat misused in that context. I do not think we can pretend it is something that it is not. There is a missing piece here that I will come on to. What is important is that our general approach to branch closures is that we do not think it is appropriate to stand in the way of an approach that has to recognise the big shift in the way the population is accessing financial services generally. This is the shift from face-to-face in a building to online, digital and what have you.

However, clearly the vulnerability question comes back into play. It is very important that when closures do take place, there is a proper assessment of the alternatives. The missing piece, I think, is this: it is not sufficiently understood how most of the population can access their bank account through a post office. Insofar as this is a utility function, not a pure commercial function, the post office is the more natural utility. In my personal view, I do not think that is well enough understood. I would speculate that if we went out and surveyed the population and said, "How well do you understand this?" we would not get a result that was particularly encouraging.

**Lord Empey:** If I may add, first of all, banks are not social services; they are there to make money for their shareholders. Once they have decided, after an internal review, they consult and so on; but have you any evidence that these consultations result in a change to the original decisions? There is a conflict between the commercial driver behind a bank and a situation where you are in a rural area with small businesses that need to go and get change for their tills for the weekend or whatever. Surely we have a fundamentally conflicted position here.

**Andrew Bailey:** We could do. I would say it comes back to this point about banks operating, as you have said, as commercial organisations and us not

wanting to stand in the way of innovation in the provision of financial services. Can we point to banks reversing closure programmes as a result? I think that would be quite hard to do, and I think that was the implication you were drawing. We have seen a bit of a movement, particularly in the larger building societies, to move into areas where banks are pulling out.

That is not illogical at all, because in one sense the role of a mutual is to service its members, and they operate on a very different basis. You made the point about shareholders, and it is a different basis. There is quite a bit of sense in that, in the sense of where the mutual side of the sector fits in, in that they can fit in. They are not charities, but they can operate on a different basis. They can, frankly, operate on a lower return on capital in that sense, in terms of what they are returning, because they can choose to service their members in different ways.

The second point I would go back to is that it would be better if there was a more thoroughgoing assessment of what post offices in areas do and a much better understanding among the population of how they can use that as a substitute facility.

Q209 **Lord Shinkwin:** Andrew, you stressed that vulnerability matters to the FCA and, Chris, you talked about the proportionality of detriment. I am just thinking that, from an older person's or a disabled person's perspective in terms of detriment, the stress of having a bank close is pretty huge. I am just interested to know what the FCA is doing to ease that stress for vulnerable people.

**Christopher Woolard:** Clearly that is part of what is wrapped up in a bank closure and the question that was talked about a moment ago. One of the questions from our perspective is: are there things we can do as a regulator to encourage people to think about some of the solutions that might not be completely obvious but are possible, when we are talking about access to bank branches?

One of the things we have in our innovation piece of work is something we call "reg tech": regulatory technology. In other words, how do you apply technology to try to solve regulatory problems or issues? The first session we ever had, where we brought together a mixture of technology firms and some of the larger banks in the market, a few months back, was: "What happens in the event of a branch closure?" and "Is there a part"—and I will stress "a part", because clearly some people do not have access to technology or, indeed, that is part of the problem—"that technology can play in solving some of those issues?"

For example, you may as a bank have decided that you simply do not have enough customers to justify keeping a branch open, but is there a much easier way of giving them access electronically to basic banking services, or to be able to talk to a human being, albeit through an internet connection, to do some of their basic banking? Out of that initiative we now have three commercial propositions that are being worked on in the market by those firms. They will not be the whole answer; they absolutely will not be the whole answer.

However, anything we can do there that begins to say, "How do we make this slightly easier, particularly for people who have problems travelling to the

branch in the first place, and would obviously have a much longer journey to the next nearest branch?” is the sort of thing we are trying to foster.

**Andrew Bailey:** I have another slightly unfortunate example that is, sadly, relevant, and we have a big case on this at the moment, where customers have been mis-sold by banks, and that obviously causes great stress. The example I am about to give is payment protection insurance—the biggest of all. One of the things we are actively engaged with at the moment is the question of whether we draw the payment protection insurance saga to a close. We are and have been consulting on that.

Working with groups representing both the disabled and the elderly, one of the concerns is that, if we were to do that, we would have to be quite clear that the arrangements are in place by which the elderly and the disabled, and those with other vulnerabilities, feel they can get access. They need to feel that they can get equal access to provision for redress. Frankly, that does not mean leaving them in the hands of claims management companies, which, I am afraid, will not on the whole be very sympathetic to that one. That is something we are working on very actively at the moment, because we are very cognisant of the need to do that.

**The Chairman:** Christopher, could I just ask you something? You referred to the work you are doing about the needs of an ageing population. I think you said that you had already done one early paper, or something like that. Is that in the public domain, or is that an internal document?

**Christopher Woolard:** No, that is published and in the public domain, and there is also a short update in the public domain as well.

**Andrew Bailey:** It is published on our website.

Q210 **Lord Fellowes:** I have a couple of follow-ups on that last conversation. I had better just reiterate my declared interest that I retired from Barclays after 10 years working for them in 2009. You talk about protecting vulnerable customers. Does that protection extend to ensuring that vulnerable consumers have access to appropriate products and services?

**Christopher Woolard:** In terms of the work we do around products and services, it varies to some degree. As Andrew said earlier, there are certain initiatives, for example the Government’s initiatives on basic bank accounts, where we are asked to essentially oversee how that process may be going. We certainly look to try to encourage what I would describe as simplification, where that is in the interests of consumers. One of the things we looked at when we looked at the cash savings market is to say, “There is a high degree of confusion around this market, simply because there are so many products out there. But the actual provision of a particular service at a particular time does not sit within our remit”.

A good example of that is if we think about insurance for people who live on flood plains. The provision of Flood Re as a means of ensuring that householders can still get insurance there is very much a matter for Government and a matter of social policy.

**Lord Fellowes:** Inevitably, it is for the person on the spot to try to help individuals in different ways. I understood you to say, from what you said previously, that the Post Office does have a role in filling a gap for customers.

**Andrew Bailey:** Yes, although, as I said, it is a role that is not well enough understood or publicised. As I said at the beginning, we are trying to balance having competition and a market economy with an underpinning of utility protection, and the Post Office does play a role there. It is an important role, and is an important role for the future of post offices, frankly, as well.

Q211 **Viscount Brookeborough:** Just before I ask my question, can I just ask something more about the Post Office? What authority do you have over the Post Office? Everybody, not just yourselves just now but when we have talked to banks, says "Oh, the Post Office can do it; the Post Office has a role to play". Nobody has really said where their role is dictated from.

**Andrew Bailey:** We are not the regulator.

**Viscount Brookeborough:** And nobody has said what they must do, and what they can really do, especially as you are talking about, as Lord Empey was mentioning, shops taking in their cash for the week, or requiring more change. That cannot be done electronically, as far as I am aware: cash will not just arrive on the table. So could you define more what you expect the Post Office to do? We should bear in mind that many of the post offices are now not being run as sole post offices but are in shops, and that the staff are very good—we have one at home—but they are not always as capable as the person used to be.

**Andrew Bailey:** It is interesting. I was not making a point that said we wanted the Post Office to do more than it offers to do now.

**Viscount Brookeborough:** But we do not know what it is really capable of doing.

**Andrew Bailey:** That is the point, yes. In many ways I was making a point in a similar vein to the point you just made. Post offices offer more services today than probably many of the population would realise they offer, it seems to me. By the way, we do not regulate the Post Office, to answer your question.

**Viscount Brookeborough:** That was the point. Who does?

**Andrew Bailey:** For the Post Office itself, it is now the Government, I think.

**Viscount Brookeborough:** But if they are going to provide the sort of services that you already regulate in other areas—

**Andrew Bailey:** Yes; it would be very sensible after this to have an engagement with them about how they see their role on this side. I would assume, but it is an assumption, that they would be in a sense quite prepared to be publicised more, because after all it helps to embed the Post Office function, which is a good thing. I would suggest that it is sensible and a good point to have more engagement with them as an outcome of this as to what their role is.

**Viscount Brookeborough:** I just want a yes or no answer. Would you like to have more influence on them?

**Andrew Bailey:** I would not say influence, because I am very clear about what our role is and is not. This is part of the thing we drew out in the mission document. However, where a public policy issue—and this obviously is a



public policy issue—comes up to the boundary of what we do and what they do, I would be very happy to be part of the engagement. I would be happy to say, as part of the work we do on engagement, as Chris was saying, “What scope is there to work together?” There is also a role for government there, I suspect.

**Christopher Woolard:** If I might just add to that for a second, there are a couple of things, I suppose. It is worth saying that where the Post Office offers financial instruments in its own name, it has a partnership with the Bank of Ireland, and we do obviously regulate the Bank of Ireland, so there is a flow-through on those things. The formal regulation of parts of the Post Office piece sits with Ofcom. It took on postal services some years back, and clearly there is, as you say, a limitation as to what can be done at a local post office, simply in terms of the complexity or the referral on. However, physical cash is clearly one of the things in which post offices lead the market.

The other observation I would just make, which is a historical one, is that I used to be a civil servant and I was responsible for the Royal Mail. I spent quite a bit of time going out, a couple of times a year, being in a post office branch. In terms of having contact with the most vulnerable consumers, I suspect that the Post Office has far more experience of that than most banks probably do.

**Lord Empey:** Could I just ask a supplementary? The Post Office is a business as well. Is there not a danger that they see themselves as becoming the provider of banking services of last resort? Therefore, everybody could say, “Oh, well, they will take care of it”, and dump on them all the stuff that is not really of any money-making value. I could see a shared conflict there developing very rapidly.

**Christopher Woolard:** As you say, though, the Post Office and the Royal Mail are run as a commercial business. If they are the last provider in town of access to a particular service, I cannot speak for them but I suspect that they would expect to be properly remunerated for doing that service. That has certainly been their strategy for some years.

**Andrew Bailey:** I would just say that you do not have to bank with the Bank of Ireland to use the Post Office for an agency service. They have a tied relationship with the Bank of Ireland, but you do not have to bank with the Bank of Ireland to use the Post Office.

Q212 **Viscount Brookeborough:** My question is on basic bank accounts. From what we have heard, from when they first came in they reduced the number of people without bank accounts by 50%, so they must be doing a very good job in principle. However, we have also heard that banks could quite frankly do more to promote them to those whom they might help. How would you rate the success of the agreement on basic bank accounts between the Treasury and the major banks?

**Andrew Bailey:** It has changed, because in September the Treasury moved to a situation where they are designating banks with a legal duty to provide the accounts. There is a duty on us to supervise that that legal duty is put into effect. I agree with you: the evidence was that the previous arrangement did make a difference, but the review that the Treasury did indicated that it was

important that they wanted a firmer underpinning of it with a duty. That is quite sensible.

**Viscount Brookeborough:** Do you think that banks do enough to promote it, first of all perhaps to people who have current accounts that are dormant, because they are unable to use them properly? Secondly, do they advertise them widely enough outside the bank to people who quite simply do not come in—in other words, people who do not have a bank account anywhere? I do not think I have ever seen, apart from in a bank, anything about a basic bank account.

**Christopher Woolard:** It is fair to say that inside a branch, once you are through the door, certainly I have noticed that there is a reasonable amount of literature there promoting basic bank accounts. In fairness, that does exist. Clearly there are a number of players in this particular space—a number of interested bodies—including the Money Advice Service, which try to draw attention to what is available to others. There is a question of how far the industry collectively seeks to promote these things. That is a fair question, which in part is behind where the Treasury has come from, as Andrew has already mentioned.

**Lord Empey:** Is it not the case, Chair, that we are asking a commercial organisation to promote something that will lose it money?

**The Chairman:** That contradiction or tension is certainly what other people who have given us evidence have pointed out.

**Andrew Bailey:** I understand that, but it goes back to the point I made at the start: in a sense, that is part of the understanding. It makes sense not to regard the banks as utilities in a non-commercial sense. We think it makes sense to promote competition and innovation. However, the deal is that there is a certain amount of, frankly, duty and requirement upon them to underpin that. That, I think, is the system that we have and are developing at the moment.

**Viscount Brookeborough:** Surely this is like a supermarket with a loss leader, in that it is simply a stage or a step, perhaps, into getting them to have a profitable bank account.

**Andrew Bailey:** It is, but you have to be a little careful that you do not encourage them to move people too quickly. One of the criticisms of that world is that that leads to an enthusiasm to move people from the basic bank account and into trouble. So there is a risk in that, if it becomes too enthusiastic.

Q213 **Lord Northbrook:** Moving on to the area of opening bank accounts and identity documentation, the Committee has heard that people are sometimes unable to open bank accounts due to inconsistencies within or between banks on issues such as ID requirements. Clearly we know that banks have to verify the identity and domicile of potential customers under anti-money laundering and know-your-customer regulations. However, from evidence we have received, the Travelling communities, homeless people, victims of domestic violence and ex-offenders were among those cited as finding the requirements particularly difficult.

The BBA has outlined to us how the banking system is attempting to address the issue, and it is working with the industry to try to bring a bit more consistency and clarity across the banks as to what sort of ID documents are acceptable. There are particular problems with photo IDs at the moment. Do you think this is an area that should just be left to the BBA to sort out, or do you think the FCA should step in and try to help clarify the issue?

**Andrew Bailey:** The sensible approach is to let the BBA and the advisory panel to the Financial Inclusion Commission work up a set of procedures on what is acceptable documentation. If that were to not bear fruit, we and all the Government would have to play a role. You are correct in identifying that there is no point setting up the facilities to have basic bank accounts and then finding people cannot get them because of ID.

You are also right to say, of course, that there is an underlying tension here that goes well beyond the financially excluded, in terms of where it is right to draw the line between what is acceptable and robust financial crime prevention, and what is restricting access to having bank accounts. That is quite a big issue, frankly. In this area, the sensible thing to do is to let the work on acceptable documentation take place, and then judge what they come up with. If they do not solve it, we will have to think of another approach.

Q214 **Lord Haskel:** You introduced major reforms to payday lending in 2014 and 2015, and as a result some of it has gone away. Has it gone away, or has it gone underground, and have your aims been achieved?

**Andrew Bailey:** That is a very interesting question, and that is why we announced formally last week that we are going to do the two-year review of the measures that we brought in. This is the whole area around the price cap. Alongside that, as I said earlier, we are going to review the rest of high-cost credit. It is an interesting question. Since I became chief executive, I have spent time visiting a number of the centres that deal with debt advice around the country. I was in Birmingham, Manchester and the East End of London recently.

It is an absolutely fascinating thing to do, and I have also talked to the people who do the phone advisory. They have given me their views, and indeed their evidence, because they collect the evidence, on what has been going on. I also met what is called the national Illegal Money Lending Team in Birmingham, which is attached to Birmingham City Council, and got their views on it. To draw it all together, their evidence is that there has been quite a sharp reduction in payday lending, which we obviously see in the statistics we gather as well. The Illegal Money Lending Team said to me that, while they still have quite a big issue with illegal lending, they do not see that it has particularly increased as a consequence of that.

It is interesting. When you talk to the people in the centres, their view is that a number of things have happened. The average scale of debt problems that they get brought to them has gone down, in the sense that people are tending to go into debt problems rather earlier, at rather lower levels of debt. In addition, the mix of the debt has changed quite a bit, so that more of the debt now, where people have debt problems, is now direct debt to utility companies and local councils or local authorities. You could draw a number of conclusions from that. One is that there is just less payday lending, so the mix

is changing, or secondly that people are not refinancing or avoiding council tax problems by refinancing with payday lenders. I do not think it is quite clear what the answer is to that at the moment.

However, it has signalled a shift in the mix of debt for problem debtors. You then have the other aspects of high-cost credit, which are still there, and that includes the so-called "rent to own" sector, which has obviously got quite a lot of attention recently as well. This is the case of how much the cost of credit is to buy a washing machine if you are in the rent-to-own sector, and how it is up to three times as much to buy a washing machine in that than if you go into a shop and buy one. We are going to be reviewing that, and indeed we already are reviewing rent to own.

Payday lending is quite interesting. There is a definite reduction in it. There is some evidence, I think they would say, of spillover into other areas of lending, but not probably complete. None the less, it spills over into other areas that still cause issues in their own right, and there is a greater tendency, as I say, for people to be defaulting directly on utilities, council tax and what have you.

Q215 **Viscount Brookeborough:** My question really follows on from that, but I think you have answered some of it. It was whether there are similar measures to ensure fairness in other high-cost parts of the credit market, and you are looking at that at the moment.

**Andrew Bailey:** The one thing I have been careful to say, because a number of journalists have assumed that we will introduce a price cap across the board, is that we have not taken any decision on that. I will just say two things on that. The price cap is a last resort, because obviously it is replacing a market solution, essentially. The second thing is that, were we to do that across the board, we would be particularly concerned about reducing the supply of credit that is needed. Some degree of credit is necessary for this sector, because they have to smooth income, for instance. If that were to force it out into the illegal lending sector, it would be a bad outcome. We do not want that outcome. Therefore it makes sense, I think, as we look at this sector, to also go back to the question, "What is a sustainable provision of credit on appropriate terms to this sector?" As well as saying what should not happen, we should also be in the business of looking at how this can be made sustainable.

**Viscount Brookeborough:** Does the illegal lending you are talking about come out of unofficial payday loans? Where is this?

**Andrew Bailey:** It is a number of things, when you talk to the teams. Some of it is the downright criminal. Some of it is just downright criminal activity. Some of it is, frankly, friends and family, which sometimes gets out of control.

**Viscount Brookeborough:** But you say it is illegal.

**Andrew Bailey:** It is illegal in the sense that it is outside the scope of regulated lending. As I say, some of it is done absolutely, I suspect, with that knowledge, and frankly the people who are doing it are clearly at the criminal end. If you talk to the teams, there are some terrible cases of what they have had to deal with, and people are now in prison for it. Some of it is done with the best of intentions, and sometimes it is done within communities. It is not done with bad intentions, but sometimes, because it is outside the regulated net, it can get out of hand.

**Viscount Brookeborough:** I think some of us were surprised, or at least I was, when we first learned anything about payday lending at all. I definitely thought that it was a terrible thing and should not be there. Then we learned that some of the other credits, including credit cards, can be even more expensive than payday loans. So in a way it is an indictment of the banking system not working properly that payday loans have come about, is it not?

**Andrew Bailey:** That is why it makes sense to review the whole thing, because, as you say, it is by no means the only piece of high-cost credit. Some of it, as you say, comes straight out of the banking system and some of it comes from alternative sources.

**Viscount Brookeborough:** The other thing is that we were told last week or the week before that the type of people who are getting payday loans are not necessarily the down-and-outs, who simply cannot afford it, in every case. There is a spectrum of people who are quite well off. That is what we were told.

**Andrew Bailey:** Yes, because in some ways, as the name suggests, it was also an access to short-term credit to smooth an income flow, which was not necessarily a particularly low income flow. It was people who were not quite managing the income they had, and wanted the benefit of that form of credit. Some of it, yes, undoubtedly was in that class.

**Lord Haskel:** We were also told it was easy.

**Andrew Bailey:** Exactly. You could be in a pub on a Friday evening and get a loan.

Q216 **Lord Harrison:** Chair, before you pose your last question, Andrew and Christopher, have any of our partners on the continent addressed the question of financial exclusion of their people that we might look at and learn from in a helpful way?

**Andrew Bailey:** Chris has had more experience of this. I would say, from my experience so far of the last five or six months, that the closest discussions I have had of a similar nature to what we do are with the Consumer Financial Protection Bureau in the US. They are a little under threat at the moment, of course, but in terms of the role they play, they are probably nearest to this area we have been talking about. You have more experience in this field.

**Christopher Woolard:** It does vary. If you look across Europe, you can see replicated most of the questions we are dealing with, which is unsurprising. If you go slightly further afield, such as the US, as Andrew said, or Australia, there is a different approach perhaps to thinking about some of the fundamental underpinnings such as pension provision, for example. Those tend to steer those particular markets into some slightly different solutions—and some slightly different problems. But it is fair to say that, when we look across the piece, most people are looking at similar issues.

The one big difference is around some of the access issues caused by identity, where most other European countries have some sort of national ID system or something like that, which cuts through a number of those.

**Andrew Bailey:** The other thing that distinguishes us in terms of what Parliament has set up for us is that we have on access “have regard to”, which sits under the competition objective. Our competition objective is rather

wider than that of a lot of other authorities. We rather like it; we think it is a good thing. The combination of competition and access probably makes us a bit different.

**Lord Harrison:** The EBA, ESMA, EIOPA and others have an interest in some of these issues, do they not?

**Andrew Bailey:** I can speak for the EBA a bit, because I used to be on the management board in my former job as a prudential regulator. They would be quite open about this. They started life as a prudential regulator. They have gradually begun to move more into conduct regulation, so they are getting more into this area, but their early years were very dominated by prudential regulation.

Q217 **Lord Northbrook:** I have noticed, Andrew, that credit card companies are luring people in with teaser rates, and then suddenly, after two or three years, ratcheting them up enormously. Has there been enough awareness that the FCA could warn people about this?

**Andrew Bailey:** I might get Chris to talk about this. We did do a credit card market study earlier this year, but he might want to say something about that.

**Christopher Woolard:** Yes. For part of that study we looked specifically at this issue and reached two conclusions, one of which is perhaps slightly surprising and the other of which is pretty obvious. On the whole, those very low-rate introductory offers do benefit consumers. There are a significant number of consumers who manage themselves within that period and use the 0% interest, or the very low interest, to pay their card down in time. So as a practice, it is not something we would want to take out of the market, because there are an awful lot of people who benefit from it.

On the other hand, one of the things we are now requiring is that there is much greater clarity about what is happening when you are approaching the end of that period and that there is plenty of notice. That gives time for a consumer to be able to take action and say, "Right, I will now switch to another 0% deal or do something about it"—as opposed to suddenly hitting a wall.

**Lord Northbrook:** They are not tied into it.

**Christopher Woolard:** Yes.

Q218 **The Chairman:** I will just draw things to an end, first of all with a point of clarification. The review that you have just announced is going to include things such as unauthorised overdrafts and things like that.

**Andrew Bailey:** Yes, it is.

**The Chairman:** I was quite surprised to read how much that was pushing people into indebtedness in quite a major way.

**Andrew Bailey:** That is one of the origins of it, because the Competition and Markets Authority did their work on retail banking, but they stopped a bit short, in the view of quite a few people, of covering that fully. That is why we have picked it up.

**The Chairman:** Finally, just to round things off, what additional powers or directions from Ministers, if any, would be helpful in allowing you to do the best possible job at the FCA in trying to tackle financial exclusion?

**Andrew Bailey:** To be honest with you, I do not think we are looking for any big extra powers. We have a pretty broad-ranging set of powers. As we said earlier, the payday lending cap was quite interesting. It was before my time; I was on the board but I was not on the executive. The FCA did benefit from a particular provision Parliament gave it, which Chris described earlier. It was probably earlier, was it not?

**Christopher Woolard:** Yes.

**Andrew Bailey:** That allowed it to be done more rapidly than would have been the case otherwise.

**Christopher Woolard:** In that particular instance, essentially we probably would have faced a legal challenge on the decision to have a cap, whereas in practice we had to take a call and be able to defend ourselves legally on just the level of the cap. That obviously makes the process a lot quicker.

**Andrew Bailey:** That is absolutely right. The lawyers at the FCA probably think they would have won that case eventually—but it would have been pretty prolonged.

**The Chairman:** If there is just one area that you are most keen that this Committee addresses itself to when putting together its recommendations, what would that area be?

**Andrew Bailey:** I should say this is a very important piece of work you are doing. Obviously, I hope you can see that it chimes with a lot of things that we are interested in and are doing. Highlighting areas such as the question of branch closures and alternative provision is an important one. For us the area of ageing is also important, as we were saying earlier. We will be coming out with our ageing strategy probably in the middle of next year. That is another important area. The question of account opening, documentation and identity is also important. We very much welcome what you are doing, and from our point of view it is very much in the spirit of what we are trying to do in the FCA.

**The Chairman:** Thank you very much. That has been very helpful, so thank you very much to both of you for your time.

## **Financial Inclusion Commission – Written evidence (FEX0044)**

### **Executive Summary**

1. The Financial Inclusion Commission is an independent, nonpartisan body of experts and parliamentarians who want to see an improvement in the financial health of the nation. The Commission offers leadership, co-ordination and accountability, and acts to raise awareness, and advocate for change. A full list of Commissioners can be found in Appendix A.

For more information visit our website [www.financialinclusioncommission.org](http://www.financialinclusioncommission.org)

2. We welcome the work of the Financial Exclusion Committee Inquiry in directing further parliamentary and political attention to an issue of great importance to the livelihoods of citizens, and the future economic stability and prosperity of the UK.
3. Our response is drawn mainly from evidence we gathered in 2015 as part of our own inquiry into the topic, which took evidence from over 80 individuals and organisations, and which led to the publication of a report entitled Financial Inclusion: Improving the Financial Health of the Nation. The submission also considers developments which have taken place since our research was published, as well as our own advocacy work on the topic. We are responding to each set of questions by theme, with the aim of addressing the key points in each area for consideration.
4. **Our primary focus is to encourage leadership and coordination from the Government and policy makers across the country. In particular, our responses to Questions 10 to 13 highlight our key analysis and recommendations for changes to policy the Government should consider. In addition, our 2015 report made 22 recommendations for stakeholders across industry and sector, which can be found in Appendix B.**

### **Definitions and causes of financial exclusion**

*Q1. Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?*

*Q2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?*

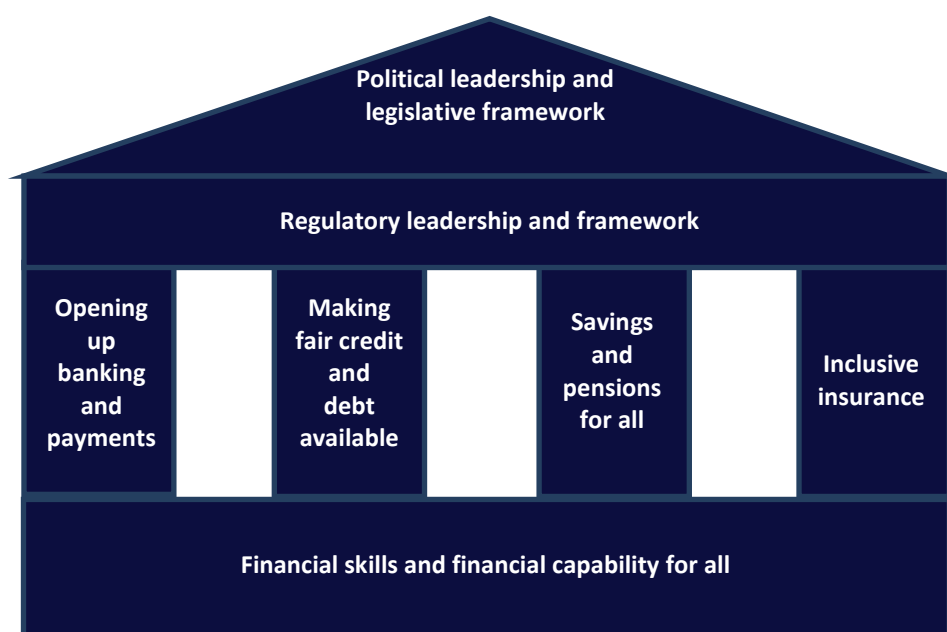
*Q3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?*



*Q4. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?*

5. The Commission defines financial inclusion as the availability and uptake of essential financial services, at affordable costs, to every section of society. Financial inclusion ensures everyone in society has enough skills and motivation to use these services, and to benefit meaningfully from them. Financial capability, i.e. the awareness and skills necessary to participate in the financial system, is a key element which underpins inclusion. The Greek Temple model we have developed (below) highlights how the Commission views the various constituent parts in achieving a financially inclusive society.

*(Figure 1: Financial Inclusion Greek Temple)*



6. Financial exclusion can affect different kinds of people, at any point in their lives, and it is not just about those who are unbanked or underserved, although these groups remain of crucial importance when tackling the issue. Everyone with a stake in society benefits from greater financial inclusion – government, regulators, financial services firms, investors, charities and, above all, consumers. In our report we used a number of data points to highlight how financial exclusion impacts individuals in different ways. These were:

- Nearly two million adults in the UK did not have a bank account
- Financially excluded people paid a 'poverty premium' of £1300 each year
- Two million people took out a high cost loan as they were unable to access any other form of credit (in 2012)
- Up to 8.8 million people were over-indebted
- 13 million people did not have enough savings to support them for a month if they experienced a 25% cut in income

- 50% of households in the bottom half of the income distribution did not have home contents insurance
  - 15 million people reported one or more signs of financial distress
7. The Commission endorses recent independent research commissioned by the Financial Conduct Authority, leading to a new Occasional Paper on Access to Financial Services<sup>273</sup>, which goes some way to identifying the exclusionary barriers within the financial system through the lens of five social and technological trends. These can be summarised as:
- a. Consumers with no permanent address or who move often can have problems opening bank accounts and gaining access to credit, as this affects bank verification of their details.
  - b. Those aged 65 and over and people who are disabled or who have experienced serious illness have, in general, poor access to insurance.
  - c. Living in rural areas of the UK with poor internet access makes it difficult or impossible for people to manage their money online; and the lack of even basic digital skills limits use of online financial services.
  - d. Not having a passport or driving licence causes consumers problems in obtaining a bank account, as these are the typical standard documents used by banks to verify identity.
8. Financial exclusion can have an especially detrimental impact on people with low incomes and/or those struggling with debt due to lower levels of financial resilience, leaving people susceptible to greater harm when experiencing a change in circumstances. As mentioned in the same Occasional Paper, research suggests that people on low incomes have a greater chance of experiencing financial exclusion problems if they are, for example: unemployed; have disabilities; are unable to work due to illness; are caring for someone; are single parents; are single pensioners; or are from certain black and minority ethnic groups.
9. The primary role of the Commission is to provide a leadership role in driving forward policy solutions to financial exclusion issues, and we support the work of stakeholder organisations across different fields, whose focus is more on determining root causes.

**10. Recommendation: The Committee should establish an agreed definition for financial inclusion, to act as a driver for its own recommendations for policy development.**

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<sup>273</sup> Access to Financial Services in the UK, FCA Occasional Paper 17, <http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf>

## **Financial education and capability**

*Q5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?*

*Q6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?*

11. The Commission found that financial education provision and quality in the UK has been disparate, with varying levels of availability and quality across geography and school type.
12. Financial education has been on the curriculum in Scotland, Wales and Northern Ireland, and was introduced in secondary schools in England in September 2014. But this excludes academies, free schools and independent schools, meaning that fewer than half of secondary schools in England will be obliged to provide financial education. And the requirement is limited to only a few hours of education in the secondary curriculum, which is far from enough. Academic research suggests that, to be effective, financial capacity building needs to start at primary school, and continue throughout the school years. Research suggests that by the age of seven children have developed several basic 'finance' behaviours such as counting, and have developed an understanding of the value and exchange of money<sup>274</sup>.
13. Moreover, schools are provided with no extra resources to enable them to deliver this requirement and most teachers feel ill-equipped to provide guidance to students. Charities such as Young Enterprise, MyBnk and The Money Charity offer support to schools either by training teachers or sending specialists into schools to teach the subject directly, but their capacity is extremely limited.
14. New Zealand's Ministry of Education, by contrast, has direct responsibility for financial literacy in schools. This is a long-term strategy to provide children with a grounding in the basics of personal finance at a time when they are developing attitudes towards money management.
- 15. Recommendation: Financial education should form a critical part of education from primary school through secondary school. This should be across all nations of the United Kingdom, and HM Government should support schools with the resources necessary to deliver this commitment.**
16. People do not generally think about money in isolation, separate from what else is going on in their lives. Initiatives could therefore be more successful when delivered at key life stages and events when people's finances change alongside their circumstances. Education should also cover cultural, as well as technical, aspects of money management.
- 17. Recommendation: Financial education should be delivered throughout people's lifetimes, from primary school right through to**

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<sup>274</sup> Whitehead, D. & Bingham, Sue, 2013. Habit Formation and Learning in Young Children, London: Money Advice Service.

**retirement, focusing on life stages and events, such as marriage or civil partnership, the birth of a child, illness or unemployment and retirement.**

### **Addressing financial exclusion**

*Q7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?*

*Q8. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?*

18. The Commission believes that a collaborative approach involving stakeholders from all sides is necessary to tackle financial exclusion. People are increasingly being required to take on greater personal responsibility, in particular through reform of the welfare system, and it is important that individuals are able to access the skills and information necessary to allow them to develop the resilience and capacity expected of them.

19. Regarding products and services, excluded people require convenient products that should be made easily available, but there is growing recognition that this is not enough. Products should be appropriate and affordable for the circumstances people find themselves in. They also need to adapt to their needs over a person's lifetime and if possible, be able to improve financial capabilities. The FCA's Access to Financial Services Occasional Paper illustrates how even the savviest of consumers can face issues with products which do not meet their needs. This has huge implications for social policy makers, for example, many consumers want to protect themselves and their families from future financial difficulty and not become a burden upon the state but at the same time can find themselves locked out of affordable and/or appropriate insurance products. Products which help people budget and control their money should be supported and encouraged. We particularly welcome research being conducted into improving the provision of products for those with physical and mental health challenges and any efforts being undertaken to improve access to insurance.

20. The digitisation of consumer banking, as well as the growing trend for banks to close down under-used and remote branches, has implications for financial and digital exclusion – in particular for the elderly.

**21. Recommendation: Financial institutions should ensure that inclusion considerations are built into their decision-making, product design and service provision. They should continue the good work**

**that many are already doing to promote digital skills, as well as ensure that digital products are adequate, and mindful of those with more complex needs.**

22. The Post Office, more trusted than the commercial banks and still with an extensive network of branches, has a role to play in providing financial access for the underserved. The Post Office Card Account (POCA) provided the government with a low-cost way to make payments of benefits and state pensions, but the POCA has always had limited functionality, being unable to accept payments other than state benefits (such as wages) and to operate direct debits or standing orders.

**23. Recommendation: DWP should promote inclusive and properly functional alternatives to POCA, in particular to support the introduction of Universal Credit, which meets the new basic bank account industry standard agreed by HM Treasury, including electronic payment facilities.**

### **Accessing affordable credit**

*Q9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?*

24. In our 2015 evidence gathering, we heard that many people had difficulty accessing appropriate credit at affordable rates, and that the use of unaffordable or poorly managed credit could lead to problems with debt.

25. The FCA cap on interest rates charged by pay-day lenders was welcome extra protection for vulnerable consumers, although it didn't apply to other forms of high cost credit, such as credit cards and bank overdrafts. Moreover, it regulated the supply of credit, but could not regulate the demand, which continues to grow. It has, however, highlighted the problems faced by consumers with insufficient credit history or poor credit ratings, who cannot access mainstream sources of credit.

**26. Recommendation: The Commission believes that measures need to be taken to increase the supply of affordable credit, including alternative forms of credit, Credit Unions and CDFIs. There also needs to be a smarter approach to credit scoring, in particular through a broader use of data, such as regular payments for non-credit products, and evidence of financial education and capability training. Consumers being told the main reason why they have been declined credit would also help consumers know what to do next.**

27. We continue to be concerned that as a result of the low-income credit gap, more consumers are turning to illegal money lenders for their credit needs.

The Government has a role to play in ensuring that safeguards are in place to protect against loansharking. The Commission was pleased to see funding for the Illegal Money Lending Teams secured, following a campaign by the Commission, MPs and others for continued Government support for these vital units in December 2015.

**28. Recommendation: The Government should maintain support for the funding of specialist Illegal Money Lending Teams in England and Wales.**

**Government policy and regulation**

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

*Q11. What has been the impact of recent welfare reforms on financial exclusion?*

*Q12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?*

*Q13. 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? What balance should be struck between regulations and incentives for financial institutions?*

29. Financial inclusion has strong macroeconomic implications, and ought not to be simply considered as a corporate social responsibility objective. Financial Institutions should be encouraged to see the commercial benefits of pursuing strategies which promote financial inclusion, both for the benefit of business, as well as to the advantage of society as a whole. Research by the Bank for International Settlements (BIS) in Basel suggests that having all consumers and firms inside the financial system has beneficial effects on financial and monetary stability. For central banks, financial inclusion has a positive impact on long-term economic growth and poverty reduction and important implications for monetary and financial stability. For example, greater inclusion should make interest rates more effective as a policy tool and may facilitate central banks' efforts to maintain price stability. Financial inclusion helps more consumers to smooth their consumption over time, potentially influencing basic monetary policy choices including which price index to target. It also encourages consumers to move their savings away from physical assets and into cash deposits.

30. In recent years, Government has not provided the leadership needed at national level to coordinate and monitor financial inclusion. Since the Financial Inclusion Taskforce was disbanded in 2011, no single government department has been tasked with promoting financial inclusion.

31. Government departments, devolved administrations, local authorities, voluntary organisations, regulators and industry are all working in different ways to address aspects of financial exclusion. Yet there remains a need for clearer leadership and coordination. Without a clear lead from Government, the regulator finds it difficult to justify mainstreaming action to promote financial inclusion.

**32. Recommendation: To show clear leadership the Government should:**

- a. Designate a senior minister as the government lead on financial inclusion, and financial capability, with the title of 'Minister for Financial Health'.**
- b. Establish a Ministerial champion for financial inclusion in each relevant Government Department, as well as in the devolved administrations.**
- c. Establish an independent, expert group to report to the Minister for Financial Health on emerging issues and on progress toward financial inclusion, similar to the Financial Inclusion Taskforce.**
- d. Provide the FCA with 'political cover' and a specific and clear direction to promote financial inclusion. At present, financial inclusion sits within the FCA's competition objectives and the FCA "may have regard...for consumers in areas affected by social or economic deprivation". A new Financial Inclusion commitment should sit within the FCA's Consumer Protection Objective, rather than within its Competition Objective.**

**Financial technology (Fintech)**

*Q14. 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?*

33. The rise of FinTech as well as broader innovation in the credit and payments landscape should increase financial inclusion by providing tools and education for those who are not catered for by existing services. Prepaid cards, and the technology which underpin them, can aid users in managing their money, and can be distributed by public sector bodies for the disbursement of welfare payments. Money management apps and new innovations in Credit Scoring using non-traditional methods can help provide financial capability, institutional trust and the necessary access to financial products for those facing barriers- in particular among the underserved and unbanked sections of the population.

34. The Commission is concerned that digital financial services are not equally accessible across society, and that the benefits of technology may be less likely to reach those on low incomes, since they are a less profitable market. FinTech innovation needs to go hand in hand with a broader digital inclusion strategy, which identifies that many of those at risk of exclusion either do not have physical access to technology, nor the requisite skills to use it to meet their needs. Ofcom estimated that 34% of UK adults did not have a smartphone in 2015 (first quarter), and last year's House of Lords Digital Skills Inquiry discovered an unfolding crisis.

**35. Recommendation: Financial inclusion should form part of a broader digital skills strategy, and digital inclusion needs to be a core consideration for any FinTech related policy innovations. The Government should continue its support for FinTech in the UK, in particular technology which tackles financial exclusion, in areas like cashless technology, alternative credit scoring, affordable insurance and facilitating money management.**



## Appendix A: List of Financial Inclusion Commissioners

Sir Sherard- Cowper Coles KCMG LVO (Chair)	Senior Adviser to the Group Chairman and Group Chief Executive of HSBC Holdings
Sir Brian Pomeroy CBE (President)	Former Chairman of the Treasury's Financial Inclusion Taskforce
Chris Pond (Vice Chair)	Former Labour MP and DWP Minister
Professor Sharon Collard	Professor of Personal Finance, Bristol University
Martin Coppack	Head of Partnerships, Financial Conduct Authority, but acting in a personal capacity for this Commission
Laurie Edmans CBE	Non-Executive Director, Money Advice Service
George Kerevan MP	Scottish National Party MP for East Lothian, Treasury Select Committee
Dr Omar Khan	Director, Runnymede Trust
Lord Archy Kirkwood	Former Liberal Democrat MP
Dame Mary Marsh	Founding Director, Clore Social Leadership Programme
Jeremy Quin MP	Conservative MP for Horsham, Work and Pensions Select Committee
Lord Wilf Stevenson	Labour Shadow Business Minister
Sian Williams	Head of National Services, Toynbee Hall

## Appendix B: Policy Recommendations from 2015 Report- Financial Inclusion: Improving the Financial Health of the Nation

### LEADERSHIP

1. Designate a senior minister as the government lead on financial inclusion, and financial capability, with the title of 'Minister for Financial Health'
2. Establish a Ministerial champion for financial inclusion in each interested Department and in all devolved administrations
3. Establish an independent, expert group to report to the Minister for Financial Health on emerging issues and on progress toward financial inclusion, similar to the Financial Inclusion Taskforce
4. Place a statutory duty on the Financial Conduct Authority to promote financial inclusion as one of its core objectives

5. Establish an independent, industry-funded think tank to work with consumer groups, tackle regulatory challenges and facilitate innovation in the interests of financially excluded consumers

#### BANKING AND PAYMENTS

6. The Competition and Markets Authority to promote transparent pricing as part of its investigation into retail banking
7. The new Payment Systems Regulator to ensure Direct Debits and Faster Payments are accessible to small organisations and new entrants
8. Regulators to ensure payment mechanisms are responsive to the needs of all consumers
9. The Department for Work and Pensions to promote inclusive alternatives to the Post Office Card Account to support the introduction of Universal Credit, which meet the new basic bank account industry standard agreed by HM Treasury, including electronic payment facilities
10. The Financial Conduct Authority to promote greater consistency and accessibility in identity requirements for opening a bank account, and the Cabinet Office to continue to work with industry to deliver a world-leading digital identity that supports financial inclusion

#### CREDIT AND DEBT

11. Government to enable the use of public sector and non-traditional data in credit scoring, with safeguards, to make access to financial services easier for excluded groups
12. Government to lead a collective effort with retail banks and others to promote wider data disclosure and to fill the low income credit gap which has been widened by departing payday lenders
13. Promote measures to make community finance institutions more sustainable, such as government lifting the APR cap on credit unions, lenders and investors developing a better understanding of business models and risk, and community lenders attracting a wider customer base
14. Adapt Scotland's Debt Arrangement Scheme for the whole United Kingdom, with frozen interest, reduced arrangement fees, more breathing space, reduced time on the credit file and the offer of financial skills training
15. Promote a more coherent approach to customer-focused debt advice through better coordination and clear regulatory guidance

#### SAVINGS AND PENSIONS

16. Rebalance government subsidies for savers to ensure everyone is encouraged to save, introduce auto-enrolment for workplace savings schemes and conduct a feasibility study into which savings models work best for people on low incomes
17. Government to conduct a robust evaluation of 'Pension Wise' to ensure that everyone has access to an affordable, objective service that is fit for purpose
18. The Department for Work and Pensions to work with the industry to deliver a Swedish-style pensions dashboard to help people understand the prospective real value of their consolidated public, private and occupational pension income

#### INSURANCE

19. The Financial Conduct Authority, using its proposed new financial inclusion objective, to ensure that risk profiles, premiums and refusals of cover in the personal insurance market are based on accurate information
20. The Treasury to lead a debate on suitable and affordable protection for consumers unable to obtain personal insurance through the market

#### FINANCIAL CAPABILITY

21. Provide financial skills training from primary school through to retirement, including at key life stages and events, and covering cultural as well as technical aspects of money management
22. Develop a robust, outcomes-based evaluation of how to improve financial capability, with resources to enable it, developed with industry, government, consumer groups and civil society, and coordinated by a reformed Money Advice Service

*14 September 2016*

## **Financial Inclusion Commission – Oral evidence (QQ 50-60)**

Evidence Session No. 5

Heard in Public

Questions 50 - 60

Tuesday 13 September 2016

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Members present: Baroness Tyler of Enfield (The Chairman); the Bishop of Birmingham; Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord Northbrook; Baroness Primarolo; Lord Shinkwin

## Examination of witnesses

Sir Sherard Cowper-Coles KCMG LVO, Chairman, Financial Inclusion Commission, Sir Brian Pomeroy CBE, President, Financial Inclusion Commission, and Chris Pond, Vice-Chair, Financial Inclusion Commission.

Q50 **The Chairman:** Thank you very much for coming in. We really appreciate you giving your time like this. By way of getting through the formalities, it is a very hot day and, if you would like to remove your jackets, please do so. There is water on the table. It does get rather hot in here sometimes, but I hope that will not be a problem today.

I formally welcome you to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website, and a transcript of the meeting will be taken and published on the Committee website, but you will have the opportunity to make any corrections to the transcript if that is necessary.

Before we kick off, I would just like to explain that Lord Kirkwood, who is a member of the Financial Inclusion Commission, is here and, due to the relevant non-financial interest that he has registered, he will not be asking any questions of his colleagues from the commission, but he will of course be listening attentively to the answers.

**Lord Kirkwood of Kirkhope:** I know too much.

**The Chairman:** We have quite a lot to get through. You have seen the questions that we want to ask. There are three of you; please do not feel that you have to respond to every single question if you feel that others have covered it, but if there are things you are burning to say, we are keen to hear from you.

I will kick off. Could you make a few introductory remarks about your views on the nature of financial exclusion? From your experience, what are the actual causes of financial exclusion? Who do you feel are most affected by it?

**Sir Sherard Cowper-Coles:** Thank you, Chairman. I might start, and I will then ask Brian Pomeroy to continue answering the question. Brian chaired the Financial Inclusion Taskforce, which operated from 2005 to 2011. The work of the commission, which I am lucky enough to chair, has taken up from where Brian's task force left off.

We found a country where there are still very large numbers of people without bank accounts. About half the people in this country who do not have bank accounts have had them in the past and do not want to repeat the experience. Very large numbers of people are still suffering from overindebtedness, from financial anxieties of one kind or another or from lack of insurance; 50% of the bottom half of the income distribution in this country do not have household insurance.

There are a whole range of problems. The causes are almost as diverse as the symptoms of the problem, but, above all, it is to do with low income, low

financial capability and a fear, really, of engaging with the conventional financial system. With that, I will hand over to Brian.

**Sir Brian Pomeroy:** Just expanding on what Sherard has said, you can put the causes into two broad categories. The first relates to the approaches of the financial services sector towards certain people on low incomes. The second relates to the perceptions of people on low incomes and their concerns about engaging with the financial services industry.

On the first, up until 10 or 12 years ago, the industry—in particular the banks—showed no interest whatever in serving people on low incomes, for the obvious reason that they were not very profitable customers.

That did change. They introduced the basic bank account, which was a big move forward, and committed to reduce requirements, and the banks played their part in that, but, even so, significant barriers still exist. For example, even with the basic bank account, they require photo ID, such as a passport, which many people on low incomes simply do not have. Information was not readily available about the product even though it had been put on the market.

At that time, although it has changed, there was also a cultural view in banks: a stereotype of “our” kind of bank customer. Many people simply did not fit that stereotype. That is the supply side of it. It is to the banks’ credit that, over the next five or six years from 2005, they stepped up to the mark and fulfilled the commitment that they made to reduce the number of unbanked by rolling out the bank account. But still those barriers persisted, and still today some persist.

On the demand side, it is the inverse of that. People who do not have a family history of being engaged with financial services—their parents were not banked and their siblings were not banked—would be mistrustful of banks. I should say this mistrust of the banks predates the banking crisis. They would think banks were for richer people, not “for us”.

There would be a lack of self-confidence. For example, we heard evidence at the task force from people who said, “I would like to save £1 or £2 a week, but I would be embarrassed to take £1 or £2 to a bank or building society”. There were all sorts of barriers of that sort. There are demand-side as well as supply-side barriers, and the financial inclusion movement, if one can term it like that, has been trying to break that down on both sides.

**Chris Pond:** If I can add to that on the demand side, there is also the challenge of rather poor levels of financial capability, which reduces further the confidence that people have to engage with financial services—a fear that they will perhaps not be doing the right thing. That is an important aspect on the demand side, too.

**Sir Sherard Cowper-Coles:** There are wider costs to society in not having everybody or every adult as part of the conventional financial system. It is not only the additional costs of people having to pay by cash rather than by direct debit; it is about not having every consumer visible in terms of monetary and financial stability. Some interesting work has been done in Basel on the way financial stability is improved by having everyone banked as part of the conventional banking system. Also, on financial crime and tax compliance,

having everybody digitally enabled makes for a more equal and transparent society.

**The Chairman:** I will follow up on one point, which you sort of touched on: your view on whether financial exclusion is an issue in its own right or part of a broader agenda of poverty, disadvantage and social exclusion. It often seems to me that it is discussed separately from the broader discussions that we have on poverty and disadvantage.

**Sir Sherard Cowper-Coles:** I might start on that and then hand over to my colleagues. We would say that it is very much a symptom of a wider problem of exclusion. That very much reflects the new Prime Minister's belief in a country that works for everyone. Our preliminary contacts with her advisers suggest that she and those around her want to tackle this as one symptom of a wider problem of a society in which not everyone feels they fully belong. Being excluded from the financial system, not having access to it and not using it in an appropriate way is a symptom of that.

**Chris Pond:** In a sense, it is part of a wider problem of exclusion, but financial exclusion can affect everybody at different stages of their lives. For instance, people entering the country for the first time, even if they are quite professionally qualified, may find it difficult to get a bank account. As Lord Shinkwin will know from his work at Macmillan, people who have suffered serious illness, even though they no longer do so, will find it very difficult to get insurance of various forms. Older people who may be relatively comfortable in terms of income may nevertheless be digitally excluded from access to financial services.

Having said that, it is a problem that strikes largely from underneath. It is those on low incomes and those who are excluded in other ways who are most likely to be affected—those whom the Prime Minister has described as “just managing” or who are right on the edge, who may be just one salary cheque or payment away from falling into serious personal debt—by exclusion from financial services and who need that cushion and that resilience.

In particular, as the newly formed Money and Mental Health Policy Institute has pointed out, there is a very real issue about people who are suffering mental distress. It has focused on the issue of crisis spending, but we know that there are very clear links between debt and mental distress running in both directions. We need to tailor both the services and the policy to address the needs of that group in particular.

Q51 **Baroness Primarolo:** Chris, you started a line of argument that I wanted to focus on. In understanding and addressing financial exclusion, you use a broad category of “low income”. I am interested in the question of whether you see that there are vulnerable members of our society within that broader low-income category where we should be prioritising or targeting our concerns to a greater measure than we are now.

You gave examples concerning mental health and asylum seekers, but one size will not fit all. Can you give us some pointers of particular things that could be done now to help particular sections within that low-income group?

**Chris Pond:** You are absolutely right, Baroness Primarolo, that we need to tailor the policies to the particular needs of particular groups. There is an

overall problem that personal household debt has started to increase significantly since the crisis of 2008. That is because real incomes have been falling, and that gap between incomes and expenditure has been widening all the time. There is a general issue, which we can address in terms of overall leadership by government and by the regulator so as to deal with that, but we need to recognise that there are particular challenges facing particular groups.

I mentioned older age groups and others around the country who may be digitally excluded. There is a considerable overlap between digital exclusion and financial exclusion. People in those parts of the country, including areas such as Northern Ireland, where access to the internet is very restricted, or older people or some other groups who find that they either do not have access to the hardware that they need or the ability to use it, may need particular focus.

I have mentioned those who are suffering mental distress. We also need to look at people at different stages in their life cycle: when they are at school, when they start their first job, when they form a family at the early stages—which is perhaps of particular relevance to Baroness Tyler, given your background—when they are going through family breakdown or approaching retirement or facing redundancy or unemployment. At each of those stages, the measures that you need may be rather different, and we need to tailor policy to ensure that we address those different circumstances.

**Baroness Primarolo:** You are basically identifying, for want of a better word, vulnerabilities in different life experiences and at different times. Do you have a proposition of how we could be more alert to those vulnerabilities, rather than writing it into policy but not delivering it?

**Chris Pond:** Some of the work that we carried out at the Financial Services Authority and which was carried on by the Money Advice Service has identified those circumstances in which people will be particularly vulnerable, not necessarily just in terms of income but in making poor financial decisions, which could tip them over the edge into losing control and being in serious personal debt. If we can use that evidence base to identify those groups who, at particular stages, will be particularly in need of support, we can make much better use of the resources that are available, which are inevitably limited.

**Lord Haskel:** We know that, in the banks, many decisions are taken by algorithms and artificial intelligence. Have you any proof, or do you have any views, as to whether some of the vulnerable, excluded groups are excluded because that kind of intelligence does not take their concerns or needs into account?

**Sir Brian Pomeroy:** I think there is evidence. We have seen it particularly in credit scoring. People who go for a loan are put through an algorithmic process—that is an absolutely accurate term—but if you do not have certain sorts of information on file, if you do not have a certain sort of record and if you have never used a credit card before and have nothing to demonstrate that you have a good record, you are at a disadvantage.

The remedy to that is partly to try to find other measures that can validate the trustworthiness and solvency of an individual. For example, if you are a social housing tenant of a local authority or housing association, your rental payment record might be a very good surrogate for the sort of things that are used. There is some interest in developing alternative credit scoring systems,



precisely for people who, as you rightly say, fail the algorithmic test simply because their lifestyle does not fit in with the parameters that it measures.

**Sir Sherard Cowper-Coles:** We looked a bit at experience elsewhere in the world. There is some very interesting data from other countries—China, for example—using non-traditional data to give people who do not have a credit file a credit file: mobile phone data or paying rental data, particularly for local authorities. One of the recommendations in our report was that government take a much more open approach to making that data available to the banking industry and lenders.

You are absolutely right: the mechanical, algorithmic approach is a driver of exclusion.

Q52 **Lord Haskel:** To me, your report in March 2015 said it all. How has your report been received, and to what extent have its recommendations been adopted?

**Sir Sherard Cowper-Coles:** Perhaps I could start on that, and the others can come in. We were obviously very pleased that all three main English political parties, as well as the Scottish National Party, adopted or mentioned financial inclusion in their manifestos in the run-up to the election last year. We were pleased that the new Mayor of London is committed in his manifesto to making London a financially inclusive city. We are pleased that, only two days ago, the Treasury announced that our recommendation of a pensions dashboard is being implemented. We are pleased that there is once again talk, under a new label, of reviving the old savings gateway. We are pleased that the Treasury found money for our recommendations on support for the illegal moneylending teams, although those had initially been taken offline.

Right across government, in the Bank of England and the Financial Conduct Authority, there is evidence of support for the direction of travel. What has been missing so far—you know what I am going to say—is an unambiguous lead from the top of government, in particular from the top of the Treasury. As we said in our report, we would like to see the designation of a Treasury Minister, perhaps the Economic Secretary, with the courtesy title of Minister for Financial Health or something similar, driving this across government, with a Minister in the DWP, and with many departments—the Home Office and even DfID—designated as part of a cross-government ministerial task force supported by a group of officials, with some sort of sounding board in the private sector outside government.

**Sir Brian Pomeroy:** I can add evidential support. On the last point that Sir Sherard makes, the period in which it was possible to get quite a lot done was 2005 to 2008 or 2009. The reason the task force was able to get things done was that we had strong political support. Everyone we dealt with—the banks, the voluntary sector, you name it—knew the Chancellor and the Economic Secretary were behind it, and there was a small team in the Treasury as well. Without that, it would not have been possible to do what was done. That disappeared in 2010 and 2011.

The evidence is absolutely that, if we had that sort of nerve centre in government and strong ministerial support, it would be possible to achieve some of the things we are talking about quite readily.

**Lord Haskel:** I welcome what you say about government support—political support—which is very important. What about the financial institutions themselves? Do you think there should be some sort of reward for carrying out some of your very excellent recommendations?

**Sir Sherard Cowper-Coles:** I suspect you will have seen our Greek temple, with the pediment being a lead from the Government, and underneath that is the regulator engaging. We have had a lot of private signals from officials in the Financial Conduct Authority, the Bank of England and the Treasury that, if there was this top-down lead from government, there would be a lot more that they could do.

In particular, in the FCA's duty to protect the consumer, there could be something much more explicit about not just protecting consumers but bringing them all—the remaining 2 million or so—into the financial system in an inclusive way. The evidence is that the banks and the financial institutions would respond to that with a lead from the regulator. It is a partnership, not an adversarial relationship.

**Viscount Brookeborough:** You mentioned that 50% of the people who have no bank accounts were people who had had bank accounts previously. Where are the other 50%? Do you have them broken down into groups as to whether they are young or old?

**Sir Sherard Cowper-Coles:** We do not have detailed data—at least the commission does not—but there has been a lot of research. We can write to the Committee, if that would be helpful, with more details. As we have said, it is a variety of people from different backgrounds: new arrivals in this country; people with mental or physical health problems; people on low incomes; people who have had bank accounts and who have then suffered and gone into unauthorised overdrafts. As Treasury officials made clear in their evidence to your Committee, they then suffer huge penalties. They then decide, "We want nothing more to do with this. We will continue to keep our money and our budget in cash, to manage in cash". They end up paying more than they would have done if they had remained in the system.

Q53 **Viscount Brookeborough:** In the 18 months since the report was published, how have events affected this policy area, and where is the commission now focusing its attention? What do you think you missed out on in that initial report or did not get right?

**Sir Sherard Cowper-Coles:** Again, I think the focus must be at the top of government. Without going into detail—indeed, there is not much detail to give at the moment—there are encouraging signals from those around the new Prime Minister and from her own rhetoric in Birmingham and in Downing Street about a more inclusive approach to social policy.

We are very much focusing on providing them with the data that would enable the new Government, or the new Prime Minister, to give a policy lead. If I may say so, that is where the Committee can play a very important role. This inquiry is the first time, to my knowledge, that either House of Parliament has taken this sort of focused interest in financial inclusion. The will is there. It is just a question of the final mile, as it were—the last 2 million people in this country who are not properly banked—and then maintaining the momentum. It is not just about having them in the system.

**Viscount Brookeborough:** On your recommendations, No. 21 is to “Provide financial skills training from primary school” and further up.

**Sir Sherard Cowper-Coles:** Yes.

**Viscount Brookeborough:** I am slightly surprised that that is so far down the list, in that, if the future is important and if children leave school with some sort of knowledge, you have some chance of catching it.

I wish to quote one thing from Russell Winnard of Young Enterprise. When we asked a question about schools, he said, about teachers, “They are not confident enough to stand in front of children who ask questions, and they do not know where to get the resources”. I simply do not understand how any teacher who is teaching is not confident enough either to talk or to play games around saving and where to keep money. It sounded to me, dare I say it, like a trade union answer—“We are not trained for it”.

**Sir Sherard Cowper-Coles:** Perhaps I could comment, and Brian or Chris might like to add something. It was so far down our list of recommendations, simply because we believe that financial capability is the foundation of the temple. It is the base on which everything else rests. It may well be that the Lord Bishop of Birmingham will wish to comment on this. There is, in our view, a cultural problem in this country with talking about money. I remember, as a boy, people saving up to buy things. Some people may remember the Access card. I remember a bishop at the time attacking the slogan for Access: “It takes the waiting out of wanting”.

The school system—again, there is evidence from around the world—shows that talking about money and about counting, encouraging a culture of thrift, starts from the bottom up and works the whole way through.

A lot of financial capability has to do with numeracy, an area where this country does not score as well as it should: being familiar with numbers, preparing to count, being able to look down a spreadsheet or a bank account. We would like to see the Department for Education with a Minister specifically designated as responsible in this area. Frankly, we thought that just putting a few hours in the national curriculum at secondary level, not covering academy schools, free schools or independent schools, really was not good enough.

**Sir Brian Pomeroy:** I will take the specific point that you made about the confidence that teachers have in imparting financial provision. I am not surprised, actually. Over the course of the years, I have sat in groups of teachers to talk about this. They have said that the fact that they have a bank account and so on does not put them in a position to answer children’s questions about X, Y and Z. I am not surprised. A number of them said, “Frankly, it is not something we feel confident in dealing with”, just as a fact.

**Chris Pond:** Young Enterprise has done some very good work, and pfeq before it, in providing support for teachers in schools, but there is a fundamental problem that many teachers do not feel confident in this area, and other organisations such as the Money Charity, which I chair, send trainers directly into schools to do the job.

The fact is that it is not enough just to do that at secondary school. We have the requirement that it should be in the curriculum. There are no resources to back it up. There is not really any support for teachers to do it. It certainly needs to be in primary schools as well, as the commission has said. It also

has to be there throughout life. Education does not stop when you leave school, and you have a very large number of people who, even if we provide adequate financial education in schools, will have missed out. We have a large adult population who really need support in different ways to improve their financial capability.

**Baroness Primarolo:** I want to follow something up. When he was giving evidence to the APPG on Financial Education for Young People, Martin Lewis said, “Since we got financial education on the national curriculum a lot of the funding from banks has been reduced, which has been a real hurt”. No evidence has been presented for that. Have you seen any trends, or is that his opinion?

**Chris Pond:** I think he is absolutely right in that respect. There was a period when financial education in schools was something towards which a lot of financial institutions—the banks and others—wanted to contribute. The Financial Services Authority was spending £4 million a year, mainly via a personal financial education group, to provide that sort of support.

Then, once it got into the curriculum, there was a sense in which it was, job done, and many of those who had previously wished to support that work decided that they could walk away and do other things.

It has become somewhat counterproductive: we have got it in the curriculum, but with no support from government to deliver. The support that came from elsewhere, outside government, has also evaporated.

**Sir Sherard Cowper-Coles:** There has been very good work done, for example, by the Archbishop of Canterbury’s task group and the Lifesavers programme, but that is only at Church of England primary schools. There is a feeling that there are pockets of good activity but there is not a comprehensive national approach; the banks need to play their part—everyone needs to play their part—but it needs an unambiguous lead from government and from the Department for Education in particular.

**The Chairman:** At the beginning of this question you kindly offered to send us some further research, if the Committee would find it helpful, when we were talking about the nature and the causes, and the types of people suffering here. It would be very helpful if you were able to do that.

**Sir Sherard Cowper-Coles:** We certainly will.

**The Chairman:** We would certainly welcome that.

**Lord Fellowes:** You gave Lord Haskel an encouraging answer about the attitude of the banks. When the crunch comes, there must be some tension, I would imagine, between prudence, shareholders’ interests and a duty to society. I think one banker called it an investment in society. Do you think the banks are really convinced of the merits of their putting their shoulders to the wheel and giving this a push, or do you think they are going to do the minimum?

**Sir Sherard Cowper-Coles:** No—I cannot speak for all banks, but the evidence that we have had from bankers and the contacts that we have had with them suggest that, if it were made clear by the regulator that this was part of the duty of protecting the consumer and bringing everybody into the banking system, in which everyone played their part, that would be accepted.

There are questions about de-risking. It is not just retail banks; it is global banks and countries taking a zero-tolerance approach to any sort of risk at all. In the end, banking is about risk. If the risk is shared in an intelligent, co-ordinated and co-operative way, I think the banks would be only too happy to play their part, because they realise that society as a whole, for various reasons, has a sceptical attitude towards banks, and they want to help address that. It is a question of restoring trust.

Again, they will do work, as they have done over the basic bank accounts, thanks again to leadership by the Treasury—an entirely voluntary arrangement but driven through a government lead. It is that sort of model, replicated on a wider scale, whereby I think we would see all banks willingly taking part.

Q54 **Bishop of Birmingham:** Can I follow that up on the banking side? Thank you very much for starting the debate on schools and culture, which we will take up at another time. I am very much under the Chairman's discipline not to respond to your very kind invitation, but just to point out that, in some of our primary schools in Birmingham, some of the young Asian boys and girls are more keen than ever to join our young enterprise schemes and learn how money works to advantage, rather than as either a burden or a curse.

To follow up on Lord Fellowes's question, the Financial Services Consumer Panel has emphasised more and more the duty of care for customers. I notice that, over in the Netherlands, say, this has become enshrined in statute. We have heard the good news about basic bank accounts and so on. Yet the material that comes to the ordinary customer to explain what is on offer still seems quite dense, with many pages of words in small print and so on.

With regard to this duty of care, how can we push it, commercially and in institutions but also statutorily, so that it becomes something that is part of the DNA of the business rather than just a requirement?

**Sir Brian Pomeroy:** If we first stick with the proposition that there should be a statutory duty of care, which as you rightly say the Financial Services Consumer Panel is very keen on, personally I am not yet convinced that it would add much to regulation by the regulator properly carried out. By the way, I am not saying that it is not properly carried out, but it seems to me that, if the regulator is doing its duty properly and treating customers fairly, which is the rubric under which much is done, much of the outcome that the consumer panel would like to see from the statutory duty of care should come out in regulation. The panel does not feel it always does, but I think that the first question is: would it add anything to regulation? I am not a lawyer, but, as I understand it, it would give the consumer a right of access directly to the courts. You would perhaps have parallel actions: you would have the regulator regulating and, in parallel, you might have cases going to the courts. I am not sure that is necessarily a good thing.

The first question I ask is: is it demonstrated? To me, it is not yet, but it would add something to what is going through the regulator's hands.

I note—I think I am right in saying this—that the Law Commission, in establishing a list of things it might look at, has put this on its list. I think it has put out a call for input as to whether or not it should be on the list.

Frankly, if there is sufficient demand for it to go on the list and it looks at it, that would probably be quite a useful thing.

As I say, however, I am personally not yet convinced that it really adds to it. It might even muddy the waters slightly if you have a case going to the courts in parallel with regulatory action.

**Chris Pond:** I will add something on the role of the regulator, which, as Sir Brian has said, already has the responsibility to ensure that customers are treated fairly. We welcome the fact that the regulator recently started to be more proactive on the debate about financial inclusion, particularly access. We saw back in May the publication of an occasional paper by the Financial Conduct Authority, which was a very good analysis of the issue of lack of access and explored ways in which it could be improved.

The difficulty that the regulator faces, which I think is part of the answer to your question, is that, at the moment, it is very constrained in what it can do under statute. Under its competition responsibilities, it may have regard to these issues, but it is not required to promote access or financial inclusion. It comes back to Sir Sherard's point throughout: that we need that leadership from government. We need the air cover for the regulator to say, "Yes, it is an important part of our responsibility to ensure that people have access to these services as well as being treated fairly in the process".

**Sir Sherard Cowper-Coles:** I might mention, following up on Chris's point, that, interestingly, the Chinese authorities took our report and had it translated into Chinese and, in the space of two years, went from being way behind where Britain was to way ahead. I spoke at the end of August at the second national Chinese financial inclusion conference. They now have a financial inclusion department in the China Banking Regulatory Commission, with the explicit duty of bringing the remaining 200 million Chinese without bank accounts into the banking system, delivered through digital. There is an exact example of how a regulatory lead can help deliver this.

**Lord Empey:** We need a Communist Party.

**Bishop of Birmingham:** I think, Chairman, on our next visit to China with the Archbishop of Canterbury, we will make this fairly high up our agenda.

Q55 **The Chairman:** Could I probe one point briefly? It is related to the statutory duty of care. It is very interesting how you have talked about the relationship between that and what is actually happening and what the banks are actually doing. Some of the evidence that we received in our earlier sessions suggested that banks are not exactly going out of their way to promote the basic bank account. Indeed, if customers come in, they might direct them to other banks and so on. If there is not a statutory duty of care, and taking account of what you have said about the need for leadership, what is it that might encourage banks to be a little bit more proactive in this area?

**Sir Brian Pomeroy:** In relation specifically to the bank account, we now have legislation, which has come out of European law, which I think takes effect very soon.

**The Chairman:** On 16 September.

**Sir Brian Pomeroy:** Yes—pretty soon—under which nine banks are required to offer what you might call the new basic bank account, which has been

redesigned in a sort of homogeneous way across the banks to anyone who asks for it, unless they meet certain restrictive criteria. That is to be supervised, I understand, by the FCA. So, first, there is now a legal responsibility to give the bank account, other than in a few exceptional cases; and, secondly, there is a regulator whose task is to ensure that happens. One of the things we shall be interested in is the way the FCA goes about ensuring that the new legislation is complied with.

**The Chairman:** It seems to me there is a distinction to be drawn between being obliged by law to offer it when asked and actively promoting. That is one of the issues that we are going to be looking at.

**Sir Brian Pomeroy:** I accept that, but I think the requirement is on them to make sure that information is available. I accept that there is a kind of dynamic difference between the two.

**Sir Sherard Cowper-Coles:** The other driver in this is the rollout of universal credit.

Q56 **Lord Northbrook:** How effective is the current regulatory regime in tackling financial exclusion? Are further regulatory powers or interventions required, and, if so, what form might these take? In the answer, could you focus on the Money Advice Service and on the new freedoms with the law changing under pensions, which gives opportunities that can trap the unwary?

**Sir Brian Pomeroy:** I shall start with the first part of your question; Chris may want to say something about the Money Advice Service.

First, the relevant regulator, the Financial Conduct Authority, does not have a financial inclusion duty in those terms. As has already been mentioned, within one of its three objectives—its competition objective—it “may have” regard to access. There is specific reference to deprived communities and so forth in that context—but it “may have”. That is pretty narrow. You could easily argue that even the “may have” should form part of its consumer protection objective as well as its competition objective. It seems to me that it would fit there. That is something that one could readily argue.

As Chris has said, in the work that it has done on access, it is clearly moving. By the way, I should declare an interest as having been a member of its board until March this year—so I have been part of some of these discussions. Clearly, it has moved as far as it feels it can within its current remit towards promoting access, but it does not have an overall financial inclusion objective.

It is right, appropriate and essential for a regulator to promote access within the set of products that already exist. In other words, if a bank or an insurance company has decided to put products into the market at certain prices, they should be available to all, and I think it is the regulator’s responsibility to help ensure that.

The difficult part comes when you want the industry to do something that it would not otherwise do on commercial grounds. In other words, you are asking it to do something that is overtly not commercial. That is the part where, in my view, government has to step in. I think it is asking too much of a regulator to take what is effectively a political decision and get one part of society to cross-subsidise another, which is what it would amount to. I am not

saying that those decisions should not be taken; I am saying that that is a political decision for the Government. That is where I would draw the line.

Within the framework, and possibly with the addition of the access objective in the consumer protection work of the FCA, it should do all it can to promote access. Based on a paper it produced earlier this year, which has already been referred to, there is evidence that it is pushing as hard as it can in that direction, within the statutory confines.

**Chris Pond:** I will pick up the point about the Money Advice Service. While we are declaring interests and asking for previous offences to be taken into consideration, I should say that I also worked at the Financial Services Authority, where I had a role in helping to set up the Money Advice Service. It has to be said—I think all of us would agree—that MAS perhaps did not fulfil all our hopes and aspirations, and reform was absolutely necessary. I am not sure—in fact, I am absolutely sure that it is not the case—that the proposals that have now come forward to replace it with two different organisations, one focused on pensioners and the other focused on money guidance and advice overall, really fit the bill.

In a world with the pension freedoms that you mentioned, Lord Northbrook, where people are asked to take greater responsibility in making some quite difficult decisions not only at the point of, or during, retirement but in the run-up to that, during their working lives, and with a situation where, during their working lives, people are having to take extra responsibility, particularly, as Sir Sherard said, with the rollout of universal credit and the requirements of that to make decisions on budgeting, I am not sure that two organisations will do anything other than send consumers from pillar to post, causing greater confusion.

Our view is that it would have been very much better to have a single organisation and a single point of contact for consumers, which could give them guidance throughout their lives, whether or not they are still at work, unemployed or in retirement. I feel that there is a missed opportunity there, and we would very much like the Government to revisit that decision.

Q57 **Lord Shinkwin:** You have pre-empted my question, as I was going to ask about your view on the significant changes that you have just mentioned. I would be interested to know if you have communicated that view to the Government. In the light of the positive remarks that were made earlier about the Government's commitment to social reform—I think you said, Sir Sherard, that the Prime Minister wants to tackle financial exclusion as part of a wider problem—do you think, given that the new model is not likely to take effect until April 2018, that there is any scope for change, and that your views about the need for a single organisation might be taken on board?

**Sir Sherard Cowper-Coles:** I think there is. We have a new Chancellor of the Exchequer and a new Economic Secretary. The explanations that we have been given by Treasury officials perhaps merit examination. One was that pensions was the responsibility of one department and everything else was the responsibility of another department, and it was difficult to devise a single body that reported to two departments. It was easier in terms of wiring diagrams and pipework to have two separate bodies. That may be something that the Committee could explore.



Treasury officials very properly and dutifully explained the policy, which is to have two bodies, but this is out for consultation. This is an area that deserves further exploration. As Chris has said, there are views across the sort of sector in which we operate where questions have been asked about whether this is not the wrong thing but whether it is a missed opportunity to create a very powerful single body that looks at how people manage money throughout their lives. The liberalisation of pensions means that fencing off pensions as a particular part, entirely separate from saving, starting from the time when one enters the workplace, is not necessarily the right approach.

**Chris Pond:** All the welfare reforms, including universal credit and the pension freedoms, can be made to work successfully only if we have greater financial capability, greater guidance, greater education and greater financial inclusion. Without those things, there is a real danger that changes that all of us would agree have considerable merit in principle could result in far greater hardship being meted on some of the most vulnerable groups.

**Lord Shinkwin:** As well as creating hardship, would you say that the reforms might also be affected in terms of their viability?

**Chris Pond:** There is a very real danger that, in terms of the rollout of universal credit in particular, unless there are changes to help more people to be included, to have access to financial services and to improve their financial capability, this cannot work. When you move from a welfare system that has traditionally been paying benefits on a weekly basis to a situation where they are paid monthly, that requires considerable budgeting skills. That therefore means that you have to have not only the budgeting skills but the products and services that are available to help people to budget in that way.

**Sir Sherard Cowper-Coles:** And, if I may say so, the confidence to manage the money in the banking system, rather than going to the ATM at midnight on the day the benefits are paid in, drawing it all out in cash and then trying to manage in cash. The consumer gets no benefit from that. The intention behind universal credit must be laudable, but helping people to deal with the consequences is also vital.

As the Chinese have discovered, and as our fintech sector has pointed out, there are many ways of using modern technology to help people budget, to create virtual jam jars, to remind people, as they borrow, that they should also be saving. I have seen apps in China that enable people to save just 2p or 3p a day if they want to and have access to affordable credit. It can be done very easily. I know that the DWP is interested in this sort of area, but a political push from a powerful Committee like this could make all the difference.

**The Chairman:** We said at the beginning of the inquiry that we were keen to draw on international best practice and comparisons, so it is very helpful to hear about China.

Q58 **Lord Harrison:** Gentlemen, this is a question about the utility of national strategies. The Money Advice Service published its *Financial Capability Strategy for the UK* in October 2015. What is the value of such a strategy? Should it continue? If it does, in what form might it change? If there are not the resources or, as you have said so forcefully this morning, if there is not a lead given from the top, they fall into dust.

**Sir Sherard Cowper-Coles:** Yes. Lord Harrison, you have put your finger on a serious problem. I must declare an interest, as I sit on the financial capability board, which advises the Money Advice Service on the financial capability strategy. As you imply, a strategy is just words on the page without execution. It sounds as though, whatever happens to the Money Advice Service, there is a commitment to a financial capability strategy for this country, which must be right, but it must be a strategy that focuses on outcomes, perhaps, going back to what the Bishop of Birmingham was saying, starting with cultural attitudes in this country towards money, saving and thrift, starting at school, going right through life and measuring outcomes. Are people saving more? Are people putting aside money as they borrow? For the generations who come after us with the challenges that they face for retirement, this is going to be vitally important. It is perhaps one of the greatest challenges for the Government. The answer has to be yes to a financial capability strategy—absolutely essential—but a strategy is only as good as its execution.

**Lord Harrison:** How might we measure the outcomes that Sir Sherard talks about?

**Chris Pond:** This is not the first time that we have had a financial capability strategy or national strategy. We had one under the Financial Services Authority, which was described by the National Audit Office as world-leading. It brought together, and acted as a focus for, not only the regulators and the Government but the industry and many voluntary organisations, including some that people around this table have been involved with in the past. It gave a real momentum to that notion that we could all work together on this. I hope that the new strategy will achieve that, too.

As for measuring the outcomes, that is very difficult. Academics and researchers have been struggling with how we measure what is a successful outcome of some of these activities. Some have suggested that financial education itself has no clear measurable outcome. Frankly, I am not convinced about that. It seems to me that it is worth doing in its own right.

Under the Money Advice Service at the moment, we have a programme, “What Works”, to try to measure whether or not particular initiatives will have a real impact on people’s financial capability. I am slightly worried that the focus is always on new, untried initiatives, rather than measuring the success of things that have been going for some years. There is always a tendency to go for the bright, shiny, new ideas and then to leave organisations that are delivering very effectively without any visible means of support. Some of that will give us new learnings about the best way to improve people’s financial capability.

**Lord Harrison:** I like dull ideas that work.

Q59 **Lord Empey:** Could we move on to credit unions and related institutions? It was said in earlier evidence that somebody trying to save £2 or £3 would feel embarrassed. You know the situation: somebody comes into one of these marble palaces, with a security guard with a peak at the end of their nose and somebody in a fancy suit looking over the counter. Clearly, that is not an atmosphere that is going to help. Credit unions, on the other hand, might operate out of the front room of a house or in small offices, perhaps upstairs. They do not have the same sort of social barriers.

The Archbishop of Canterbury's task force comes up again here. What do you believe on whether there should be legislation for this? Do you feel that the promotion of the credit union movement and related institutions is part of the answer?

**Sir Brian Pomeroy:** The first thing to say is that third sector financial institutions, of which credit unions are only part, because there is another part as well, the CDFIs—community development financial institutions, which we should also think of—have a vital role to play, and credit unions particularly. Therefore, anything we can do to promote them and scale them up, we should do. Indeed, government policy since 2005 has actually done something. Quite a lot of money was put into something called the growth fund, which was money put into credit unions they could on-lend. One of the problems that credit unions have is getting capital to lend. Some work on that has been done.

Indeed, there is a project I know. When you took evidence from the DWP and the Treasury, they mentioned the credit union expansion project, which is able to improve efficiency by sharing back-office and other sorts of management.

Quite a lot of work is being done on that, but we can always do more, because, as you rightly say, they are trusted institutions, credit unions and CDFIs. They are not the only ones. You might also think of the Post Office, for example, as being in the trusted bracket. They are trusted. They do not yet have as much geographical coverage as one would like them to have, so anything that you could do to increase their geographical coverage would be useful. As I have already said, anything you could do to increase the availability of capital for them to on-lend, which might come from the commercial sector, would also be useful.

You mention legislation. Some legislation has been floated, and I think the position of the Government in December 2014 was that they would consider legislation. I do not think the current Government have yet taken a position on that. I am not absolutely sure. They have talked, for example, about broadening the common bond, which might enable larger credit unions or mergers of credit unions, which could be stifled at the moment by current rules. That has been mentioned. They have talked about broadening the objectives of credit unions, which enables them to do more things and issue more products. That sounds to me like a useful thing to look at. There has been some discussion—I take my life in my hands here, because I have incurred the ire of credit unions a number of times by questioning whether the name “credit union” is the right name for the 21st century, particularly when you consider that, to be successful, they have to appeal to the middle market. Deposits from the middle market are an important source of capital—of funds—for on-lending. I know this is very controversial, but I personally have long thought that the name could be changed and it could become a more recognisable 21st century brand. I know a lot of people do not agree with that.

Anyway, there is a bundle of possible enhancements to legislation that have been put on the table. I personally think that they should be looked at, particularly, leaving aside my comments on the name, if they enable the credit unions to increase their scale. There are some credit unions that are

really relatively large and act just like financial institutions, but if they became larger and better capitalised, they could make a bigger contribution.

We should do all that but recognise that the balances of credit unions are still a very small part of total credit lent. Obviously they have a savings function as well, but they are still a very small part of the total credit sector. They can make a contribution, but they will not change the sector. That would be my evaluation.

**Lord Empey:** Perhaps, though, the one bit of genius in the whole thing is that they can get down into the centre of a housing estate.

**Sir Brian Pomeroy:** Yes, they can.

**Lord Empey:** Sometimes, being bigger is the problem, in so far as it is about having somewhere where people do not feel a barrier, do not feel out of place and do not feel like a fish out of water—going into Mr Bloggs’s house at No. 36 once a month or something. There is that aspect of it. Yes, I understand the point about capitalisation and all that but, in many respects, that is the barrier, is it not, or part of the barrier?

**Sir Brian Pomeroy:** It could be. It is worth saying that the credit unions—and this word is used in the consultation—are polarised between a small number of large ones and a large number of smaller ones that are much more locally based, as you say. That does exist.

I think the evidence is that people, whereas they may be intimidated by the bank and the building society, are not so intimidated by credit unions. They do not have that image and they do not have some of the historical connections of the financial services industry that are perhaps unhelpful for some people. I think they are trusted. Of course, it is entirely possible for a large, quite corporate, credit union to have a presence on a housing estate if it wants to.

**Chris Pond:** We have to think about the distinction between community-based credit unions and employer-based credit unions. You will know, Lord Empey, that, in Northern Ireland, community-based credit unions are a very important aspect of the provision of credit.

The largest credit union in the world is an employer-based credit union— the US Navy Federal Credit Union. Employers are still quite trusted by the people who work for them. Therefore, employer-based credit unions or other forms of employer-based lending seem to be much more acceptable to people, especially if the payments or withdrawals are made through the pay cheque. There is a question whether or not one could see an extension of this form of lending via employers, whether it be through a credit union or a commercial operation, but we have to recognise that there is a huge gap in access to affordable credit generally.

When we were taking evidence around the country in advance of our first report, we were told about one community lender who had had a very large number of lone parents who had come to them asking for help just before Christmas, whom they had had to turn away because of the cap on payday lending—which I think all of us will say was necessary. However, that has very considerably reduced the availability of credit to people, and the community sector has not been able to step up to the plate to fill that gap, which we

estimate is something around £5 billion. Even if you were to double the size of credit union lending, you would still get to only about 10% of filling that gap.

We need mainstream financial services to make provision of affordable credit, whether it be through the credit unions or the high street banks. Otherwise, we have seen increasingly that people turn to illegal lenders, to the real loan sharks. As Sir Sherard said, we therefore had a small campaign to try to ensure that the illegal lending teams around the country were given the support that they needed, and I am delighted that the Government stepped in and provided the finances available. There is a real danger that, if the community sector or the mainstream sector cannot fill that gap in affordable credit, the loan sharks will happily do so.

**Sir Sherard Cowper-Coles:** As a footnote to what Chris has just said, it is worth noting that a method is under way to establish what should be the largest credit union in this country, based on the retail industry, for shop workers. We must hope very much that that succeeds, but that is now well on its way to success, from what I have heard.

Q60 **The Chairman:** As we draw this session to a close, can I ask you, by way of making any final comment, to tell us where you think the Committee should be focusing its attention? I am conscious that you have done that as you have gone through your comments, but if you want to leave us with one thought of one area where you think it is crucial that we make a recommendation, could you say where it is?

**Sir Sherard Cowper-Coles:** Could I start and then invite Brian and Chris to add any supplementary points?

Britain is one of the most advanced societies in the world in terms of financial services. I would hope that, in 10 or 20 years' time, it would seem bizarre that a very significant proportion of our adult population were not connected to the financial services system just as, in the past, we connected people to mains electricity or to the landline telephone system. I would hope that, in a financially civilised society, everyone in that society, whether they were on a low income or new arrivals, had access to the system to move their money around, to save and to borrow in affordable and intelligent ways.

In terms of the focus of the Committee's report, our hope would be that, with a Prime Minister who is sending out signals about a society that works for everyone and a country that works for everyone, whose staff we know are interested in this area, the first and most important signal that the Committee could give would be to welcome what has been said, to welcome all the achievements that were set out by the previous Economic Secretary, Harriett Baldwin, in her speech at the launch of the FCA paper, and repeated by Gwyneth Nurse in her evidence to the Committee, some of which I mentioned earlier, but to say that the sum should be much greater than all those parts. That means a lead from government, a lead from the regulator and an effort across government—the Department for Education, the DWP, DfID and the Home Office—everyone part of such an effort, in which the third sector and the banks work alongside the Government. It is not a sort of "gotcha" culture, in which we are trying to catch each other out, but with a regulator who has that duty laid on him to promote financial inclusion, as we have seen happen in another country I referred to in double-quick time. That is the headline message.

**Sir Brian Pomeroy:** I do not think we are all required to have different headline messages. My headline message would be the same: it is really the lead from the Government. It is responsibility and a palpable lead at ministerial level, backed almost certainly by some official support, which certainly proved important the last time there was such a lead. That is the first priority. From that, other things, as Sir Sherard has said, will flow.

**Chris Pond:** I think I have the same hymn sheet. It would be to say that, while we recognise that there has been a loss in momentum on this agenda for the past five or six years, we now have an opportunity for a new beginning, with a new Chancellor and a Prime Minister who has said that she wants to help people take control. We know that taking control of one's finances is very important in terms of emotional and psychological well-being. Therefore, it will be doing a service to the country as a whole in terms of productivity if we are able to address these issues.

For me, it would be to say that we should take the Greek temple and we should focus both on the foundations of that, which is financial capability and the financial capability strategy that we talked about, and the roof of the temple, which is giving the leadership that Sir Sherard mentioned coming from the Government and from the regulator.

**The Chairman:** Thank you very much. I thank all three of you. This has been an excellent session, and you have got us off to a very good start to the new parliamentary term. If we would like to come back to you with any points or questions as we progress through our inquiries, I hope that that would be possible.

**Sir Sherard Cowper-Coles:** And we will write to you with the data we promised.

**The Chairman:** Thank you very much.

## **Financial Ombudsman Service – Written evidence (FEX0027)**

The Financial Ombudsman Service welcomes the opportunity to respond to the call for evidence.

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### **about the Financial Ombudsman Service**

The Financial Ombudsman Service was set up under the *Financial Services and Markets Act 2000* to resolve individual complaints between financial businesses and consumers – fairly, reasonably, quickly and informally – and we are free to consumers.

We handle complaints about all kinds of money matters – from insurance and mortgages to savings and payday loans. If a financial business isn't able to resolve a customer complaint, we can step in to settle the dispute.

We're independent and impartial. When we decide a complaint, we look carefully at both sides of the story and weigh up all the facts. If we decide the business has treated its customer fairly, we'll explain why. But if we decide the business has acted wrongly, we can order it to put matters right – and pay compensation of up to £150,000. Consumers don't have to accept any decision we make. But if they accept an ombudsman's decision, it's binding both on them and the business.

### **our response**

1. Although consumers themselves don't tend to frame their complaints in terms of financial exclusion – and we don't categorise cases in this way – we do receive complaints from consumers who have applied for mortgages, loans, credit cards, other types of credit, insurance, bank accounts and other products – and been turned down. Importantly, our jurisdiction enables us to consider complaints from both customers of financial businesses and *potential* customers.

2. We do everything we can to make our service accessible to everyone who needs us. When staff join the ombudsman service their induction includes an introduction to vulnerability, and makes it clear that we all have a responsibility

to make sure our service is accessible to everyone who needs us and able to meet any particular requests our customers may have. We also have case advisers in our teams dealing with frontline calls – these are staff who are handpicked for their skills to spot early on people who are vulnerable and need extra help. They're supported by our dedicated accessibility team who, in addition to providing practical tools such as translations services, raise awareness of how to deal with people who are vulnerable or in situations that make them vulnerable.

3. In the complaints we receive we see *multiple* dimensions to financial exclusion. We see exclusion, for example, based on age. Following the new rules that came into force in April 2014, many mortgage providers tightened their lending criteria. Since then we've received complaints from people who've said that the only reason their application was declined was due to their age. Although the law says that financial providers don't need to justify objectively why they've treated someone differently according to their age, they do need to make sure that, if they're using risk assessments to make decisions about which ages to offer products to, these assessments are made on the basis of relevant information from a reliable source. Last year we published an insight paper on age-related complaints, and recently many lenders have indicated that they're changing their approach to lending to people past retirement.

4. We also see exclusion based on consumers' financial circumstances – very often applications for loans or other types of credit are turned down because the lender doesn't believe that the consumer is likely to be able to afford the repayments. This might be based on their credit score. Equally, we also see complaints from consumers – particularly in areas such as payday lending – where consumers *were* lent money but believe the lending was unaffordable from the outset, and should not have been allowed by the lender in the first place.

5. In other areas, the exclusion is very specific to the product being offered and the consumer's circumstances. In home insurance, for example, we sometimes receive complaints from consumers whose applications have been turned down because they live within a flood-risk area, or because the property has a history of subsidence.

6. In all these cases consumers are naturally disappointed when they're turned down and often feel they have been treated unfairly, or even discriminated against – and, understandably, feel strongly about it. We're very mindful that these decisions can have wider consequences – for example, they might mean a consumer isn't able to buy a home, or falls into further financial difficulty.



7. We are not the regulator, so we don't make the rules for financial businesses, or set the criteria to determine with whom – or on what terms – they do business. Nor do we have powers to force a financial business to transact with any individual consumer.

8. When complaints are made to us we will consider the case carefully and what the consumer and the financial business tell us. However, we won't normally interfere with a financial business's commercial decision – provided we're satisfied the consumer has been treated fairly. In practice this means we'd want to see that the firm had assessed the consumer's application according to its usual processes and procedures, carefully and properly considered all the information that had been provided, applied its criteria fairly and reasonably – and hadn't treated this individual consumer any differently to any other consumers, or made a mistake.

9. One feature of many of these complaints is that consumers don't feel they've been given the "real" reason for why they've been turned down. Sometimes this might be because they've been given a number of different reasons, or been told something they don't think is right or which contradicts something else they were told – or, in some cases, they haven't been given any explanation at all.

10. We also see complaints where consumers are unhappy with the customer service they've received – which adds to their feeling of having been treated unfairly. This might be because firms didn't keep a customer updated with what was happening, or failed to respond to calls or enquiries, or because the consumer was led to believe their application was likely to be approved – only for it to be turned down at a late stage. For consumers who were "invited" to apply, or led to believe their application had been "pre-approved", or received an "agreement in principle" this can come as an unwelcome surprise – especially where they've begun to make arrangements, such as paying a deposit or instructing solicitors. Occasionally we also see other problems – for example where firms don't return documentation that has been provided, or where consumers believe their details have been passed on to other businesses.

11. While we don't often find that the business's decision was unfair, we do sometimes find that the level of customer service provided wasn't what we'd expect. Where that's the case we do sometimes make awards for distress and inconvenience – typically somewhere between £100 and £200.

12. If we're not able to help we always do our best to identify who is best placed to deal with a complaint and signpost consumers to other ADR schemes and other sources of help. Working with bodies such as Citizens Advice Bureau,

National Debtline and Shelter we use “warm transfers” – where we transfer consumers directly, without them needing to ring somebody else – which makes it much less likely that consumers will decide not to pursue their complaint and give up altogether. We’ve invested quite a bit of time working with other organisations to manage the transfer of complaints in a way which means that consumers – and in particular vulnerable consumers – do not drop out of the system.

*13 September 2016*

## **Financial Services Consumer Panel – Written evidence (FEX0035)**

Dear Sir/Madam,

### **Call for evidence on Financial Exclusion**

1. The Financial Services Consumer Panel welcomes the opportunity to respond to the call for evidence from the House of Lords Select Committee on Financial Exclusion.

2. The Financial Conduct Authority (FCA) is required to set up and maintain a panel to represent the consumer interest. The Panel represents the interests of all groups of financial services consumers and operates independently of the Financial Conduct Authority. The emphasis of its work is on activities that are regulated by the FCA, although the Panel may also look at the impact on consumers of activities that are not regulated but are related to the FCA's general duties.

### Summary

3. Access to financial services has long been a Panel concern.

4. Financial exclusion is a consequence of financial services which are inaccessible, difficult to use, or which do not meet people's needs over time. It is generally accepted that financial exclusion particularly affects people on low incomes who may either be unable to access mainstream services or choose not to use them. However, as a recent FCA Occasional Paper<sup>275</sup> demonstrates, problems accessing financial services affect many different types of people, across the income range.

5. Access issues evolve over time so that people who have previously been financially included can find they become marginalised or excluded, because their personal circumstances change, because of a change in the way firms operate or because of wider trends, such as the digitalisation of financial services.

6. Financial products are often complex and financial decisions can have far reaching consequences. There is generally too much choice, rather than too little. Complex products, lengthy terms and conditions, and hidden fees and charges, often mean there are not appropriate products for those who are excluded.

7. Efforts to improve the UK's financial capability can only be effective if markets, including financial services, are properly regulated and provide adequate consumer protection. Individuals can be very financially capable but remain marginalised or excluded if they are unable to navigate financial firms' systems and processes, for example.

8. Financial products are often complex and financial decisions can have far reaching consequences. There is generally too much choice, rather than too little. Complex products, lengthy terms and conditions, and hidden fees and charges, often mean there are not appropriate products for those who are excluded.

9. We have only answered the consultation questions where we have substantive comments to make.

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<sup>275</sup> <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf>

## Definitions and causes of financial exclusion

### **Q1: Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?**

10. As the FCA's Occasional Paper describes<sup>276</sup>, financial exclusion is the 'sharp end' of the problems that many people face accessing financial services. Access problems can result in financial exclusion where people either can't or don't engage with financial services and end up using poor-value or unregulated alternatives.

11. Financial exclusion is a consequence of financial services which are inaccessible, difficult to use, or which do not meet people's needs over time. The report of the Financial Inclusion Commission<sup>277</sup> explains financial exclusion in detail and provides statistics for the number of consumers affected.

12. Consumers can be excluded from financial products and services for a number of reasons. Lack of access can also affect different consumers at different stages of their lives. Some examples of the causes are outlined below:

- Market failure
  - There are no products available in the market that meet consumers' needs; or
  - Consumers cannot access financial products due to firms' withdrawal from particular geographical areas/market segments/distribution channels.
- Refusal
  - Firms refuse to offer products to certain consumers.
- Price/payment exclusion
  - Firms are only willing to offer products to consumers at prices that are unaffordable or represent poor value for money; or
  - Firms are only willing to offer products on payment terms e.g. direct debit, annual premium, which make them inaccessible or unaffordable.
- Condition exclusion
  - Firms are only willing to offer products with terms and conditions that significantly reduce their utility or value for money.
- Affordability exclusion
  - Consumers have insufficient disposable income to pay for financial products even when they are reasonably priced.
- Self-exclusion
  - Consumers choose not to access financial products due to
    - A lack of awareness of what is available;
    - A lack of financial capability or confidence;
    - The complexity of products;
    - Contingent bank charges, such as complex overdraft charges, which can deter people from having bank accounts;
    - Lack of trust in providers;
    - An inability to access products via the preferred channel;
    - Lack of perceived need for/value in having financial products;or

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<sup>276</sup> <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf>

<sup>277</sup> [http://www.financialinclusioncommission.org.uk/pdfs/fic\\_report\\_2015.pdf](http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf)

- Psychological barriers.

13. From a regulatory perspective, appropriate access to financial products does not require that *all* consumers have access to *all* products. In some circumstances it will be more appropriate that consumers do *not* have access to a particular product. Appropriate access means that all consumers are able to make informed decisions about whether to use financial products and are able to access products that are necessary for everyday money management, medium-term saving, smoothing and protection and longer-term asset building.

**Q2: Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

14. It is generally accepted that financial exclusion particularly affects people on low incomes who may either be unable to access mainstream services or choose not to use them. However, as the FCA's Occasional Paper demonstrates, problems accessing financial services affect many different types of people, across the income range.

15. For example, those living in rural or remote areas may have fewer bank branches as well as poorer internet access, making it harder for people to access and manage their finances.

16. Age is also a factor in exclusion from certain products and services. Older people are less likely to be digitally included<sup>278</sup>, although that is changing rapidly, and they prefer accessing services face to face. This means they can struggle in a world where online services are becoming the norm, and banks are withdrawing their high street presence. Older people are likely to find themselves victims of age discrimination. This is not permitted in most service industries, but financial services are exempt<sup>279</sup>. Firms can use age as a risk factor in pricing financial products, or even refuse to provide products to certain age groups. So at an age when they have more leisure time to visit friends and family, or take a holiday, older consumers can find themselves unable to access travel or car insurance, or find that it is exorbitantly priced. At the other end of the spectrum, young drivers may be unable to get affordable car insurance, for example, which seems unfair if their individual risk profile is much lower than the average for their group.

17. Access issues evolve over time so that people who have previously been financially included can find they become marginalised or excluded, because their personal circumstances change, because of a change in the way firms operate or because of wider trends, such as the digitalisation of financial services.

18. Speaking generally, it is impossible for consumers to make properly informed decisions because information about the quality of a product or how a financial services firm may treat the consumer is not available in a consistent way, so comparison is often impossible. There are also conflicts of interest between brokers and consumers, and imperfect market conditions which mean that even very savvy consumers are excluded from making informed decisions.

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<sup>278</sup> An Age UK Digital Inclusion Policy Review document states only 29% of adults aged 75 years and over have used the internet:

<http://www.ageuk.org.uk/PageFiles/12810/Digital%20Inclusion%20Review.pdf?dtrk=true>

<sup>279</sup> Section 3 of the Equality Act 2010 (Age Exceptions) Order 2012 – financial services include a service of banking, credit, insurance, personal pension, investment or payment nature.

19. Some products, like current accounts, have no price signals meaning that consumers cannot make decisions about value for money.

20. Many financial products are complex and bought infrequently so consumers cannot learn from past experience. Even apparently straightforward products require assessment of multiple variables and complex trade-offs. For instance, a packaged bank account requires the consumer to consider not just the annual cost of the account, but also to compare products that they may be able to get cheaper elsewhere on a standalone basis. The consumer also needs to check that they can use all elements of the account (eg there may be age or health restrictions on travel insurance, which is frequently part of the package).

21. Products like insurance, credit and investments all involve an element of risk, which few consumers are equipped to judge.

22. Exclusion from all financial products and services may affect a minority of the population but exclusion from informed decision making affects all consumers.

**Q3: What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

23. The evidence shows strong links between financial exclusion, social exclusion, disadvantage and deprivation.<sup>280</sup> As part of its recently-published anti-poverty strategy for the UK, the Joseph Rowntree Foundation calls for people in poverty to have access to good-value essential goods and services, including financial services, and to ensure that they are not subject to a 'poverty premium'.<sup>281</sup>

24. The poverty premium experienced by people without access to automated payments or mainstream credit is well documented. In 2014, Toynbee Hall calculated the premium was £1,014 per year<sup>282</sup>. Energy companies continue to discriminate against consumers based on the method of payment they use and cause significant harm.

25. Problem debt can quickly spiral out of control, with resultant fees and charges often preventing consumers breaking out of the cycle of debt. In its credit card market study<sup>283</sup>, the FCA's analysis found that 'Low and Grow' card users were much more likely to have exceeded their credit limit than the generality of card users. While 'Low and Grow' cards may be useful products for consumers to build their credit rating and to smooth income and expenditure, this evidence indicates that such cards do not always work for consumers and may in fact risk damaging already fragile credit ratings. The market study also showed that over 20% of those who were in severe arrears in 2014 did not have an active credit card in 2012, suggesting a rapid descent into arrears. As the FCA report says, this raises questions about how firms assess creditworthiness for new borrowers.

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<sup>280</sup> See, for example, Kempson, E., Whyley, C., Caskey, J. and Collard, S. (2000). In or out? Financial exclusion: a literature and research review. Consumer Research Report No. 3. London: Financial Services Authority.

<sup>281</sup> [http://www.jrf.org.uk/sites/default/files/jrf/migrated/files/uk\\_without\\_poverty\\_summary.pdf](http://www.jrf.org.uk/sites/default/files/jrf/migrated/files/uk_without_poverty_summary.pdf)

<sup>282</sup> <https://www.theguardian.com/public-leaders-network/2015/nov/10/poverty-premium-costs-poor-energy-phone-tariffs-councils>

<sup>283</sup> <https://www.fca.org.uk/publication/market-studies/ms14-6-3-credit-card-market-study-final-findings-report.pdf>

**Q4: Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?**

26. There are examples of mental illnesses that directly affect consumers' ability to manage money. The Money Advice Liaison Group issued a good practice guide for helping consumers with mental health conditions and debt in 2015<sup>284</sup>. There is also a best practice guide for the use of 'flags' to be placed on the accounts/case files of individuals in vulnerable circumstances who are unable to manage money<sup>285</sup>.

Financial education and capability

**Q5: Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

27. The previous government made financial education a compulsory subject in the secondary school curriculum in England. But for personal finance teaching to be effective requires sufficient time in the curriculum, and enough money to train teachers and support them with resources. We do not yet know whether this new education is working or making a difference. While it is important to equip young people with the skills to manage their personal finances, it is asking too much of financial education to fix the problems of an industry that wilfully ignores consumers' needs for simplicity and transparency. All financial education can do is help consumers become a bit more savvy, so they ask the right questions, know what they want, understand the risks, and can find impartial advice.

**Q6: How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

28. Efforts to improve the UK's financial capability can only be effective if markets, including financial services, are properly regulated and provide adequate consumer protection. Individuals can be very financially capable but remain marginalised or excluded if they are unable to navigate financial firms' systems and processes, for example.

29. It is positive that, in its Public Financial Guidance Consultation<sup>286</sup>, the government recognised the importance of improving financial capability. Evidence from around the world<sup>287</sup> indicates the importance of providing strong leadership to improve citizens' financial capability. Typically the finance ministry or central bank provides this leadership in other jurisdictions. It doesn't really matter, so long as it is an organisation with the clout to bring stakeholders together and drive the agenda forward. There also needs to be a 'centre of expertise' for financial capability, to keep up to date with what works.

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<sup>284</sup> <http://www.malg.org.uk/wp-content/uploads/2015/04/Guidelines-2015.pdf>

<sup>285</sup> <http://www.malg.org.uk/wp-content/uploads/2016/04/Flags-Final-Mar16.pdf>

<sup>286</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/467105/public\\_financial\\_guidance\\_consultation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/467105/public_financial_guidance_consultation.pdf)

<sup>287</sup> Advancing National Strategies for Financial Education, A Joint Publication by Russia's G20 Presidency and

the OECD, 2013, page 212: <https://www.oecd.org/finance/financialeducation/>

G20\_OECD\_NSFinancialEducation.pdf

30. In light of international experience, the government's proposal to abolish the consumer-facing Money Advice Service (MAS) brand appears to have been hasty and not founded on sound evidence. It is not clear where consumers will go for the type of guidance MAS provides. Most users of the MAS website come through Google search. These are not 'paid for' searches, but have been built from years of search engine optimisation. This will be lost when the MAS brand is switched off and we are concerned that consumers – who will still search for their answers in the same way – will be unable to find an independent source of guidance.

31. Excluding providers of debt and pensions advice and guidance, there are very few independent organisations providing impartial guidance on general money issues such as borrowing, mortgages, protection insurance and budgeting. Citizens' Advice, for example, is generally seen as an organisation that helps people on lower incomes when they are already in difficulty. For people wanting to get on top of their finances, the Citizens' Advice website links to the MAS financial health check. Other 'positive' impartial tools, for example, on annuity comparison, will also be lost when MAS goes, with poor outcomes for consumers' financial capability.

32. The Panel believes that the government should incorporate MAS's statutory objectives into the new pensions advisory body (itself an amalgamation of the Pensions Advisory Service and Pension Wise). This would follow the example of New Zealand's independent Commission for Financial Capability (formerly Retirement Commission), which recognises the importance of building financial capability throughout individuals' lives, and encouraging them to think about retirement options early, not at some arbitrary point when it may be too late.

33. New technology like Open APIs and the introduction of the Payment Services Directive (PSD2) and Account Information Service Providers (AISP) will provide fertile ground for innovators to provide new services that help people manage their money, like Mint in the US or MoneyDashboard on the UK. Services like these could go a long way to improving financial capability, allowing virtual 'jam-jarring', providing prompts to save or helping people switch to better providers.

34. However, there is currently nothing in place to stop commission-based business models, which create conflicts of interest. Pro-active and thoughtful regulation in this market may ensure that consumers are not in future struggling to compare opaque AISP services as well as opaque products.

35. In the new digital age, digital capability is likely to be as important as financial capability. Both Lloyds and Barclays are developing new indices to measure digital capability and financial capability.

#### Addressing financial exclusion

**Q7: What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

36. The 'consumer responsibility' principle fails to take into account the imbalance in power between firms and their customers and information



asymmetries. Firms make more money from products that are complex and opaque, it is difficult to know what 'consumer responsibility' means in these conditions.

37. Research<sup>288</sup> carried out on behalf of the FCA's Practitioner Panel in 2013 concluded that retail consumers are willing to take on responsibility when buying financial products or services. However, the research also clearly underlined the barriers consumers face in making informed choices. These included inappropriate remuneration structures that incentivise mis-selling; increased product complexity and excessive disclosure of information, for example, through 'one-sided and impenetrable' terms and conditions. It is therefore clear that a significant shift in firms' behaviour, by acting in the consumer's best interest, needs to occur before individuals can be expected to exercise full responsibility.

38. The legislative framework does not help. The FCA must secure an appropriate degree of protection for consumers of regulated activities<sup>289</sup>. However, section 1C(2)(d) of FSMA specifies that the FCA must have regard to 'the general principle that consumers should take responsibility for their decisions'.

39. The Panel has long argued that consumers can only reasonably be expected to take responsibility for their decisions where firms have exercised a duty of care<sup>290</sup>. A duty of care would avoid the current legislative uncertainty, and ensure a consistent approach to consumer protection.

40. Given the interest government has in transferring benefits directly into bank accounts and the reduced costs associated with doing so, it has a responsibility to ensure that suitable accounts are available and that the benefits of automated payments are also available to people who have the least and could benefit the most. This ensures that benefits are not eaten away by the 'poverty premium'.

41. The voluntary sector is vital in helping people who are excluded or who have experienced problems with financial services. But the primary responsibility should be with banks to improve their services and take steps to stop their customers getting into debt or going into unauthorised overdraft. Unauthorised overdrafts could, for instance, be banned or simply refused.

42. Support for people who are marginalised and excluded is fragmented and varies from area to area. It is difficult to assess, therefore, whether this support is adequate. We believe this is something the inquiry should explore in depth. We are aware of locally-based programmes to provide support, such as the Big Lottery Fund's Improving Financial Confidence programme and its Help Through Crisis programme, but these are time-limited and only apply to England. Public funding cuts are likely to significantly limit the chances of such programmes rolling out to larger populations over the longer-term.

43. Support for people in financial difficulty has been significantly curtailed, particularly because of cuts to legal aid funding. Citizens Advice reported in 2014 that 87% of bureaux that had previously held legal aid contracts for specialist debt

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<sup>288</sup> [http://www.fspp.org.uk/documents/fca\\_practitioner\\_panel\\_consumer\\_responsibility\\_report\\_september\\_2013.pdf#page=10n](http://www.fspp.org.uk/documents/fca_practitioner_panel_consumer_responsibility_report_september_2013.pdf#page=10n)

<sup>289</sup> <https://fshandbook.info/FS/glossary-html/handbook/Glossary/R?definition=G974>

<sup>290</sup> [https://www.fs-cp.org.uk/sites/default/files/fscp\\_position\\_paper\\_on\\_duty\\_of\\_care\\_2015.pdf](https://www.fs-cp.org.uk/sites/default/files/fscp_position_paper_on_duty_of_care_2015.pdf)

advice had reduced their capacity; most also had difficulty referring clients to specialist legal advice across all areas.<sup>291</sup>

**Q8: 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

44. The Financial Inclusion Commission has considered this question<sup>292</sup>.

45. Financial products are often complex and financial decisions can have far reaching consequences. There is generally too much choice, rather than too little. Complex products, lengthy terms and conditions, and hidden fees and charges, often mean there are not appropriate products for those who are excluded.

46. Consumers need access to a range of services that provide, within clearly defined parameters, information, guidance or specific recommendations. Product information and promotional materials should be written in clear language with transparent information on interest rates, fees and charges.

47. Many of the problems associated with financial products are due to a lack of real time information about account balance and payments as well as a lack of 'in-the-moment' control over payments. Continuous payment authorities are a good example of a payment facility that allows the payer no control over when the payee takes money from the account or how much they will take. These sorts of facilities undermine trust and exacerbate debt.

48. We supported the introduction of the voluntary agreement between the banks on the provision of "free-of-charge" basic bank accounts, although we have raised issues about the lack of cost transparency. We are pleased that implementation of the Payment Accounts Directive (PAD) gives consumers a clear legal right of access to a basic bank account, and a route to challenge firms' decisions before a court if they do not grant access.

49. As we have said above, we believe that banks owe a duty of care to their customers. This would ensure that they developed to products and services to benefit their customers and help those that are otherwise excluded.

Accessing affordable credit

**Q9: What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

50. Access to credit is complex because while some consumers are unable to access the credit products they need, there is clear evidence that others have been granted credit when they should not have been.

51. The Panel welcomed the FCA's scrutiny of the high cost short-term credit (HCSTC) market and supported the cap on the total cost of credit and the

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<sup>291</sup> [https://www.citizensadvice.org.uk/global/migrated\\_documents/corporate/citizens-advice-submission-to-jsc-on-impact-of-laspo-april-2014.pdf](https://www.citizensadvice.org.uk/global/migrated_documents/corporate/citizens-advice-submission-to-jsc-on-impact-of-laspo-april-2014.pdf)

<sup>292</sup> [http://www.financialinclusioncommission.org.uk/pdfs/fic\\_report\\_2015.pdf](http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf)

eradication of widespread poor practice in the market. However, we have argued strongly that unarranged overdrafts also in many cases breach HCSTC rules and should be regulated in the same way. It is not clear why different consumer credit products are subject to different regulatory treatment and rules, particularly when 'mainstream' credit products are the major cause of over-indebtedness.

52. The HCSTC rules have led to the creation of new products that don't fit the FCA's strict definition of HCSTC, and so which can circumvent the FCA's rules. Gaming the system is inevitable when such a small part of the lending market is subject to strict rules.

53. It is also likely (though we have seen no current evidence) that tightening up the HCSTC market will lead people to use other expensive sources of credit, such as pawnbrokers or 'rent to buy', or even resort to illegal money lenders. People cannot easily tell the difference between legitimate home credit providers and loan sharks, especially if the latter are 'friends of friends'.

54. StepChange recently reported<sup>293</sup> that the number of people borrowing money from family and friends is increasing and that the amount now averages £4,000 which can put significant strain on relationships.

55. Credit scoring can also have a perverse impact on consumers' creditworthiness. A credit score is a blunt instrument that does not confirm a consumer can afford the amount of credit being offered. Indeed, it is often the case that those consumers with access to the most credit are those with the highest credit score, and therefore the most able to access even more credit.

56. We believe the FCA should consider whether people should have access to credit they cannot afford to repay at the market price they are offered, and whether that market price is a fair one in relation to risk.

#### Government policy and regulation

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

57. The Financial Inclusion Commission has addressed this question<sup>294</sup> and we agree with its conclusions.

### **11. What has been the impact of recent welfare reforms on financial exclusion?**

58. The FCA's occasional paper 17, on Access to Financial Services in the UK, considers this issue<sup>295</sup>

### **12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

59. There is very limited co-ordination or consideration of how central and local authorities work. Indeed local authorities can exacerbate debt and housing

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<sup>293</sup> <https://www.stepchange.org/Mediacentre/Pressreleases/Averagedebttofriendsandfamily.aspx>

<sup>294</sup> <http://www.financialinclusioncommission.org.uk/>

<sup>295</sup> <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf>

problems by overly-aggressively pursuing council tax debts in a way that creates more cost elsewhere for the local authority.

60. The report of the Financial Inclusion Commission<sup>296</sup> concluded that all government departments, devolved administrations, local authorities, voluntary organisations and industry are all working in different ways to address financial exclusion, with no leadership or coordination.

**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? What balance should be struck between regulations and incentives for financial institutions?**

61. Financial exclusion can be exacerbated by regulations. Financial institutions' interpretations of their responsibilities to prevent money laundering can lead to exclusion (establishing identity is often a problem for foreign nationals, or people who move house frequently). We have also seen many examples of people having their bank accounts closed for no apparent reason. In these cases the bank may suspect fraud or other criminal activity, but cannot discuss the reasons with the customer for fear of breaching the law. This leaves people unable to open an account with any bank. We have long argued there should be an appeal route for people whose accounts are forcibly closed.

62. The FCA must secure an appropriate degree of protection for consumers of regulated activities<sup>297</sup>. However, those that are excluded from financial services, who therefore aren't 'consumers', can fall through the regulatory gap altogether.

Financial technology (Fintech)

**Q14: 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?**

63. The Government set out plans for open Application Programming Interfaces (APIs) in banking during 2015. The Competition and Markets Authority's (CMA) final report from its retail banking market investigation requires the largest banks to establish APIs for current accounts. The scope of the Payment Services Directive (PSD II) is broader, covering all transactions originating in the EU and requiring that banks open up access to payment accounts, allowing firms to be able to 'plug-in', draw down data and provide value added services.

64. We support the introduction of open APIs, which will allow consumers to access their information simply. There are security and privacy issues to overcome, a task made more difficult as there is not one regulator responsible for addressing the data concerns.

65. However, we believe that APIs and other forms of data capture will lead to different types of exclusion. The benefits of 'open banking' will not reach those

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<sup>296</sup> [http://www.financialinclusioncommission.org.uk/pdfs/fic\\_report\\_2015.pdf](http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf)

<sup>297</sup> <https://fshandbook.info/FS/glossary-html/handbook/Glossary/R?definition=G974>

who are digitally excluded, and the government should develop policies to address this.

66. Once consumers have allowed access to their data by a third party, they will no longer be in control of how it is used. Consumers may be unaware that firms are using personal data such as that gained from social media activity to make decisions about the price and availability of financial products, and even selling it to third parties. This could lead to firms 'red lining' consumers on the basis of factors unrelated to risk.

67. Big Data offers insurers opportunities for increasingly individualised risk assessments, which could have a significant impact on risk pooling and individual premiums. This potential demutualisation of risk will affect different segments of the market in different ways. The use of individualised micro risk assessments means that some people are likely not to be served at all. Others will pay much higher premiums. Conversely of course, some consumers should pay lower premiums because their individual risk, or the average risk in their pool, is lower.

68. The same logic applies to credit products. While the use of personal data may help some people with 'thin' credit files get access to credit, others will be excluded, or offered credit only at exorbitant prices.

69. This demutualisation of risk is a policy issue. The government recognised this in setting up Flood Re and there may be other products, over time, where a degree of mutualisation may be socially desirable in order to enable affordable access to essential financial services.

70. In future the risk may be that if you are unwilling to share your data you no longer have the right to access certain products and services. The right to withhold your data without discrimination is one worthy of more public debate.

Yours sincerely

Sue Lewis

Chair, Financial Services Consumer Panel

*14 September 2016*

## **Financial Services Consumer Panel – Supplementary written evidence (FEX0099)**

### **A duty of care for financial services providers**

#### **A legislative proposal for a duty of care**

The Financial Services Consumer Panel proposes that the Financial Services & Markets Act (FSMA) should be amended to require the Financial Conduct Authority (FCA) to make rules specifying what constitutes a 'reasonable' duty of care that financial services providers should owe towards their customers.

We are not proposing a fiduciary duty, but a duty of care that would oblige providers of financial services to avoid conflicts of interest and act in the best interests of their customers. A similar duty already exists for other sectors, for example, for legal and medical professionals through the Solicitors Regulation Authority's Principles<sup>298</sup> or the General Medical Council's Good Medical Practice Guide<sup>299</sup>.

Whilst a duty of care of the type we propose would ultimately give consumers a legal right to take financial services providers to court, this is not the Panel's reason for suggesting it. The primary purpose of the duty of care would be to operate as a preventative measure, in particular by removing conflicts of interest. We would expect disputes to continue to be settled by the Financial Ombudsman Service (FOS) - recourse to the courts, bearing in mind its prohibitive cost, would only be a last resort.

#### **Why we need a duty of care**

The FSMA principle that firms should "treat customers fairly" (TCF) does not remove conflicts of interest and so does practically nothing to deter firms from mis-selling products and services. Once these practices are identified after the event consumers have to fight a long and stressful battle through the FOS to get compensation. Those outside the FOS's jurisdiction (eg small businesses) are reliant on redress schemes that, as the FCA acknowledges, are seldom effective. Putting things right 'after the event' further diminishes trust in the financial services sector.

TCF only enshrines a weak duty to the consumer, further weakened by the legal principle in FSMA that consumers should 'take responsibility for their decisions'. The 'consumer responsibility' principle fails to take into account the imbalance in power between firms and their customers and information asymmetries. The Panel believes consumers can only reasonably be expected to take responsibility for their decisions where firms have exercised a duty of care.

A duty of care would rebalance the information and bargaining position asymmetries between firms and consumers and would operate to prevent poor

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<sup>298</sup> <http://www.sra.org.uk/solicitors/handbook/code/part2/content.page>.

<sup>299</sup> [http://www.gmc-uk.org/guidance/good\\_medical\\_practice/duties\\_of\\_a\\_doctor.asp](http://www.gmc-uk.org/guidance/good_medical_practice/duties_of_a_doctor.asp)

conduct. Properly applied a duty of care might even eventually provide scope for a reduction in the amount of detailed rules.

### **How would it work?**

The Panel's proposed amendment of FSMA would require the FCA to make rules on a duty of care, but the exact scope would be for the FCA to decide, subject to its normal consultation procedures. The Panel envisages that the rules would be flexible, and depend on the complexity and the risk of the product being sold. The more complex or risky the product, the more stringent the duty would be on the provider to ensure the product was suitable and that the customer understood what they were buying, and the risks involved.

The proposed duty would not affect the broad definition of 'consumer' in FSMA, so would apply to both wholesale and retail business. However, the primary intention would be to protect retail and smaller business customers. Accordingly, the Panel envisages that the FCA's rules would be most stringent for, for example, investment products offered to retail consumers, or complex hedging products aimed at small businesses.

### **What difference would it make?**

A duty of care would engender long-term cultural change in financial services providers. It would bring much-needed clarity to the rules governing the relationship between firms and their customers. Properly supervised and enforced, an obligation for banks and other financial institutions to act in their customers' best interest would help prevent mis-selling and other poor behaviour towards customers from occurring in the first place.

Firms would no longer be able to adopt a "let's see if we can get away with it" approach, but would have to avoid conflicts of interest and take their customers' best interests into account at every stage of their engagement.

In short, a duty of care would effectively deliver what TCF is intended, but so clearly fails, to do.

## **Annex**

There are numerous cases where TCF is failing customers, but where firms have not been breaking FCA rules, for example:

- In the savings market, banks can reduce interest rates on existing customers' accounts by declaring an account "obsolete". TCF only requires banks to tell customers about changes to the interest rates on their account range. Equally, new rules on disclosure of interest rates are not being applied to "obsolete" accounts (which are of course not obsolete from the customer's perspective). Under a duty of care, banks should ensure that customers of "obsolete" accounts were migrated to accounts offering at least as good value, without the requirement to open a new account.
- Banks continue to promote and reward staff on the basis of sales made to customers. PPI is the most egregious example of this; TCF makes no difference.
- If a customer tries to withdraw funds beyond their overdraft limit, banks can allow the withdrawal without telling the customer at the point of making the decision what charges will result. Under TCF, as long as the customer has been told the charging structure, this is considered fair. Under a duty of care, the bank would be required to inform the customer of the likely charges before the withdrawal.
- The recent FCA thematic review into early arrears management in unsecured lending shows that firms are still missing early opportunities to identify customers in financial difficulty and offer appropriate forbearance. Moreover, the findings showed that a firm's culture influences the approach taken to giving due consideration and forbearance to customers in arrears difficulties. Under a duty of care, firms' intentions towards assisting customers in arrears would always focus on achieving fair customer outcomes.

These may seem like trivial examples, but they are not trivial to the millions of consumers struggling to make ends meet, who the government has pledged to help.

*11 January 2017*



## **Financial Services Consumer Panel and Centre for Responsible Credit – Oral evidence (QQ 122-131)**

[Transcript to be found under Centre for Responsible Credit](#)

## **Fredericks Foundation – Written evidence (FEX0040)**

Fredericks Foundation would like to respond to the following question asked by the House of Lords Select Committee on Financial Exclusion:

### **Accessing affordable credit**

What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?

Fredericks Foundation is a charity and Responsible Finance Provider (RFP, also known as a CDFI) established in 2001 by Paul Barry-Walsh. Fredericks provides loans to individuals who would like to start a business but cannot obtain mainstream finance. While the microenterprise lending product and purpose is distinct from personal payday loans, it often reaches a similar audience: people with lower incomes, limited financial resources and an adverse credit record. In addition, Fredericks' clients may have other markers of 'disadvantage' such as long term unemployment, mental or physical health issues, caring responsibilities or ex-offender status.

The RFP sector in the UK is still relatively small and fragmented, with resources that are insufficient to meet the gap between demand and supply. In 2012, Government established the Start-Up Loan Company (SULC) to provide loans to people who would like to start a business. While SULC has filled part of the finance gap, its policies still leave significant unmet need among those with imperfect credit records and other challenges. Fredericks, which operates in various localities in the south of England, is one of the few RFPs that serves this population.

For many Fredericks clients, self-employment is the best—and sometimes only—route to employment and financial independence. Its activities also contribute to the public purse: in 2012, Fredericks commissioned a study by the Centre for Economic and Social Inclusion, which found that:

Fredericks Foundation loans issued to people who are not working and claiming benefits have a net present value to government of £5,600 - £6,500 across the first three years after the loan is issued. Loans issued to people who are working but still claiming benefits and tax credits have a net present value to government of £10,900 - £12,400, again taking a three year time horizon.

Our own statistics show that each business that receives a Fredericks loan creates or saves approximately two jobs—often for people who are similarly disadvantaged. Even where a microenterprise cannot itself sustain a family, it can provide meaningful additional income for a family and help lift it out of poverty. As a Responsible Finance Provider, Fredericks lends only when a business prospect appears viable. Some will, inevitably, not succeed, but we often see that the business owner has developed new skills and confidence, and is therefore in a position to seek traditional employment or training.

While Government is understandably supportive of businesses with high growth potential, BIS's 2015 Business Population Estimates show that 33% of people work in self employment or businesses with fewer than 10 employees. The majority of business population growth since 2000 has been due to non-employing businesses, which accounted for 90% of the 1.9m increase (BIS 2015). While 'gazelles' get the attention, it is these microbusinesses that underpin the UK's business and job growth.

If the disadvantaged are unable to pursue self-employment and microenterprise due to poor credit access, there will be consequences, including longer periods on benefits, poorer health due to unemployment and lack of good family and community role models.

For RFPs like Fredericks to continue to serve the financially excluded, we need income to run our operations and capital to lend. We use Community Investment Tax Relief, which is enormously helpful, and we have been awarded a European 'EaSI' loan guarantee. We undertake extensive private sector fundraising and are pursuing a path to sustainability.

But this is a challenging population to serve. We are one of the very few organisations support this segment of the financially excluded and would ask that Government increase its support to Fredericks and other Responsible Finance Providers.

*14 September 2016*

Dr Shaun French, University of Nottingham and Dr Lindsey Appleyard, Coventry University – Written evidence (FEX0086)

**Dr Shaun French, University of Nottingham and Dr Lindsey Appleyard, Coventry University – Written evidence (FEX0086)**

[Submission to be found under Dr Lindsey Appleyard](#)

## **Friends, Families and Travellers – Written evidence (FEX0002)**

Dear Sir or Madam

Re: Evidence to the Select Committee on Financial Exclusion.

We are a national charity working with Gypsies and Travellers, which was formed in 1994.

We carry out casework for Gypsies and Traveller through our national telephone advice line, and through outreach caseworkers in Sussex and Surrey.

On almost every indicator Gypsies and Travellers experience high levels of disadvantage and social exclusion, and half of our clients are illiterate or partially literate.

Figures from the last Census in 2011 (where Romany Gypsy/Irish Traveller was a joint tick box because of space shortage on the form, though they are two separate, recognised, ethnic minorities), show that Gypsy or Irish Traveller was the ethnic group with the lowest proportion of respondents who were economically active at 47%, compared to 63% for England and Wales as a whole.

Over half of those who were economically active were employed (51% compared to 75% for the total of England and Wales) and 20% were unemployed (compared to 7 per cent for the whole of England and Wales). Gypsy or Irish Traveller had the highest proportion of self-employed out of the ethnic groups at 26% compared to 14% for England and Wales.

Possibly the most pressing issue of financial exclusion for Gypsies and Travellers is that Gypsies and Travellers living on council Gypsy caravan sites cannot obtain insurance for their caravans and contents. The site addresses are effectively 'black listed' and residents cannot obtain insurance from providers.

The Financial Ombudsman took a case on behalf of one of our clients, who was illiterate as many of our clients are, for whom the company had filled in the form in the office and on the form there was a box which asked if the person was a Gypsy or Traveller. The person had not read this question out, and in the event of a burglary, when it transpired the applicant was a Traveller, the company had tried to invalidate the policy. The Finance Ombudman found against the insurance company and ordered them to pay compensation.

The Financial Ombudsman also took a recent case against Bright House who refused to provide credit for the purchase of a washing machine to a Traveller because she lived on a Traveller site. Again the Ombudsman ruled in favour of the applicant.

An estimated twenty percent of Gypsies and Travellers living in caravans are statutorily homeless, due to a huge shortage of authorised Traveller sites. Thus they have no option but to camp in an unauthorised manner wherever they can

find to stop, and the lack of a permanent address causes great difficulties in obtaining bank accounts, credit, loans and mortgages to buy land for Traveller sites.

The increase in the requirement for benefits and other financial services to be accessed online, rather than by telephone call, also presents problems for many of our clients who do not have access to the internet and may also be illiterate.

Also Travellers living on sites usually pay their electricity bills via buying it from the local authority on a card or by pre-pay meters, which means they are not getting it at the cheaper rate that direct debits can achieve.

Shelter Scotland produced a report last year (June 2015 'Gypsies, Travellers and financial exclusion

[http://scotland.shelter.org.uk/\\_\\_data/assets/pdf\\_file/0007/1196692/Gypsy\\_Travellers\\_and\\_Financial\\_Exclusion.pdf/\\_nocache](http://scotland.shelter.org.uk/__data/assets/pdf_file/0007/1196692/Gypsy_Travellers_and_Financial_Exclusion.pdf/_nocache)) which highlights the community's low financial literacy and understanding of financial documents and products. It also highlights low financial resilience with low pay, low levels of savings and resistance to borrowing, and the use of basic bank accounts; for benefits only, limiting access to direct debits as a method of stabilising outgoings.

The Progress report by the ministerial working group on tackling inequalities experienced by Gypsies and Travellers (April 2012) chapter seven is about improving access to financial services;

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6287/2124046.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6287/2124046.pdf)

Finally, Citizens Advice have written a Gypsies and Travellers Financial Capability Best Practice Guide (September 2015)

<https://www.citizensadvice.org.uk/Global/Public/Education%20resources/Financial%20capability/Trainer%20guidance/Best%20practice%20guides/Best%20practice%20guide%20-%20Gypsies%20and%20Travellers.pdf>

Yours sincerely

Emma Nuttall  
Advice and Policy Manager

*25 August 2016*

## **Gateshead Council – Written evidence (FEX0046)**

*Author: Michael Walker, Financial Inclusion Lead at Gateshead Council*

### **Definitions and causes of financial exclusion**

**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?**

1. Financial exclusion is not necessarily the inverse of financial inclusion. Financial inclusion means everyone having access to fair affordable finance, basic bank accounts, savings accounts, mortgages and affordable loans and credit when needed. Not everyone can access such products or at least not to the same affordable level due to circumstances such as employment status, credit history, current debt, students, migrants and in some cases mental and physical disability.
2. Financial exclusion is largely experienced by those groups and in some cases by those who are temporarily excluded due to unforeseen circumstance, including people losing jobs, being made redundant or experiencing periods of sickness.
3. People who have a stable income at the national average or above would see themselves as financially included and would not expect to be financially excluded. Financially excluded people usually experience this for a long period of time, if not all their lives and in many cases aren't aware that they are financially excluded.

**2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

4. Financial exclusion has the potential to affect anyone, but in the main those on low wage income and benefit dependency. These groups will undoubtedly see restricted bank accounts with no access to an overdraft facility for emergencies. They will only have access to higher cost interest rates when borrowing (where they can find approved loans). There is also an inability to save due to little or no disposable income, and being unable to access or afford mortgages meaning never owning their own home. They are also more likely to be less financially aware, meaning they will be paying more for utilities, and in some cases paying through top up meters.
5. Other groups affected are those with learning difficulties as understanding money and financial security/safety isn't clearly explained in a way they can understand by the services that support them or the family around them.

6. Young people are massively under equipped to deal with the adult world in terms of managing money, many of whom have left school without any notable teaching of financial education or what is required to survive as an adult where money is concerned. Financial education is simply not being taught in schools, despite what they report. Parents too are often not best placed to teach either as they too have left school without any formal teaching on the subject and are themselves often indebted, having made poor or ill-advised financial decisions without an adequate level of financial knowledge.
7. Older people are often excluded as the IT and age gap continues to remain a wide one. Many of our older citizens are not IT savvy and are afraid of the internet, despite the best deals and rates applying to online customers.
8. Migrants continue to experience exclusion having very little or no financial history in the UK. Access to Islamic or other religion specific bank accounts is often very poor and not highlighted well enough to allow them to access them and feel more included.
9. Remote communities whilst not entirely excluded do still have a number of excluded people due to a lack of facilities and services. For example villages without bank branches and other financial organisations, poor transport links, no broadband connection to access online services.

**3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

10. Without a doubt there is a direct correlation between financial exclusion and other forms of exclusion, most notably social exclusion, as those financially excluded often feel isolated and cut off from the rest of society . It also clearly links to disadvantage and deprivation in a range of ways, child poverty being one example.
11. Problem debt plays a huge role in this, as more often than not it is not managed and is out of control meaning those with problem debt are forced to go without basics such as food, and energy or having to choose between one or the other. These types of situations often worsen before any meaningful help is sought. In many of these cases the only viable solutions are DRO, IVA or Bankruptcy, all of which have massive implications on a person's ability to access credit in the future, increasing the possibility of those people falling back into problem debt.

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

12. Yes, but only when the disability or mental health affects their ability to function in everyday life or has an adverse effect on their income or ability to earn. There remains a question mark over whether there is



enough financial education being taught across the country to all residents, regardless of their circumstances, even more so to those with disabilities.

13. Furthermore, there is an obvious link between poor mental health, the financially vulnerable and those suffering with problem debt, the symptoms of which are often exacerbated with the impact of deepening debt issues. Anxiety, stress and depression go hand in hand with those severely indebted which can lead to long term sickness, loss of job, relationship breakdown, domestic abuse, child poverty and many other social exclusion issues.
14. When poor mental health is experienced, often the sufferer cannot see beyond their health, meaning managing money becomes secondary, which to an indebted person is only going to make things worse.

## **Financial education and capability**

### **5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

15. Definitely not, despite financial education being on the curriculum for secondary education it is largely ignored across a huge number of schools, many of which are not teaching it. Furthermore, financial education should be taught to children much sooner to primary school ages so that simple financial messages are learned early. It's at this stage in development that savings habits should be forged rather than a borrowing and debt culture later in life.
16. Money management, saving, understanding of basic financial terms such as APR and AER, basic household budgeting, understanding wage slips, tax, national insurance, pensions, standing orders, direct debits and online banking should all be taught throughout the various school ages in readiness for adulthood. This could be improved by making financial education a subject that is rated by Ofsted, where learning institutions would be forced to deliver it to a high quality standard. Included in the subject curriculum it should also highlight the many pitfalls associated with financial education, such as high cost credit, rent to buy stores, illegal money lending, fraud, scams and the implications of not paying priority bills such as housing costs and energy bills. Until this is done the UK will continue to breed a society that is happy to spend what it doesn't have without a care for the consequences until it's too late, causing an ongoing and growing issue of problem debt.
17. What is very evident is that financial education can no longer remain the sole responsibility of parents or young people. Parents often lack the skills or knowledge to teach children and many of them are

already indebted and so are unable to lead by example meaning learning institutions remain the best option.

**6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

18. As stated in response to question 5, financial education must start in primary schools to allow the simple basics of money matters to be taught, such as how much things cost, how to save and why saving is a positive thing. From primary school to leaving secondary school the financial education curriculum should move with age appropriate content ensuring all topics are covered.

19. Every child should leave school with an excellent knowledge and full understanding of how to manage money in adult life and how to make positive money choices. Parents should be involved in this as should financial organisations. Banks, building societies and credit unions all have a role to play and should be more pro-active in getting involved.

**Addressing financial exclusion**

**7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

20. Personal responsibility is vitally important but people don't know what they don't know, and so if they aren't aware of financial education how can they be expected to attain it? If financial education wasn't taught to them at school who is going to teach them in the real world? Financial education isn't the type of thing people suddenly think 'I think I'll learn financial education' nor will it ever be. There needs to be something viable at a young age to equip the next generation to leave school with a much greater sense of personal responsibility. The government can do this by bringing in more meaningful financial education throughout the school ages.

21. Support for those most excluded remains limited. Debt advice is mostly delivered by Citizens Advice Bureaus and a small number of local charities which varies in number and size across the UK. A more structured support organisation across the UK solely for debt advice would be a positive step forward. CAB already run a busy appointment system that is often oversubscribed meaning people with debt and major money concerns have to wait days for appointments to be seen after finally finding the courage to approach them for help.

22. Government: As well as having financial education taught across schools, government must also look to tackle the irresponsible and high cost lending that is plaguing the UK. Personal responsibility is one thing but resisting the temptation and being strong enough to refuse a 'pre approved loan' or a 'rebuild your credit score credit card' is entirely another, especially to someone who is already indebted with no real income or disposable income. With pay day lenders, and the rent to own sector growing year on year the rate of debt follows suit. If the government can cap the APR lending of responsible and ethically sound lenders such as credit unions to a maximum 42.6% then why can't it cap all financial lenders in the same way? It should simply not be allowable to charge over 1500% for a pay day loan and the government should address this as a priority.
23. The charitable sector: This sector is perhaps the one that makes the most effort but has by far the smallest resources available. A number of charities are offering money advice and budgeting support to its service users but this remains a very small drop in a very large ocean. Whilst the work is valuable, the real impact could and should be made by the government and the business community.
24. The business sector: There are a number of things the business sector can do to support the financial education agenda and help ease financial exclusion. As employers they are well placed to offer financial education courses to employees, even making them mandatory so as to not single out individual employees who may be suffering with money worries or over indebtedness, possibly asking employees to complete online modules over a given time period if face to face teaching would be deemed inappropriate. Government could develop this training then fund or co-fund this with employers which could have a huge impact upon the financial capability of today's adults and go some way to averting further debt. Jobcentre Plus should also offer financial education courses to its claimants in readiness for them returning to work and place a greater emphasis on effectively managing their money. All of this should incorporate effective signposting to high quality free debt advice.
25. Of course it's not just down to Government to address. Other means and opportunities lie in other sectors of support. Financial education could and perhaps should be taught in local authority settings too, parenting classes, school information days, adult learning facilities, libraries, and community groups and so on should all play a part.
- 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

26. No, the availability of financial products for the financially excluded is not good enough and what does get approved is far less affordable. Where people are refused an affordable loan rate from a bank or a building society they are effectively being pushed into the welcoming arms of pay day lenders, rent to own stores and illegal money lenders. Banks and building societies should be encouraged to offer free financial advice, and make referrals to fair alternatives such as local credit unions where affordable loans are still attainable. Too many customers experiencing refusals from their banks are not given suitable alternatives by bank staff. It is not just bank accounts either, mortgages are simply unattainable to the financially excluded resulting in being trapped in rented accommodation or indebted home owners being unable to secure the mortgage that would allow them move house or even downsize. Energy firms, mobile phone providers, broadband providers, insurance brokers and online stores all offer better deals and lower prices for online customers or to those willing to accept paperless billing, meaning those without a PC or home internet are unable to access the cheapest deals. The cheapest deals should be blanket available to all, and not just online.
27. Banks should also take the responsibility in educating customers on how to effectively use their accounts and manage their money correctly, and in doing so encourage them to become more financially capable. Bank charges should also be reviewed to ensure charging the excluded does not result in more fees and greater levels of debt. If fees can be scrapped in basic bank accounts why not in everyday current accounts?

### **Accessing affordable credit**

**9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

28. The capping of pay-day loans has had little impact; they are still very widely used and hugely expensive. As mentioned earlier, a credit union loan is capped at 27% APR, why can't the pay day loan sector be capped in the same way? Why should those on a low income or surviving on benefits be charged far more for their borrowing than someone who is in a relatively affluent situation? The high interest rate inevitably makes this type of loan unaffordable and far more likely to see the borrower default on their payments, causing more financial stress to the already excluded.
29. The Government should do more to support the growth of credit unions in the UK. They are a regulated and affordable means of credit that is more accessible for those deemed financially excluded. Local authorities are already working closely with credit unions to promote them and embed them in a range of interventions across their geography, but with limited resource. Government should fund far more activity to allow

them to grow and reduce the over reliance on high cost fast credit that is readily available on the high street or via the click of a mouse.

30. Government should set out plans to grow the sector in line with some of the world's most penetrated credit union nations, such as 75% of population in Ireland and 47% in the USA with active credit union accounts.

## **Government policy and regulation**

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

31. Government policy to date has not been as effective in reducing financial exclusion as it could have been. Whilst there has been some success with the introduction of basic bank accounts, this is momentum which should have been built upon. Instead the problem of financial exclusion remains as large as ever.
32. The Government must lead more strongly on financial exclusion and play a far larger and more involved role in encouraging financial organisations to provide the necessary affordable services to all members of society, regardless of financial status. They should also ensure that any such services are advertised well enough through a range of mediums to ensure maximum coverage and freely available to all, including the financially excluded.
33. In terms of benefit applicants, many are now encouraged to apply online, which can remove some of the issues faced by those living in remote areas (assuming they are able to access digital services).

### **11. What has been the impact of recent welfare reforms on financial exclusion?**

34. Unfortunately the impact of recent welfare reforms has not been positive at all. The freezes in applicable amounts and allowances, the LHA rates and the introduction of the spare room subsidy for mainly those of working age has resulted in those currently financially excluded being even more so.
35. More and more housing benefit claimants are relying on discretionary payments to make ends meet, an arrangement that cannot be sustained by the LA.
36. Universal Credit might have encouraged more people to access banking services, and forced them to manage their money on a monthly basis but with claimants waiting up to 8 weeks to receive a first payment, this is plainly exacerbating debt, rent arrears, and unregulated borrowing. This is evidenced from LA income and expenditure statements for

Discretionary Housing Payments. Foodbank use in Gateshead has also increased by over 200% since UC was introduced.

37. The LA housing provider have also reported unprecedented levels of rent arrears and from 231 Universal Credit claimants renting with them 221 now have rent arrears at an average of over £800.

**12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

38. There appears to be little financial exclusion coordination across central Government that is filtered down to local and regional levels with the balance and interaction between the work of central and local Government limited at best.
39. It appears that the financial inclusion priorities of local authorities remain high with continued interventions around the agenda ongoing, yet with little or no funding meaning only an influencing role is delivered.
40. Central Government could therefore do far more in partnership with local authorities to identify and address financial exclusion issues. Government should also look to fund activity that would allow greater impact and wider support for those financially excluded.

**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? What balance should be struck between regulations and incentives for financial institutions?**

41. The APR capping of pay day lenders and the introduction of no fee basic bank accounts were a start, although a further reduction to the pay day lending cap should be considered a major priority. Businesses should not be allowed to grow richer at the expense of the UK's most financially excluded and vulnerable citizens.
42. More should be done and so alternative regulatory interventions should be under consideration in partnership with central Government and financial institutions. This should not and cannot be a discussion for Government and banks alone, others financial institutions should be included in any discussions including credit unions, charities and representatives from the business community.

**Financial technology (FinTech)**

**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?**

43. The Government definitely has a role to play and must ensure that financial talent is placed alongside technical talent in its design of any FinTech product or service. Technology is developing at a rapid pace, and this is evident in the financial sector just as much as any other sector.
44. The steady rise in the use of smart phones for example has hugely increased users of online banking with all of the major banks having now launched mobile phone apps to make banking on the go quick and simple.
45. The Government should certainly consider how it intends to use FinTech as a way to support the work of financial exclusion given that digital means are often cheaper and more effective than physical means, allowing a greater impact from the money available. However, it must also be careful not to further exclude those already excluded who are without any forms of digital access or knowledge of how to use it.
46. FinTech could also play a major role in tackling digital exclusion too, which links to financial exclusion as previously mentioned. With 7 in 10 adults in the UK now using a smart phone the potential to develop a financial education app for smart phones is huge.

*14 September 2016*

Gingerbread and Child Poverty Action Group – Oral evidence (QQ 79-89)

## **Gingerbread and Child Poverty Action Group – Oral evidence (QQ 79-89)**

[Transcript to be found under Child Poverty Action Group](#)



## **HM Treasury – Supplementary written evidence (FEX0088)**

Dear Lady Tyler,

Following my appearance before the Lords Adhoc Committee on Financial Exclusion, the Committee requested some further information. The Committee asked the following questions:

1. What input has the Treasury had in regard to financial education in schools and the subject's inclusion in the National Curriculum?
2. Can you provide an update on the Credit Union Rulebook (referenced during the evidence session)?
3. What information, or research does the Treasury have on the impact of the provision of goods, versus cash, in relation to the recently devolved Social Fund?
4. What incentive is there for banks to put in place acceptable alternative banking arrangements for residents as part of the Access to Banking Protocol?

I have provided answers to the first, second, and fourth questions below. The third question is better directed towards the Department of Work and Pensions and is addressed within the enclosed contribution from Neil Couling, Director General of Universal Credit Programme.

**Gwyneth Nurse**  
Director of Financial Services

## **1. What input has the Treasury had in regard to financial education in schools and the subject's inclusion in the National Curriculum?**

Financial education was introduced into the mathematics and citizenship syllabus in secondary schools in England in September 2014. The Treasury supported the Department for Education's introduction of these changes. I met the Director General for Education Standards at the Department for Education to discuss the impact that introducing financial education onto the syllabus has had on levels of financial capability. Treasury officials continue to meet with officials from DfE and with stakeholders to review the effectiveness of financial education in schools.

In addition, the Treasury sponsors the Money Advice Service (MAS) which has started to play a greater role in coordinating financial education programmes in school and for parents in an effort to raise levels of financial capability. The Treasury thinks that this work is important and is considering what role the new Money Guidance Body which will replace MAS should play to improve financial education programmes in schools.

In January 2016, the Treasury also announced that the government would provide an additional £0.5 million to the LifeSavers programme, an initiative developed by the Archbishop of Canterbury and Young Enterprise, to start savings clubs in primary schools and educate young children on the benefits of saving. This announcement built on £150, 000 of government funding for a pilot of the LifeSavers programme in December 2014.

## **2. Can you provide an update on the Credit Union Rulebook (referenced during the evidence session)?**

In 2015, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) jointly consulted on changes to the Credit Union sourcebook (CREDS), which sets out the framework for credit union regulation. Following this consultation new rules were introduced in February 2016 with both the PRA and FCA making changes:

- Following the consultation the PRA replaced the prudential rules in CREDS with rules more appropriate to the current business environment for credit unions. These rules are risk-based, flexible and adaptable to future business models and changes in the sector;
- The FCA also made some minor consequential amendments to their sourcebook to reflect the new PRA regime, removing duplication and inconsistencies with PRA rules. The FCA sourcebook focuses on consumer protection.

The PRA took on board many of the responses credit unions submitted during the consultation on CREDS. The final set of rules for credit unions was therefore met with a positive response from the sector because it allowed more flexibility

on capital:assets ratios than the initial proposal and permitted discretion on allowing credit unions to hold deposits above the £75,000 FSCS limit.

**3. What information, or research does the Treasury have on the impact of the provision of goods, versus cash, in relation to the recently devolved Social Fund?**

Please see the enclosed contribution from Neil Couling, Director General of the Universal Credit Programme.

**4. What incentive is there for banks to put in place acceptable alternative banking arrangements for residents as part of the Access to Banking Protocol?**

The Access to Banking protocol commits the banks to carry out a number of steps when closing a branch. These steps include putting in place satisfactory alternative banking services before a branch is closed, where they determine that there is a continuing need for services. Options for this will include free to use cash machines, Post Office branches located nearby and mobile banking arrangements. The protocol is firmly aimed at ensuring that banks consult fully when they close a branch, and think creatively about how to mitigate the impact on the local community.

Each bank will have its own processes in place for complying with the Access to Banking protocol. By considering appropriate alternative banking services before closing a branch, and taking action to improve these where necessary, the banks are able to show their commitment to their customers and to the Access to Banking protocol. The British Bankers' Association have appointed Professor Russel Griggs to carry out an independent review of the protocol. The review will consider and identify best practice in implementation and, if appropriate, make recommendations for amendments to the protocol to ensure it continues to meet its objectives. The review is expected to be published later this year.

More generally, the Government's work to increase competition in banking aims to ensure that all banks are incentivised to offer the best possible products and services, to attract and retain new and existing customers. It is in each bank's interest to ensure that their existing customers can continue to access their services after a branch is closed. Measures such as the Current Account Switch Service also allow customers to better hold their banks to account by helping them to vote with their feet and switch banks where they see a better deal.

*15 September 2016*

HM Treasury and Department for Work and Pensions – Oral evidence (QQ23-37)

## **HM Treasury and Department for Work and Pensions – Oral evidence (QQ23-37)**

[Transcript to be found under Department for Work and Pensions](#)

HM Treasury, Department for Education and Department for Work & Pensions and– Oral evidence (QQ 231-250)

**HM Treasury, Department for Education and Department for Work & Pensions and– Oral evidence (QQ 231-250)**

[Transcript for Simon Kirby MP et al to be found under Department for Education](#)

## Homeless Link – Written evidence (FEX0052)

1. [Homeless Link](#), incorporating Sitra, is the national membership charity for organisations working directly with people who become homeless in England. Sitra is the membership body for organisations in the supported housing, health and social care sectors. With over 850 members, we work to make services better and campaign on a national level for policy change. Together we believe we can end homelessness and ensure that everyone has a place to call home and the support they need to keep it.
2. Homeless Link is very happy to respond to the Select Committee on Financial Exclusion's Call for Evidence. People who are users of homelessness services are amongst the most excluded in society, not least financially.
3. We have decided not to answer all the questions but instead those where we feel we can contribute the most, which are questions 3, 5,8 and 11.

#### 4. **Summary of key points**

- People who are homeless and experiencing multiple and complex needs are particularly vulnerable to financial exclusion and problems associated with it. (q3)
- These individuals often lack financial skills, and providing effective advice and support in this area is key to helping them move on in their lives. (q5)
- People who are homeless often face difficulties opening bank accounts, and this presents significant challenges to finding accommodation or work. (q8)
- Changes to the benefits system – including freezes, delayed payments and increased use of sanctions – have had negative financial and psychological impacts on those who are financially excluded. (q11)
- It is vital that the implementation of Universal Credit and successors to the Work Programme are carefully managed to prevent negative impacts and help people move towards financial and personal independence. (q11)

#### **Q. 3: What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play?**

5. Homeless Link is part of the [Making Every Adult Matter](#) coalition, formed with Clinks and Mind to improve policy and services for people facing multiple needs. Together the charities represent over 1,300 frontline organisations and have an interest in the criminal justice, substance misuse, homelessness and mental health sectors.

6. People with multiple needs are particularly vulnerable to financial exclusion. Evidence from a recent study into destitution in the UK found that over half of people who were destitute and experiencing complex needs had faced financial problems in the last twelve months.<sup>300</sup>
7. The housing problems that lead to homelessness are often linked closely to financial difficulties. According to Citizens Advice data, over 40% of people seeking advice from their local Bureaux on housing also have an issue with debt, benefits, tax credits, relationships, family or employment.<sup>301</sup>
8. Research from the Money Advice Service and CACI has shown that debt is a more significant problem for people who are private rented tenants, on household incomes below £10,000, younger and those who live in urban areas. These are the groups that face the greatest risk of homelessness.<sup>302</sup>
9. One practitioner supporting homeless people with multiple and complex needs we spoke to for this submission told us that people sleeping rough or in hostels are vulnerable to financial pressure and/or exploitation. This might include drug-related debts, or peer group pressure to buy alcohol.
10. In the case of people with long-term alcohol misuse problems, managing money can be made difficult by memory loss and other cognitive problems associated with alcohol-related brain injury:

*"One person, a gentleman in his 50s, would be quite upset and get challenging when people [talked to him about money]. We were able to get a financial assessment from a social worker and he said 'he doesn't know what you're asking him'. [...] Because of his memory issues people would say "you owe me a tenner from yesterday" and he'd give it to them."<sup>303</sup>*

**Q. 5: Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

11. Many young people leave school without appropriate financial skills, and yet these are key to people successfully moving on from hostels or temporary accommodation. IPPR and JustLife Foundation have highlighted the challenges people in unsupported temporary accommodation face in this area, and recommended closer working with advice agencies.<sup>304</sup> A researcher involved in this work commented:

*"Many individuals are now being required to open bank accounts, which means things like online banking and direct debits – things [most people] take for granted – are confusing and largely unknown. There are not*

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<sup>300</sup> Joseph Rowntree Foundation (2016), [Destitution in the UK](#), p. 29

<sup>301</sup> Citizens Advice (2016), [The preventative advice gap](#), p. 10

<sup>302</sup> Money Advice Service / CACI (2016), [A picture of over-indebtedness](#), p. 8-10

<sup>303</sup> Interview with service manager, Voices of Stoke

<sup>304</sup> IPPR (2015), [Nowhere fast](#), pp. 22-23

*specialist advice agencies supporting clients to do this and the agencies providing support are few and far between with long queues. These are skills needed to move forward, find work and be able to manage finances appropriately.”<sup>305</sup>*

12. A young person in contact with a homelessness project in the North-East described the impact of receiving support in managing their finances and benefit claims:

*“I accessed [the project] when I was 18 and homeless and they worked out what I was entitled to and it helped take the stress off me. They give you all the information and sit down and go through it. [...] Before I moved into a council house I was referred to them as I was really bad with money so they helped me with money, I am really sensible now.”<sup>306</sup>*

13. One service, Voices of Stoke, has seen good results from embedding an advice worker from the local Citizens Advice Bureau to advise clients and provide training to staff.<sup>307</sup> In particular, they have been able to help with issues around debt management and assist with benefit claims, where they found significant evidence that people are not claiming the financial support they are entitled to:

*“Having the CAB on site has been an absolute blessing and enabled us to support customers a bit better. They’re engaging better not just with Voices but other services – they can afford things, pay their bills and not be completely out of pocket. They can do things they’re interested in.”<sup>308</sup>*

### **Q. 8: Are appropriate financial services and products available for those who are experiencing financial exclusion?**

14. Homelessness agencies have found that it is extremely difficult to open a bank account if an applicant is rough sleeping, sofa surfing, or has no fixed abode. It can also be equally hard for a person living in a hostel to open an account due to a lack of supporting documentation. This problem seems primarily focused around obtaining an adequate proof of address which a bank will accept.

15. Being ‘unbanked’ (or only having access to basic banking facilities) can disadvantage people when they move into accommodation. Where someone is unable to set up direct debits for utilities, they instead have to rely expensive pre-paid meters or less cost-efficient payment arrangements. Not having a bank account is also a major obstacle to having a realistic chance of obtaining a job.

16. We know dialogue has taken place between the Department of Work and Pensions (DWP) and the banking sector to address these problems. It

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<sup>305</sup> Christa Maciver, by email

<sup>306</sup> Interview for Making Every Adult Matter’s Voices from the Frontline project, 2014 (unpublished)

<sup>307</sup> Staffordshire North and Stoke on Trent Citizens Advice Bureaux / Voices of Independence, Change and Empowerment in Stoke on Trent (2016), *Report: June 2016* (unpublished)

<sup>308</sup> Interview with service manager, Voices of Stoke



would be extremely useful to know whether progress has been made and what further actions are planned. Access to basic banking products is a pre-requisite of making and maintaining a Universal Credit (UC) claim, so as full UC rolls out this issue will take on increased importance.

**Q. 11: What has been the impact of recent welfare reforms on financial exclusion?**

17. Over half of those who were destitute and experiencing complex needs in one study had experienced problems with the benefits system, and “the ‘shock’ factor of benefit delays and sanctions loomed large for most in this group, often precipitating their move from a position where their basic necessities were just being met to one where there are not.”<sup>309</sup>
18. Research by the MEAM coalition found that changes to benefits and being sanctioned are not only having a negative impact on the finances of people experiencing multiple needs, but are also causing stress and having a detrimental impact on their mental health.<sup>310</sup> In this part of the response we draw on several pieces of research we have undertaken over recent years looking at the impact of benefit changes.
19. Since 2011, the value of out-of-work benefits has been falling in real terms, with increases capped or frozen. Their value will fall further across the course of this Parliament as they continue to be frozen.<sup>311</sup> The reality is that a single person on Job Seeker’s Allowance (JSA) receives £74 per week to pay for food, heating, lighting, water, Council Tax, travel, clothing and toiletries. In this context, small amounts of money can make a big difference.
20. Yet, whilst inflation in the general economy is close to 0%, the cost of a ‘*minimum*’ basket of goods and services, as opposed to the specific basket of goods and services measured by the Consumer Price Index (CPI), continues to rise. For example, since 2008, the Joseph Rowntree Foundation estimates that the cost of food has risen by 26%, domestic energy by 45% and bus travel by 37%.<sup>312</sup>
21. The current benefit freeze also applies to Housing Benefit, with tenants in the private rented sector required to make up any shortfall between their rent and the available rate of Local Housing Allowance (LHA).
22. The Homelet Rental Index continues to show steady increases in rental values for new tenancies: “The average UK rental value in August 2016 was £913pcm – this is 3.1% higher than the same period last year (£885pcm).” This followed a 5.6% increase in the following 12 months.<sup>313</sup>
23. This LHA issue is exacerbated for under-35s who are usually only entitled to the Shared Accommodation Rate (SAR) of Housing Benefit. Half of

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<sup>309</sup> Joseph Rowntree Foundation (2016), [Destitution in the UK](#), pp. 29, 37

<sup>310</sup> Making Every Adult Matter (2014), [Voices from the frontline](#), pp. 16-18

<sup>311</sup> HM Treasury (2015), *Summer Budget 2015* p. 37 para 1.137

<sup>312</sup> Joseph Rowntree Foundation (2014), [A minimum Income Standard for the UK 2014](#)

<sup>313</sup> [Homelet Rental Index](#), August 2016

people in homeless accommodation projects are under 25 meaning the impact is disproportionate. Theoretically, 30% of shared properties in a Broad Market Rental Area are supposed to be affordable on the SAR. However Homeless Link research in London found that the figure was nearer 5%.<sup>314</sup>

24. The financial pressures people on benefits face were also highlighted by recent evidence collected by Homeless Link on the use of Local Welfare Assistance (LWA). As a resource for those in urgent need, LWA is used to help “*people experiencing an unexpected emergency or crisis*”.<sup>315</sup> Homeless Link undertook a survey to see what role LWA schemes were playing: 54% of survey respondents indicated that an LWA award had been used to purchase food, whilst 39% used it to pay for a utility bill.<sup>316</sup>
25. There was evidence from our LWA research that benefit sanctions were a major factor pushing people into asking councils for help. This reinforced the findings of a report published in 2013 by Homeless Link entitled *A High Cost to Pay*, which revealed that homeless JSA claimants were around ten times more likely to be sanctioned than members of the general claimant population.<sup>317</sup> The disproportionate and unfair use of sanctions against vulnerable groups was highlighted by an independent review conducted by Matthew Oakley,<sup>318</sup> as well as the Work and Pensions Select Committee’s subsequent report.<sup>319</sup>
26. The Government have stated that UC will be the benefit which lifts people out of poverty. However, there is a great deal of concern amongst agencies working with vulnerable individuals that it may have the opposite impact.
27. Specific areas of concern include:
- Claims can only be made and managed on-line or by phone. Queries on claims and communication with DWP will be through on-line portals, known as “digital-by-default”.
  - The default payment structure is one monthly payment of all benefits direct to one person in the household.
  - It will be six weeks before first payment.
  - Those in the full conditionality group will have to wait a week before they become eligible for help, embedding arrears into the system.
  - UC is only assessed once a month, meaning individuals who stay in accommodation for less than a month or leave between the monthly ‘anniversary’ of their claim may get no money.

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<sup>314</sup> Homeless Link (2013), [Nowhere to move](#)

<sup>315</sup> HM Government (2014), [Local Welfare Provision in 2015/16: Consultation – Summary of responses](#)

<sup>316</sup> Homeless Link (2015), *National Audit Office Review into Local Welfare Assistance: Homeless Link response* (unpublished, but available on request)

<sup>317</sup> Homeless Link (2013), [A High Cost to Pay: The impact of benefit sanctions on homeless people](#)

<sup>318</sup> Matthew Oakley (2014), [Independent review of the operation of Jobseeker’s Allowance sanctions validated by the Jobseekers Act 2013](#),

<sup>319</sup> Work and Pensions Select Committee (2015), [Benefit sanctions Policy beyond the Oakley Review](#)

- There is less regulatory protection for individuals, with more reliance on the discretion of the Work Coach (meaning these roles will be pivotal).
  - UC claimants may not be placed in the appropriate conditionality group.
  - Those without bank accounts will not be able to receive UC.
28. The early evidence is that UC is leading to significantly increased arrears. This is in the environment of a Gateway being in place to restrict access to UC to only 'simple' cases. In the pockets of the country where this Gateway has not been in place problems have been reported to Homeless Link, including difficulties with digital claims and lack of knowledge of the Alternative Payment Arrangements.
29. Recently the Government piloted support to try and address the type of problems which may arise under UC. The findings were that the support made no material difference. 22% of claimants who received support were behind with their rental payments, and 43% of those who had fallen into arrears said this had happened because of low income.
30. There are three areas where Homeless Link believe it is essential that the Government changes the administration of UC before further roll-out. These are:
- Allowing tenants to choose to have their Housing Costs paid directly to the landlord. This would be cost-neutral and empower tenants to make the decision, not their landlord or the DWP. The Communities and Local Government Select Committee recently advocated a widening of this choice for vulnerable tenants.
  - Allowing UC to be assessed more often than once a month. Since some people stay in rented accommodation for less than a month, or move in the middle of the month, the benefits system should reflect this.
  - Removing the one week Waiting Days penalty at the start of a claim. Although Waiting Days exist in Job Seekers Allowance claims they do not in the Housing Benefit system, which constitutes a huge real-terms reduction for those living on subsistence incomes.
31. Part of the Government's rationale for freezing benefits is to increase work incentives, but those on benefits already live in poverty; that is incentive enough. All the evidence is that the overwhelming majority of homeless people want to be in paid jobs. Cutting benefits so they are struggling to survive only makes their situation worse and makes job-hunting harder.
32. The Work Programme was heralded as a route out of poverty for those furthest from the labour market, yet by any objective measure it has failed excluded groups. The Government is about to launch its successors – the Youth Obligation and the Work and Health Programme. We believe it is crucial that these are developed in ways which offer genuine opportunities to obtain secure, well-paid employment for homeless people and others with support needs

33. When asked, many people experiencing multiple needs felt that Jobcentre Plus and Work programme providers did not fully understand what multiple needs are or how to support people experiencing them. We support MEAM's recommendation that the Department for Work and Pensions should ensure Jobcentre Plus and Work Programme providers can provide appropriate, flexible and personalised support to help people with multiple needs move towards independence.<sup>320</sup>
34. We thank the Committee for the opportunity to provide evidence. We are happy to discuss any aspect of our submission in further detail.

*14 September 2016*

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<sup>320</sup> Making Every Adult Matter (2015) [Solutions from the frontline](#), pp. 22-25

## **Housing Rights – Written evidence (FEX0021)**

### **1. INTRODUCTION**

1.1 Housing Rights is the leading provider of specialist housing advice in Northern Ireland, with over 50 years' experience of advising, supporting and representing clients on housing issues. We believe that prevention is the best cure, and work to prevent homelessness by sustaining our clients' tenancies wherever this is possible.

1.2 In the course of our work, we regularly advise and represent clients who are financially excluded. In our experience, financial exclusion is a significant concern in Northern Ireland, and the patterns of this exclusion are often distinct from the rest of the United Kingdom. Housing Rights is therefore grateful for the opportunity to offer some comments on several topics highlighted in the Select Committee's call for evidence.

### **2. SUMMARY**

2.1 Housing Rights regularly offers advice, support and representation to clients whose housing situation has been impacted detrimentally as a consequence of their financial exclusion. In the course of our work, we support people living in all housing tenures, with some common themes being the inability to access affordable credit, accumulation of debt(s) and the difficulty of meeting basic living expenses. Clients' financial exclusion can often interact with other forms of exclusion, particularly digital and rural exclusion.

2.2 Housing Rights views access to independent advice and support as valuable in terms of helping individuals suffering from financial exclusion to maximise their income, and make informed spending and budgeting decisions. Our experience of providing training to social landlords and tenants underlines the importance of equipping landlords and empowering tenants with skills and knowledge to combat financial exclusion. This training can also be useful in enabling social landlords, or lenders, to work constructively with financially excluded tenants and clients.

2.3 Housing Rights views access to affordable credit, in combination with access to effective knowledge, skills and support, as an effective route out of financial exclusion for affected households. 2013 research commissioned in partnership with the Consumer Council (NI) suggests that the credit union movement in Northern Ireland has the potential to play a major strategic role in the provision of financial services for financially excluded households.

2.4 Recent and pending reforms to the welfare system may come to have negative effects on the financial exclusion of many of Housing Rights' clients. Reforms including the roll-out of Universal Credit; the Benefit Cap; and the ongoing freeze on Housing Benefit in the private rented sector, risk causing rent arrears and otherwise increasing the financial exclusion of our client base.

### 3. Causes & experience of financial exclusion

3.1 Housing Rights regularly advises, supports and represents clients who can be described as “financially excluded”, who are unable to access financial products such as banking, savings, investments, assets, insurance and affordable credit. These clients come from all housing tenures.

3.2 Clients in the social and private rented sectors are particularly vulnerable to financial exclusion: these clients are generally on relatively low incomes and/or in receipt of benefits, and do not own their home as an asset. The NI Housing Executive’s Financial Inclusion Strategy 2016-19 states that social tenants make up 60% of financially excluded people in Northern Ireland, with almost half of social tenants having an annual income of less than £10,400 and 20% having no bank or building society account.<sup>321</sup> With regards to the private rented sector, Housing Rights notes recent Joseph Rowntree Foundation research indicating increasing numbers of private renters in poverty in Northern Ireland.<sup>322</sup> Mainstream lenders generally consider these clients, with relatively low incomes and few assets, as posing a higher risk of default, which in turn pushes these clients toward costlier credit options such as payday or doorstep lenders.<sup>323</sup>

3.3 The recession and associated housing market crash of the late-2000s has also contributed to a significantly increased number of homeowners who are financially excluded. The property crash has been of a much greater magnitude and length in Northern Ireland, than in the rest of the United Kingdom: whilst average UK house prices have exceeded pre-crash levels of £190,000 to reach £214,000 at most recent statistics, Northern Ireland average prices have almost halved – from £225,000 to £123,000 – in the same period.<sup>324</sup> According to a 2014 report by the Housing Repossessions Taskforce, 41% of Northern Irish mortgage borrowers were in negative equity – the highest of any UK region.<sup>325</sup>

3.4 This has resulted in a growing number of Housing Rights clients who are owner-occupiers, and who are financially excluded due to (for example) no longer being able to maintain existing mortgage commitments; having

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<sup>321</sup> See NI Housing Executive (2016) ‘Financial Inclusion Strategy, 2016-2019’, p5

<sup>322</sup> See Joseph Rowntree Foundation (2016) ‘Monitoring Poverty & Social Exclusion in Northern Ireland’, p2

<sup>323</sup> See Housing Rights Service (2009) ‘Financial Inclusion and Housing Debt in NI’, p4

<sup>324</sup> See Figs 2 & 3,

<http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/june2016#uk-all-dwellings>

<sup>325</sup> Housing Repossessions Taskforce (2014) ‘Initial Evidence Paper: Negative Equity, Arrears and Possessions in Northern Ireland’, p8

poor or no credit histories; or having low incomes. Many of these clients have been targeted by intermediary brokers or sub-prime lenders, resulting in mortgages or secured loans at high interest rates.

3.5 Housing Rights notes the interaction between financial exclusion and digital exclusion, and the potential for financial exclusion to be more pronounced in rural areas. Research by the Joseph Rowntree Foundation and the Financial Conduct Authority has highlighted the issues which rural communities can face in terms of access to mainstream financial services, driven by a combination of low levels of internet access<sup>326</sup> and closures of Post Offices and local bank branches.<sup>327</sup> This interaction of financial and rural exclusion is of particular concern in relation to pending reforms to the welfare system (see section 6 below), given the “digital-by-default” emphasis of Universal Credit.

3.6 Overall, in Housing Rights’ experience, financial exclusion is an increasing concern for our clients across all tenures. More and more of our clients are reporting difficulties in meeting basic living requirements and accessing affordable credit.

#### **4. Financial education**

4.1 Housing Rights offers financial capability training and education to social landlords and to advisers working with the financially excluded. We have found such education to be valuable in terms of helping individuals suffering from financial exclusion to maximise their income, and make informed spending and budgeting decisions. Such training is also valuable for social landlords and lenders, in enabling them to work with their tenants and clients to develop constructive solutions to housing debt issues, and improve their approaches to excluded clients.

4.2 Since 2014, Housing Rights has delivered training entitled ‘Made of Money’, a 2-day interactive course which goes beyond traditional “money advice and information” to look at assisting households to improve personal money management, re-evaluate or change shopping habits, avoid high-interest loans, reduce energy use and set financial goals. Attendees have

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<sup>326</sup> For example, the Northern Ireland Neighbourhood Information Service’s 2014 dataset on Internet Access reports up to 31% of the population in parts of NI have no home internet access ([ninis2.nisra.gov.uk/public/PivotGrid.aspx?ds=6975&lh=63&yn=2005,2007-2014&sk=10&sn=People%20and%20Places&yearfilter=](https://ninis2.nisra.gov.uk/public/PivotGrid.aspx?ds=6975&lh=63&yn=2005,2007-2014&sk=10&sn=People%20and%20Places&yearfilter=)); this compares to just 15% across Great Britain

(<https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2014-08-07#main-points>).

<sup>327</sup> See Mitton L (2008) ‘Financial Inclusion in the UK: Review of policy and practice’ [Joseph Rowntree Foundation](#), and Rowe B et. al. (2015) ‘Mind the gap: Consumer research exploring experiences of financial exclusion across the UK’ [Financial Conduct Authority](#)

included staff from the NI Housing Executive, officials from Belfast City Council, and several housing associations. Earlier this year, Housing Rights was appointed by the Northern Ireland Housing Executive to deliver financial capability training to 600 staff in the next two years. This training covers subjects such as priority and non-priority debts; budgeting and preparing financial statements; and the link between financial inclusion and tenancy sustainment.

4.3 Housing Rights has also delivered this training directly to tenants, in partnership with Clanmil Housing Association. The course was targeted directly at tenants in rent arrears, and proved effective:

*"Interesting results from the first cohort from last year. 3 of them have cleared arrears (over 3/4K) so quote a good result. And quite a few of the others have stuck to agreements."* [Eddie Smith, Clanmil Housing Association]<sup>328</sup>

4.4 Finally, Housing Rights also offers extensive online assistance through our public advice website, [housingadviceNI](http://housingadviceNI.org). This website has dedicated sections on help with debt<sup>329</sup> and "do-it-yourself" money and budgeting tools<sup>330</sup>, including several budgeting tools syndicated from the Money Advice Service.

## **5. Financial exclusion and access to affordable credit**

5.1 Housing Rights feels that access to affordable credit, in combination with effective financial training for individuals, landlords and lenders, can make a significant contribution to the reduction of financial exclusion.

5.2 In 2013, in partnership with the Consumer Council NI, Housing Rights commissioned research into financial inclusion and the expansion of credit union financial services in Northern Ireland.<sup>331</sup> This research found that the credit union movement has the potential to play a major strategic role in the provision of financial services for financially excluded households in Northern Ireland.

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<sup>328</sup> See <http://www.housingrights.org.uk/news/promo/supporting-those-work-make-people-more-financially-capable>

<sup>329</sup> See <http://housingadviceni.org/help-debt>

<sup>330</sup> See <http://housingadviceni.org/do-it-yourself>

<sup>331</sup> Jones PA (2013) 'Towards Financial Inclusion: The expansion of credit union financial services for low-income households in Northern Ireland' [Housing Rights Service/ Consumer Council NI](#)



- 5.3 Credit unions serve around 34% of the Northern Irish population, compared to just 2% of the population of Great Britain.<sup>332</sup> Participants in the research regarded credit unions as 'community-based institutions that were approachable, friendly and designed for working people'<sup>333</sup>, and were eager for credit unions to offer services such as current accounts, bill payment facilities and budgeting accounts to assist with money management. The report concludes that with their strong base in the community and their commitment to social justice, Northern Irish credit unions were in a strong position to further expand their product and service range to financially excluded communities.
- 5.4 The NI Housing Executive's recently published Financial Inclusion Strategy<sup>334</sup> has committed to explore the potential for the development of a strategic partnership with credit unions, along with other relevant partners, to encourage tenants to save and facilitate access to affordable credit.
- 5.5 Finally on this topic, Housing Rights notes the report of the NI Executive's Welfare Mitigations Working Group<sup>335</sup>, which recommends the implementation of Welfare Reform in Northern Ireland is accompanied by a financial adjustment project, including direct funding for credit unions to provide accessible credit to households negatively affected by Welfare Reform.

## **6. Welfare reforms and their impact on financial exclusion**

- 6.1 Recent and pending reforms to the welfare system may come to have negative effects on the financial exclusion of many of Housing Rights' clients.
- 6.2 Recent research by the Chartered Institute of Housing<sup>336</sup> has found that uprating reductions and freezes on Housing Benefit in the private rented sector, has resulted in significant and growing gaps between the amount of Housing Benefit payable to households in the sector and their actual rent liability.
- 6.3 Since 2008, Housing Benefit has been calculated for private tenants using the Local Housing Allowance system. The United Kingdom was split into 200 "Broad Rental Market Areas" – Northern Ireland has 8 - and within each of these areas, Housing Benefit would be paid up to a maximum of

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<sup>332</sup> Ibid., Executive Summary

<sup>333</sup> Ibid.

<sup>334</sup> See [http://www.nihe.gov.uk/financial\\_inclusion\\_strategy\\_2016-19.pdf](http://www.nihe.gov.uk/financial_inclusion_strategy_2016-19.pdf)

<sup>335</sup> See <https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/ofmdfm/welfare-reform-mitigations-working-group-report.pdf>, pp34-36

<sup>336</sup> Chartered Institute of Housing (2016) 'Mind the gap: the growing shortfall between private rents and help with housing costs'

the 50<sup>th</sup> percentile of the market, meaning Housing Benefit would pay for, at most, the cheaper half of the private rented sector in any given area.

6.4 Since 2011, several changes have combined to substantially reduce the amount of Housing Benefit actually payable to private tenants:

- 2011: The reduction of the LHA rate from the 50<sup>th</sup> percentile to the 30<sup>th</sup> percentile, meaning Housing Benefit will only cover the cheapest 30% of the private rented sector in any given area.
- 2012: The extension of the “Shared Room Rate” of LHA – which entitles claimants to only enough Housing Benefit to pay for a single room in a shared house – from claimants under 25 up to claimants under 35.
- 2013/14: The uprating of the LHA rates was changed. Instead of an annual evaluation of all rents in any Broad Rental Market Area, LHA rates were capped at inflation, as measured by the Consumer Prices Index.
- 2014/15: The uprating of the LHA rates was capped at 1%.
- April 2016: LHA rates frozen completely for 4 years.

6.5 These changes have combined to result in substantial real-terms cuts to the Housing Benefit available to private tenants, in Northern Ireland and across the United Kingdom. Research by the Chartered Institute of Housing has analysed the impact of these measures: in Northern Ireland, 80% of LHA rates no longer pay for the bottom 30% of the local market as they purport to. Shortfalls are currently as high as £9.46 per week<sup>337</sup>; these shortfalls are likely to rise substantially across the current 4-year freeze of Housing Benefit.

6.6 In practical terms, this has resulted in households having to resort to other benefits or earnings in order to pay their rent, resulting in increased financial exclusion. In 2015/16, we dealt with 2,480 issues on affordability, rent arrears and shortfalls in the private rented sector: we expect this number to grow over the next few years, due in part to these real-term reductions in Housing Benefit.

6.7 Another significant concern, in terms of financial exclusion, is the pending introduction of Universal Credit to Northern Ireland. Although Universal Credit purports to improve the budgeting and financial capability skills of recipients by (for instance) paying monthly in arrears, similar to salary payments<sup>338</sup>, evidence from its implementation thus far suggests that it is having a significant negative effect on households’ financial exclusion.

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<sup>337</sup> Chartered Institute of Housing (2016) ‘Mind the gap: the growing shortfall between private rents and help with housing costs’, p10

<sup>338</sup>See [gov.uk/government/publications/help-with-budgeting-your-universal-credit/universal-credit-help-with-managing-your-money](http://gov.uk/government/publications/help-with-budgeting-your-universal-credit/universal-credit-help-with-managing-your-money)

- 6.8 Recent research by the National Federation of ALMOs and the Association of Retained Council Housing<sup>339</sup> has found that 79% of social tenants in receipt of Universal Credit were in arrears; this compares to just 31% of social tenants overall. In addition to this, the report details that around half of those households in rent arrears, and receiving Universal Credit, had no pre-existing arrears. Participants in this research have attributed this to the initial 6-week delay in payment of Universal Credit, which forces many recipient households – who are generally on low incomes, with little savings – into rent arrears by default.
- 6.9 Finally, it is highly likely that the Benefit Cap will have a significant and negative impact on the financial exclusion of households in Northern Ireland. The current cap – set at £26,000 per year for families or couples, and £18,200 for single adults – affects approximately 400 households in Northern Ireland, who lose an average of £53.90 per week. When this cap is lowered – to £20,000 and £13,400 per year respectively – around 2,440 households will be affected, losing an average of £63.20 per week. Some of these households will, in fact, lose more than £200 per week.<sup>340</sup>
- 6.10 In respect of Universal Credit and the Benefit Cap, Housing Rights wishes to acknowledge several mitigations enacted by the NI Executive that will (at least initially) lessen some of the negative impacts of these measures: these mitigations include twice-monthly payments of Universal Credit, provision for emergency payments in the case of Universal Credit system failures, and initial supplementary payments for households affected by the Cap.<sup>341</sup> These local mitigations should not, however, distract from the significant negative potential which these reforms hold, in the absence of mitigations, in terms of financial exclusion.

*13 September 2016*

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<sup>339</sup> See NFA/ARCH (2016) 'Universal Credit – One Year On: 2016 NFA & ARCH Welfare Reform Survey Findings'

<sup>340</sup> See Department for Social Development (2016) 'Northern Ireland: Benefit Cap Information Booklet'

<sup>341</sup> See Northern Ireland Executive (2016) 'Welfare Reform Mitigations Working Group Report'

## **Inclusion London – Written evidence (FEX0067)**

### **Introduction**

#### **Inclusion London**

Inclusion London is a London-wide user-led organisation which promotes equality for London's Deaf and Disabled people and provides capacity-building support for over 90 Deaf and Disabled people's organisations in London and through these organisations our reach extends to over 70,000 Disabled Londoners.

#### **Disabled people**

- In 2012/13 there were approximately 12.2 million Disabled adults and children in the UK, a rise from 10.8 million in 2002/03. The estimated percentage of the population who were disabled remained relatively constant over time at around 19 per cent.<sup>342</sup>
- There are approximately 1.2 million Disabled people living in London.<sup>343</sup>

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<sup>342</sup> Family Resources survey United Kingdom 2012/13:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/325491/family-resources-survey-statistics-2012-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325491/family-resources-survey-statistics-2012-2013.pdf) (page 61)

<sup>343</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/325491/family-resources-survey-statistics-2012-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325491/family-resources-survey-statistics-2012-2013.pdf) (page 64)

## Inclusion London's evidence

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Inclusion London welcomes the opportunity to respond to the inquiry on financial exclusion

Our evidence is composed of the experiences of Deaf and Disabled people we received in response to a call for evidence we sent out for this inquiry. We also include relevant Deaf and Disabled people's experiences, which we received prior to the inquiry on financial exclusion opening. We have changed all names to protect anonymity.

We are just providing evidence on two questions raised by the Select Committee, reflecting the evidence we have received from Deaf and Disabled people and DDPOs.

## Summary of issues and recommendations

### Issues:

- Deaf people are unable to access savings account due to the lack of accessible information.
- Deaf people do not understand bank statements or bank charges so get into debt.

**Recommendation 1:** When a Deaf person opens an account, bank statements and bank charges are explained to the Deaf person via a BSL interpreter. Banks provide a BSL interpreter for Deaf people to translate information on savings accounts. This would be a 'reasonable adjustment' on the part of the banks.

**Recommendation 2:** Banks assist with setting up an arrangement to enable an advocate, to assist Deaf person with their banking affairs. The Bank would need to monitor the arrangement for fraud just as they monitor 'unusual activity' on all accounts.

**Issue:** Bank charges tip many people that have a small amount of debt into ever deepening financial difficulties.

**Recommendation 3:** Bank charges for those that are over drawn are re-considered.

### Issues

- It is not appropriate for banks to insist/rely on telephone contact with a Deaf person because is not accessible
- Lack of accessible communication forces a Deaf person to share their financial details so compromising confidentiality.

**Recommendation 4:** As a 'reasonable adjustment' all banks should put an accessible communication system in place that enables Deaf people to communicate easily with them, especially when a transaction needs to be verified. Telephone contact should not be used with Deaf people.

**Recommendation 5:** Banks and other financial services make reasonable adjustments to ensure that Deaf and Disabled people do not have to share their personal finances with a third party.

**Issue:** banks requiring a credit or debit card to be activated at an ATM

**Recommendation 6:** All banks allow new credit and debit cards to be activated by telephone, or another secure method, which doesn't involve a journey to an ATM.

### Issues

- Lack of local branches cause Disabled people difficulties in accessing banking services due to difficulties with travelling.
- There are higher charges for telephone services than online services, which not all Disabled people are able to access.

**Recommendation 7:** A reasonable adjustment is made so that telephone services are not more expensive when online services are not accessible to a Disabled person.

**Issue:** Refusing a Disabled person a contactless card

**Recommendation 8:** All banks provide contactless debit cards, when requested by Disabled people as a reasonable adjustment if necessary.

**Issue:** A Disabled person is being denied a bank account in their own name.

**Recommendation 9:** Banks need to adhere to the rights to equal access to services under the Equality Act.<sup>344</sup>

**Issues:**

- Banks are not providing provide debit and credit cards that do not have contactless technology, when requested by a visually impaired person.
- PIN numbers are not sent in Braille for the new credit or debit card after being requested by a visually impaired person. .

**Recommendation 10 & 11**

- Banks provide debit and credit cards that do not have contactless technology, when requested by Disabled people.
- PIN numbers are sent in Braille for the new credit or debit card after the first request.

1. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?

**Deaf People**

1.1 The following evidence from a member of staff member, who has worked at a Deaf and Disabled People's Organisation for over 20 years, raises the following issues:

- Deaf people are unable to access savings account due to the lack of accessible information.
- Deaf people not understanding bank statements or charges so get into debt.
- Bank charges tip many people that have a small amount of debt into ever deepening financial difficulties.

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<sup>344</sup> <http://www.legislation.gov.uk/ukpga/2010/15/part/3>

1.2 "I want to give from my prospective the problems that my clients, profoundly Deaf BSL users, encounter with financial exclusion, credit and debit cards, in fact a number of issues.

1.3 Firstly for those of us that are hearing we pick up via the media/leaflets/in branch information re savings accounts, majority of my clients cannot get this information readily, the information is not in BSL and staff in branch would have to book an appointment with a BSL Interpreter just to explain about all the different accounts. Getting this appointment is not easy..... So many have been unable to access savings accounts due to the fact they do not know about them.

1.4 Debit and Credit card, so many of my clients do not understand the difference ..... and what worries me is so many have signed up for credit cards. What really shocks me is how so many of my clients are in debt with bank charges, it scares me how easily they get into debt by going overdrawn and it is like a never ending circle, they just can't get out of it....They do not understand about interest charges and how if they have direct debits they must have money in the bank .....

1.5 We now assist clients to read their bank statements regularly, so many are paying for things that they did not realise they were doing, helping them to stop paying for services they do not need. I have been involved in helping out on quite a lot of fraud stuff ..

1.6 ....Since benefits have been paid directly into banks this has added more problems, any change of circumstance means benefits are not paid or a claim has not been made 'live', the client is unaware their benefit has not been paid in and direct debits are then not paid. The circle then starts of the bank charges being heaped on and it is not easy to get the DWP to reimburse.

1.7 I think these bank charges are one of the biggest culprits of debt for all disabled people and I really do think banks should re think on this. Being in debt does affect your credit rating, can make people lend from these sharks who charge huge amounts of interest because people find they cannot borrow from mainstream financial institutions.

1.8 I also have a number of deaf/blind clients... and a number with mental health problems that need extra support when dealing with financial issues.... it would be great if the banks each had dedicated lines for someone like me to call and be able to assist the client there and then. If an organisation is registered with them surely security can be passed.



**Recommendation 1:** When a Deaf person opens an account, bank statements and bank charges are explained to the Deaf person via a BSL interpreter. Banks provide a BSL interpreter for Deaf people to translate information on savings accounts. This would be a 'reasonable adjustment' under the Equality Act 2010,<sup>345</sup> on the part of the banks.

**Recommendation 2:** Banks allow an arrangement to be set up an arrangement to enable an advocate, which has been security checked, to assist Deaf/blind people with their banking.

**Recommendation 3:** Bank charges for those that are over drawn are re-considered.

### **Telephone contact inaccessible for Deaf people**

1.9 Below is a case of 'Angela' Deaf person, which raises the following issues:

- It is not appropriate for banks to insist/rely on telephone contact with a Deaf person because is not accessible
- Lack of accessible communication forces a Deaf person to share their financial details so compromising confidentiality.

1.10 'Angela's evidence illustrates the frustrating process Deaf and Disabled people have to go through to obtain everyday banking services that are easily accessed by non-disabled people:

1.11 "I am officially registered as Hard of Hearing..... For several years now I have been unable to understand the call centre staff at Barclaycard, my credit card provider. Unfortunately Barclaycard has no system in place to cope with my inability to engage via telephone.

On several occasions in recent years Barclaycard have arbitrarily declined valid transactions for 'security' reasons. I have then received a telephone call from Barclaycard which I have been unable to hear. When there was anyone else at home, they answered the telephone on my behalf and explained the situation, only to be told that Barclaycard would only speak to me. Barclaycard would also not allow the use of a speakerphone to enable the other person to relay the information to me so that I could reply directly, so my account was frozen. On occasions when I was alone and unable to answer the telephone, my account was frozen because I had not answered. The retailers I was attempting to deal with were then given the incorrect impression that I was untrustworthy.

1.12 The only way I could unfreeze the account was either to telephone Barclaycard, which I was unable to do, or go to a branch of Barclays Bank during banking hours along with proof of identity and accompanied by my partner or a family member..... On each occasion I had to divulge private personal and

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<sup>345</sup><http://www.legislation.gov.uk/ukpga/2010/15/part/2/chapter/2/crossheading/adjustments-for-disabled-persons>

financial information to bank staff, in front of the person who had accompanied me.... On one occasion, it was arranged with Barclaycard that my partner could speak for me after providing extensive security information. However, the next time I had problems, Barclaycard denied any arrangement existed....

1.13..I am an educated, ex-professional woman who would dearly like to be independent and manage my financial affairs privately.... I consider that financial institutions discriminate against the deaf by either making services inaccessible for those who cannot use a telephone or only accessible at enormous inconvenience. There is also the matter of security; the more people who are party to the deaf customer's private information, the greater the risk of security breaches.

### **Sharing of financial details**

1.14 One of the issues that was raised several times in the emails from Deaf and Disabled people was being forced to share financial details with another person, often due to the inflexibility of banking staff as illustrated by Angela's case above and also 'Catherine's' case below.

### **Recommendations 4 & 5**

- As a 'reasonable adjustment' all banks should put an accessible communication system in place that enables Deaf people to communicate easily with them, especially when a transaction needs to be verified. Telephone contact should not be used with Deaf people.
- Banks and other financial services make reasonable adjustments to ensure that Deaf and Disabled people do not have to share their personal finances with a third party.

### **Activation of bank cards at ATMs**

1.15 Another difficulty is caused by banks requiring a credit or debit card to be activated at an ATM. This was mentioned by several other Disabled people, see 'Catherine's' example below:

*1.16 "I am restricted to my bed for most of the time and I do most of my shopping online, including my household shopping. I have found there are difficulties caused when a new debit or credit card arrives, because it has to be activated at a cash point with a pin number, but I can't get to a bank to do this.*

*1.17 My nearest branch that I could activate the new Santander card that arrived through the post is about 2 miles away and I haven't been there for about 3 years.... The banks need to consider how to facilitate some other way a Disabled person can activate a new card"*

**Recommendation 6:** All banks allow new credit and debit cards to be activated by telephone, or another secure method, which doesn't involve a journey to an ATM.

1.18 The examples below were gathered by another Deaf and Disabled People's Organisation in London, which illustrate that the same difficulties reoccur:

1.19 From MJ – being Deaf and using interpreters or family members when I don't have an interpreter has caused problems when the bank refuses to talk to me through them. Some banks are really fine with it, others are infuriating and I had to go through the same process and get through to the complaints team on about 3 occasions with Natwest. They are better now though.

1.20 From ES - I find that relying on PA'S to do tasks involved with finance and banking give extra security issues due to limited physical mobility. I have not yet used Internet banking as I need assistance with computers also.

1.21 From GM - I cannot use ATMs due to manual dexterity issues and have to go into a branch. The nearest is at Bexleyheath, so it's quite a trek for me to get cash.

### **Other issues**

#### **Lack of local branches**

1.22 Banks are closing local branches, so the nearest bank can be a comparatively long journey away. This causes difficulties for Disabled people, who cannot travel long distances for a variety of reasons, such as pain and exhaustion or inaccessible transport.

#### **Higher charges for telephone services**

1.23 Financial services such as banks and stockbrokers can charge more for telephone services than online services, which puts Disabled people that cannot use online services independently at a disadvantage.

**Recommendation 7:** A reasonable adjustment is made so that telephone services are not more expensive when online services are not accessible to a Disabled person.

#### **Refused contactless card**

1.24 A Disabled person 'Yaquub,' could not obtain a contactless debit card:

1.25 “My bank Santander refused to give me a contactless debit card. They said my credit scoring is not good enough to have one. I don’t know what this got to do with credit scoring.

1.26 Because of my limited use of my hands especially fingers, I find it extremely difficult to enter pin when I do my shopping. As a result, people can actually see me putting my pin in. and sometimes I had to enter pin few times and you can see people on the queue looking at me and getting bit frustrated.

1.27 The bank is still refusing me contactless card and I am going to switch account”

**Recommendation 8:** All banks provide contactless debit cards, when requested by Disabled people as a reasonable adjustment if necessary.

### **Denied a bank account**

1.28 In the case below a Disabled person’s right to hold a bank account, in their own name is being denied:

1.29 At one time my son who is physically disabled, manifested in many ways but in particular by inability to speak and inability to write, was able to open a bank account with RBS and also with the Halifax. Both of these accounts were essential for handling his ILF funds and his welfare benefits. Sadly the banks have reached a stage where both accounts are now listed as my accounts and he is named on the accounts rather than having his own account. Halifax will not even allow him a debit card in his own name, but have issued one in my name. I had to threaten RBS that I would go to a disability rights tribunal if they refused to let him have an account.

1.30 Disabled people, such as world renowned scientist Steven Hawking, can have speech impairments and physical impairments but that does not mean they have a lack of capacity to manage personal finances. Disabled people’s rights to have equal access to goods and services under the Equality Act 2010 should not be denied.<sup>346</sup>

**Recommendation 9:** Banks need to adhere to the rights to equal access to services under the Equality Act.<sup>347</sup>

### **Visually Impaired People**

1.31 Below are the experiences of visually impaired people. The first case below involves a registered blind person, ‘Jo’. Jo requested that Santander bank provided:

- A credit card that does not have contactless technology

<sup>346</sup> <http://www.legislation.gov.uk/ukpga/2010/15/part/3>

<sup>347</sup> <http://www.legislation.gov.uk/ukpga/2010/15/part/3>

- A PIN number in Braille for the new credit card
- A credit card which could be used without having to unlock it in an ATM first.

1.32 'Jo's' experience below illustrates the frustrating process of trying to obtain accessible banking for a visually impaired person:

1.33 "I am registered blind.

I recently endured a 19 week process with Santander bank over trying to get a non-contactless credit card with a braille pin.

1.34 Being blind, I do not feel confident to use contactless technology - I find it hard to know when a transaction has been processed, there is a greater risk of fraud and double charging with contactless, and I have a more limited ability to check my statements to detect incorrect transactions. So I would prefer not to have this contactless technology.

1.35 I use online banking so I don't get many letters through the post. But for those letters that do come by post, I use a PC to scan them. Unfortunately, the letter containing the pin does not read in the scanner, hence wanting this letter in braille.

Being blind, I am unable to see the screen of an ATM, or where the relevant buttons are. So I cannot use one.

1.36 So my request was clear and simple: I asked Santander to send me a replacement credit card that does not have contactless technology, send me a pin in braille for it, and allow me to use this card without having to unlock it in an ATM first.

1.37 Here are just some of the issues I encountered:

- The bank was unable to permanently opt me out of the contactless technology on its new credit cards, even though it does purport to offer a contactless opt-out service. So every time I opted out, it then went and opted me back in again so I kept being sent a new credit card with contactless capability. This happened three times.....

1.38 Santander says it can issue letters in braille. But it was unable to issue me with a pin for the replacement credit card in braille.... This happened 4 times and each time it seemed to come as a surprise to them.

1.39 The bank in its futile efforts to produce a one-off braille pin for the replacement credit card, kept switching my correspondence preference from "web" to "paper"..... This happened 3 times and as a result I received statements in print which I was unable to read properly. I had to get them to switch me back into paperless (or "web") correspondence each time.

1.40 The bank singularly failed to provide me with clear and consistent information about whether one of their credit cards needs to be "unlocked" in an ATM before it is used .....

- After 19 weeks, the bank has still not clarified its position on this....

1.41 But assuming that some or all credit cards require unlocking in an ATM... a blind person who cannot use an ATM, to do this..... Visiting a branch was suggested, but I live no-where near a Santander branch ...

- The Bank was issuing me with cards repeatedly in its efforts to send me a non-contactless card with a one-off braille pin.....

1.42 In all I was issued with 7 different cards and at least the same number of pins (some cards had no PINs, one card had three PINs); I received a total of 23 items of correspondence, some in print, some in braille and some electronically; I had 32 telephone calls lasting a total of over 12.5 hours and have spent at least a further 16 hours of time scanning letters, and writing 35 pages of notes of phone calls to keep track of what has been happening.....

1.43 To date, the bank has been unable to issue me with a non-contactless credit card, with a one off braille PIN that can be used by me without having to unlock it in an ATM.....

1.44 The bank tried to shut down my complaint by opening a formal complaint against my will, then giving me no time to actually state my complaints before "resolving" it.....

1.45 The bank has a very limited interest in or capacity to provide accessible solutions to blind customers."

1.46 Disabled people can have different needs. Jo needs a card without the contactless facility, while Yaqub needed a contactless card, in both cases the banks met their requests with inflexibility, a lack of reasonable adjustments as well as just plain inefficiency.

### **Recommendations 10 & 11**

- Banks provide debit and credit cards that do not have contactless technology, when requested
- PIN numbers are sent in Braille for the new credit or debit card after the first request.

1.47 'John', a visually impaired person (VIP) in raises access issues, which are experienced everyday by many visually impaired people below:

"I have 4 main problems to highlight:

- First when using outside cash machines in bright sunlight VIP's find it impossible to read the screen. In fact I now go into the bank to withdraw money at the counter but that only works during office hours.

- Secondly printed mini statements are difficult to read especially when the ink is low
- Thirdly when telephoning a bank it is automated asking for various account numbers which we can't see..”
- Finally when doing things on line you are asked to do a security check to make sure you are the right person. That's reasonable except the check is a visual one for you to enter what you see on the screen.”

## **Conclusion**

Banks are failing to make reasonable adjustments for Deaf and Disabled people. Requests can be met with outright refusal or long winded inefficiency, both of which are extremely frustrating. As illustrated by the cases above the reasonable adjustment needed differs from person to person. To ensure their services are accessible Banks and banking staff need to ensure their systems are flexible enough to make the reasonable adjustments that Deaf and Disabled people are entitled to.

## **2. What has been the impact of recent welfare reforms on financial exclusion?**

2.1 If a Disabled person challenges a decision regarding benefits such as Employment support Allowance (ESA) or Disability Living Allowance/Personal Independence Allowance (DLA/PIP), it is necessary to go through the Mandatory Reconsideration before going to appeal tribunal. This can delay the receipt of welfare benefits for many months during which Deaf and Disabled people can experience financial difficulties. The evidence below, provided by a Deaf and Disabled People's Organisation (DDPO) in London specifically for the financial exclusion inquiry illustrates well the type of problem Deaf and Disabled people can experience:

2.2 "Some disabled people have reported that current or prior debt / bankruptcy (incurred as a result of higher impairment related costs, delays in benefits, care charges, resorting to payday lenders etc.) means that they are only accepted for an account with no credit facilities, interest or special deals as part of the package.

2.3 One severely disabled client was brought up with alleged fraud charges - (recently cleared in criminal and civil court) - leaving no income from benefits and massive debts. She wasn't able to get banking facilities the whole time and now can only get basic account due to debts.

2.4 Another client ran up huge debts to pay for unmet (assessed and eligible) care needs while council made a decision and now cannot access a regular account.

2.5 It should be noted though - that although some people mentioned above actually got the full amount of back pay (e.g. from where they had to appeal / go to tribunal etc.) the damage had already been done in terms of credit ratings and extra interest owed for debts that wouldn't have occurred (at least not to the extent they did) had there not been delays.....

2.6 One person mentioned that there was an account or service, that helped you budget your money by separating out what was needed for bills and what was "disposable", that would have been really helpful but as it was a paid for service, they couldn't afford to have that type of account. (It costs £17.50 per month!)."



2.7 The introduction of Welfare Reforms was that it was accompanied by the media and some politicians<sup>348</sup> falsely labelling Disabled people as 'benefit fraudsters' or 'scroungers', yet fraud regarding Disabled people's benefits is very low.<sup>349</sup> This has been compounded by the opening of the anonymous Benefit fraud helpline.<sup>350</sup>

### **DLA/PIP**

2.8 Disability Living Allowance (DLA) /Personal Independence Allowance (PIP) is a welfare benefit, which intends to help Disabled people with the extra costs of being disabled.<sup>351</sup> DLA is being abolished and PIP is being introduced. Since the introduction of PIP many Disabled people have experienced a cut in the benefit, or no support at all.<sup>352</sup> This can have a knock on effect in that other benefits and entitlements can also be lost when PIP (or ESA) application fails. Below are two examples of difficulties caused. The first example below, which was provided specifically for the financial exclusion inquiry the Disabled person's overdraft, is being reduced:

2.9 "I have chronic illnesses which have severely limited my life and work chances... I could not work full-time since 2005,

2.10 After three years of the worsened illness which caused my early retirement I applied for a higher rate of DLA/PIP..... The DWP decided, against medical evidence from my psychotherapist and GP, that the extra support I need was not necessary.....am now gathering medical evidence again to appeal another refusal. ....

2.11 I am only surviving financially, after 12 months without even the limited disability benefit which has helped sustain me through the previous 11 years, because my bank has continued to allow my overdraft which was initially agreed when I was working full-time. Today I have a letter saying they are concerned that I am not able to meet my outgoings, and so they are bringing the limit down...."

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<sup>348</sup> <http://www.telegraph.co.uk/news/politics/9263453/500000-to-lose-disability-benefit.html>  
<http://www.telegraph.co.uk/news/politics/9263502/Iain-Duncan-Smith-Im-not-scared-to-light-the-fuse-on-disability-reform.html>

<sup>349</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/528719/fraud-and-error-prelim-estimates-2015-16.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/528719/fraud-and-error-prelim-estimates-2015-16.pdf)

<sup>350</sup> <https://secure.dwp.gov.uk/benefitfraud/>

<sup>351</sup> <https://www.gov.uk/pip/overview>

<sup>352</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/529079/pip-statistics-to-apr-2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/529079/pip-statistics-to-apr-2016.pdf)

## **Repossession of home**

2.12 We received 'Deanna's case below in January 2016. 'Deanna' had received Disability Living Allowance, (DLA) Enhanced Care & Enhanced Mobility since 2008. Following Deanna's PIP assessment Deanna's husband wrote in 2015:

2.13 "Due to an admitted series of failures (in writing) by the DWP we had NO money from May till November....

We go to court in Feb. for re-possession of our house we've been in for 30 yrs.....After 7mths. with no money, she was awarded Standard care & NO mobility. We are now at Appeal stage, and awaiting a date."

2.14 As mentioned previously bank charges can push people deeper into debt and also hit people going through hard times as the two examples below, written in 2013 illustrate:

### **Example 1**

2.15 "I got sanctioned because I was too ill to attend the activity for work programme. They now send me £16 pw which is taken by my bank for charges..... I've applied and been refused a hardship payment and I've had no money or food in my flat....."

### **Example 2**

2.16 "Recently I had to take a significant amount of time off of work due to my mother suffering a massive stroke and having to deal with everything that followed. Settle bills, chase banks, move her property... I haven't received much money owed by ex-employer, what I did the bank ate for late fee's..... I am penniless, electric is all but gone...Anyhow, food situ v low..... . I have applied for an advance on jsa but was turned down, the council said I was not eligible for a hardship loan until I had received a jsa payment. All they can do is give me a food bank letter for Monday...."

2.17 As mentioned previously bank charges put people further into debt, which is hard to escape from. We recommend the banks reconsider bank charges because of their detrimental impact on people with low or no incomes.

## **Lack of access to loans**

2.18 In the case below, written in 2013 the Disabled person mentions the lack of access to a loan:

2.19 "I have had ME a lot of other problems related since the 1990s and after my husband left me I lost my home as I couldn't afford to keep it on my social security payments which had been frozen. I haven't had a home of my own since July 2007 and have relied on my sister and friends to provide me with a roof over my head and the one to one care that I sometimes need (my ill health is very up and down).....  
..I cannot afford my own home and certainly wouldn't be able to afford to buy or rent on my own, and the banks wouldn't lend me anything as I have no security."

As the evidence above illustrates Disabled people are being financially excluded due to welfare benefit reforms.

*14 September 2016*

## **Dr Rama Kanungo – Written evidence (FEX0018)**

It is my privilege to offer written evidence in response to the House of Lords Select Committee on Financial Exclusion call. I have based my account surrounding three key areas of financial exclusion as identified by the Select Committee.

### **Financial education and capability**

1. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?

The scale of appropriate education and advisory services required in primary, secondary and tertiary level is limited, although from September 2014 personal finance education has become a mandatory part of secondary school's curriculum. Contrary to several evidences of effectiveness of personal finance education, the key question remain unanswered is the causation—Does financial education help promoting financial inclusion, if it does, to what extent and what greater emphasis should be placed to make it more efficient.

The most important way to promote a self-beneficial financial outlook among public is by means of early engagement of financial institutions and service providers with the education sector. Here "engagement" entails direct involvement with curriculum development and assessment of the students. The curriculum should include more real life elements and non- credit bearing courses but must be an integral part of the study. A case-study based pedagogic approach should be adopted with a set of clearly defined outcomes.

2. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?

Financial capability can be maintained and developed by offering access to critical financial resources and beyond, i.e. ownership of fund (bank account for the declared bankrupts, more allowance for protection gap etc.), reallocation of financial provision (substantive financial counselling, stricter monitoring of alternative financial outlets-payday loan, pawn shop, predatory lending etc.) and transferability of risk. It should be a balanced combination of "*ability to act*" and "*opportunity to act*".

### **Addressing financial exclusion**

3. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?

Inadequate provisions exacerbate financial exclusion. The government should promote Economic Socialisation—cognitive, behavioural and environmental influences that make sustained financial learning. The Government should provide stable economic conditions, sufficient allocation of funds by inclusive financial provisions, and using media as a reflective process to promote financial understanding. The third sector, i.e. charitable agencies should aim to host financial education workshops for a diverse range of audiences, offer specialised support units at banks and financial services providers, raise fund for financial training and education purpose etc. The businesses should engage with international forums and gateways to understand to what extent micro-credit, seed-funds, crowdfunding and Islamic finance could potentially benefit the UK economic landscape and make robust approach to their implementation.

4. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?

Since 2008, the government has taken a number of measures to address this issue with help of banks and other financial institutions, i.e. creating financial task force and credit working group, offering basic bank accounts, pension account, child trust fund, direct account credit for welfare benefits etc. However, setting-up accounts for high risk and low-creditworthy target population needs to be fully operationalised. Local councils need to be involvement with child benefit fund by personal visit and counselling to low-income group. Banks need to use auto-review process of financial behaviour of account holders. Post Office should engage more with smaller transactions and outsource larger transaction through an automated teller channel to the partnering banks. This will potentially reduce the transactional cost and enhance people-facing image of post office, thereby people with lesser financial understanding would feel more open to post offices.

### **Accessing affordable credit**

5. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?

Informal borrowing via pawn brokers and payday loan is a high risk trend among low-income groups. To circumvent such informal credit market, community finance centres or institutions need to be developed and be reaching out to such vulnerable groups. The community finance centres should work very closely with the local councils to identify potentially high risk groups and make first contact to liaise with them. This could be achieved through Specialised Community Investment Intermediaries (SCIIs) via data disclosure and coordination. In addition, local businesses should pledge to

engage with the SCIIIs to mandate and create sustainable market infrastructure.

### **Financial technology (Fintech)**

6. 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?

Financial Technology (FinTech) can serve as a gateway for public to obtain appropriate financial products and services via digital access. At governmental level, FinTech can be used for social transfers, payroll, pensions, subsidies, government-subsidized loans, procurement, and unemployment benefits. This can also be rightly combined with E-commerce facilities, alternative finance portals, and co-branding of credit-market services. The government should make mandatory provisions for inclusion of data analytics in financial institutions and services, facilitate digital payment for P2G transactions, embed computer/cognitive learning basics in the education. For effective management, government should establish an apex body to implement and monitor such practices under existing and/or revised financial regulations. However, cyber-crime should be seen a perceived high risk and equitable measures should be put in places to neutralize such threats and offer increased protections. Thus, government should involve police and security agencies in the process and seek their engagement.

*12 September 2016*

## **Keep Me Posted – Written evidence (FEX0020)**

Judith Donovan CBE, Chair of Keep Me Posted

### **Background**

1. The last decade has seen a wholesale change in how service providers, such as banks and utility companies, communicate with their customers. The rise of digital services, such as online banking, has been a great innovation for many people who want to incorporate the advantages of modern technology into their day-to-day life.
2. Despite this there are still large numbers of UK consumers who are unable to or do not wish to manage their personal affairs online. There are approximately 5 million<sup>353</sup> people in the UK who have never used the internet, according to figures released by the Office for National Statistics. These figures increase significantly for the vulnerable people within our society, such as the elderly or disabled.

### **About the Keep Me Posted Campaign**

3. Launched in July 2013, the Keep Me Posted (KMP) campaign is a partnership of 91 leading charities, consumer organisations, trade unions and businesses, fighting to ensure that service providers offer consumers the choice of how they receive bank statements, energy bills and other personal information.
4. Currently, many vulnerable consumers, such as the disabled and the elderly, those without digital skills and those who cannot afford broadband are being penalised because they would like to continue to receive bill and statements and correspondence from their service providers in a paper format.
5. KMP has been engaging with service providers in the financial, utilities and public services sectors to persuade them of the value of maintaining offline services. So far we have awarded 20 service providers a 'Best Practice' Mark of Distinction in recognition of their ongoing commitment to offering customers the option of receiving statements on paper. Recipients include major high street banks RBS, Natwest and Ulster Bank, protecting their combined customer base of 16 million people across the UK.

### **Definitions and causes of financial exclusion**

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<sup>353</sup> Office for National Statistics, 2016, '*Internet Users in the UK: 2016*', available at: <https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/internetusers/2016>

Q.1 What are the causes of financial exclusion?

Q.2 Who is affected by financial exclusion? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?

Q.3 What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation?

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

6. There is a strong link between digital exclusion and financial exclusion. With more and more providers pushing their services online in a bid to modernise and cut costs, those that are unable or unwilling to interact with service providers in this way are neglected. Removing the option of receiving bills or statements on paper, or penalising those that do receive them, effectively excludes a large number of people from accessing financial services and products.
7. There are approximately 5 million<sup>354</sup> people in the UK who have never used the internet, according to figures released by the Office for National Statistics.
8. Within this number, vulnerable groups such as the elderly, disabled, socio-economically disadvantaged or those living in rural communities are disproportionately affected and the percentage of people who have either never or only rarely use the internet increases significantly.
9. 25% of disabled adults have never used internet.<sup>355</sup> Those living in rural communities often have no broadband connection at all, or have such a poor connection that completing financial transactions online is not possible. Amongst the elderly, three out of ten people aged 65 to 74 and two-thirds of those aged 75 and over are not online.<sup>356</sup>
10. Those who are socio-economically disadvantaged are also less likely to have regular access to the internet; while only 6% in socio-economic group AB rarely use the internet, this is three times higher at 18% in group DE.<sup>357</sup> This means that these groups may struggle to access financial services, which then in turn exacerbates their socio-economic disadvantage.
11. Through engagement with supporter organisations such as Mind, KMP has also heard numerous stories of how those with mental and other health

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<sup>354</sup> *Ibid.*

<sup>355</sup> *Ibid.*

<sup>356</sup> *Ibid.*

<sup>357</sup> Statista, 2015, 'Breadth of internet usage in the United Kingdom (UK) 2015, by socio-economic group', available at: <http://www.statista.com/statistics/323029/breadth-of-internet-usage-by-socio-economic-group-uk/>



problems can struggle to manage their finances online. Experiencing mental illness can make it difficult to keep track of personal finances, as evidenced by recent research by the Money and Mental Health Policy Institute.<sup>358</sup> This found that 38% were unable to remember what they had been told about loans they had taken out, while 74% said they had put off paying bills. Receiving paper copies of financial information both ensures that it can be recorded in a regular and accessible manner as well as providing timely reminders of upcoming payments through the post. This provides a useful aid for managing personal finances and enables others to provide assistance when necessary.

12. The same is especially true for those suffering from degenerative mental diseases, such as Alzheimer's or dementia. Through discussions with supporter organisations, such as Alzheimer's Society, Alzheimer's Research UK and Dementia UK, KMP have identified how such diseases make it incredibly difficult and often impossible to remember the various passwords, pin codes and other information needed to access online financial services and accounts. Having a paper trail to refer to not only enables individuals to maintain their independence for longer, but also ensures that carers or those with Power of Attorney can easily provide assistance.

### **Financial education and capability**

Q.6 How can financial literacy and capability be maintained and developed over the course of a person's lifetime?

13. Research conducted by London Economics and YouGov on behalf of KMP<sup>359</sup> in 2015 revealed that receiving paper bills and statements can improve financial understanding and decision-making. In this study, 82% were able to correctly recall their current balance from a paper statement, as opposed to just 32% from an electronic one. Moreover, 75% of those who received paper statements were able to correctly assess the health of their accounts, versus 48% from an electronic one.
14. While managing personal finances online may work for some, for those who find it difficult having a trail of paper records to refer to can improve their capabilities. Many people also appreciate having a timely reminder of upcoming payments through the post, with earlier KMP research finding 41% worried they might miss a payment if they did not receive paper bills.<sup>360</sup>

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<sup>358</sup> Money and Mental Health Policy Institute, 2016, 'Money on Your Mind', available at: <http://www.moneyandmentalhealth.org/moneyonyourmind/>

<sup>359</sup> London Economics and YouGov, 2015, '*Managing money online- working as well as we think?*', available at: <http://www.keepmeposteduk.com/keep-me-posted-reports>

<sup>360</sup> Opinium, 2013, '*Keep Me Posted: Paper and Digital Communications: the case for consumer choice*', available at: <http://www.keepmeposteduk.com/keep-me-posted-reports>

15. As these statistics demonstrate, receiving financial information on paper can be beneficial to maintaining and developing financial literacy and capabilities regardless of age or digital skills.

16. A recent report from Money Advice Trust cast light on the struggles young people face in managing their finances, despite assumptions that they are more digitally able.<sup>361</sup> This revealed that 37% of 18 to 24 year olds are already in debt, with 42% saying they are finding managing their money harder than they expected. One of the recommendations to come out of this report in relation to improving access to banking and savings specifically drew on KMP research and arguments. Money Advice Trust recommended maintaining access to paper statements to help young people manage their money, highlighting KMP's finding that more than a third of under 25s prefer to receive bank statements by post.

### **Addressing financial exclusion**

Q.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?

17. For those experiencing or at risk of financial exclusion, the accessibility of financial services and products is an essential element of their appropriateness. Maintaining offline services- specifically by offering the choice to receive bills and statements on paper- is a simple but effective way for banks and other service providers to increase their accessibility to those experiencing or at risk of financial exclusion.

18. Many consumers still prefer to manage their finances through paper communications, and even more prefer a mixture of both digital and paper. In 2013, KMP commissioned Opinium Research to analyse consumer attitudes to communications choice. The research found that 81% of consumers believed it was important to have the choice in how they access financial information and statements from service providers whilst 76% stated that it was important to them to receive a paper statement as well as having online access.

19. KMP believes that banks and other service providers should continue to provide their customers with choice over how they are communicated with both to meet consumer demand and to protect vulnerable customers.

### **Government policy and regulation**

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<sup>361</sup> Money Advice Trust, 2016, '*Borrowed Years: A spotlight briefing on young people, credit and debt*', available at: <http://www.moneyadvicetrust.org/media/news/Pages/borrowed-years-young-people-borrowing-and-worrying-but-too-few-see-advice.aspx>

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

20. It is the objective of KMP to ensure that consumer choice is not sacrificed in the pursuit of digital innovation. The government's 'digital by default' strategy risks having a negative impact on financial and other forms of exclusion by failing to take into account the needs of those who are digitally excluded. This is an especially pertinent consideration in relation to the government's digital strategy, as the highest users of public services are also those who are the most likely to be digitally excluded.

21. KMP would urge the government to lead by example, by ensuring that the pursuit of innovation is inclusive and not at the expense of vulnerable consumers who are unable to conduct their affairs online.

22. Secondly, KMP would urge the government to initiate legislation that addresses the link between digital and financial exclusion and protects consumers' rights to choose how they communicate with financial service providers. Legislation or other regulation on this matter has already been introduced in other countries around the world, including Austria, Belgium, Finland, France, Germany, Ireland, Spain and Canada.

Q.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?

23. As stated above, KMP believes regulators should have a role to play in ensuring that innovation is not prioritised at the expense of consumer rights and choice.

24. Throughout its work to promote consumer choice, the KMP has frequently found that financial services providers are increasingly removing consumers' choice over how they are communicated with, and are insufficiently clear and transparent when informing customers about changes to how they are communicated with. This is a particular challenge when seeking to ensure that consumers have the information they require to act in an informed and responsible manner.

25. There has been some acknowledgment from regulators of the importance of preserving choice over communication methods. KMP engagement with the Financial Conduct Authority (FCA) resulted in the FCA recommending in their Consumer Vulnerability report<sup>362</sup> that choice over communications methods must be given in order to protect vulnerable customers.

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<sup>362</sup> Financial Conduct Authority, 2015, 'Occasional Paper No.8: Consumer Vulnerability', available at: <https://www.fca.org.uk/publications/occasional-papers/occasional-paper-no-8-consumer-vulnerability>

26.KMP urges that this recommendation be given the form of binding regulation in order to fully secure this choice for customers in the face of increasing digitalisation. KMP also welcomes any further steps towards enhancing transparency of financial service providers and urge regulators to ensure that the information they publish is provided to consumers through a range of mediums, so that everyone can access important financial information. Many consumers will require this information in a paper format.

*Thank you for encouraging the Keep Me Posted campaign to participate in this consultation. We hope you find the comments included above useful. The campaign would be happy to discuss any of these points in more detail or meet with officials to discuss this further as your thinking develops.*

*13 September 2016*

## Later Life Ambitions – Written evidence (FEX0050)

### 1. Introduction

- 1.1 Later Life Ambitions brings together the collective voices of over 250,000 pensioners through three organisations – the National Federation of Occupational Pensioners, the Civil Service Pensioners' Alliance, and the National Association of Retired Police Officers.
- 1.2 We are concerned about the impact of financial exclusion on the lives of older people living in the United Kingdom. In recent years, the closure of high street bank branches and the move towards online financial services has increased the likelihood of older people becoming financially and socially excluded.
- 1.3 Research by the London School of Economics and Political Science revealed that almost five million Britons aged over 64 do not have any internet skills.<sup>363</sup> This is worrying in the context of financial exclusion. It is important that banks do not move to exclusively providing online services and have dedicated teams in store to help older customers deal with their banking.
- 1.4 We are also concerned about the impact of lower interest rates on pension pots and older people's savings and how this can be regulated.
- 1.5 We welcome the Financial Exclusion Committee's inquiry.
- 1.6 This submission proposes ways that the Government can tackle financial exclusion with particular reference to older people.

### 2. Definitions and causes of financial exclusion

- 2.1 Later Life Ambitions is concerned that a significant proportion of older people experience financial exclusion. This has been exacerbated in recent years due to the closures of banks and post offices, the move towards more online based banking poor transport in rural areas that prevent older people from travelling to their nearest banking branch and problems with physical health which prevent some older people from being able to travel easily or use online systems.
- 2.2 About 1,500 communities have already been left without a bank on their high street, according to the Campaign for Community Banking Service (CCBS), which predicts a further decline in the number of high street bank branches across the UK<sup>364</sup>.
- 2.3 The impact on this is worst in isolated rural areas where there are poor local transport links. This makes it even harder for older people living in these areas to access banking services especially if they are not comfortable with the online services.

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<sup>363</sup> <http://www.lse.ac.uk/newsAndMedia/news/archives/2015/08/Internet-older-adults.aspx>

<sup>364</sup> <http://www.communitybanking.org.uk/index.htm>

2.4 Rural areas also tend to have poorer and unreliable internet connections<sup>365</sup> which help to contribute to further financial exclusion of older people in those areas.

2.5 In some cases, there are age related issues that prevent older people from getting online or travelling greater distances to their local banking branch. Changing needs associated with ageing mean there are some physical impairments that make it harder. In some cases, worsening eyesight means they're unable to use digital devices. For others, they have mobility issues which makes it difficult for them to travel to their nearest bank.

### **3. Financial education and capability**

3.1 The closure of high street banks and the pace of change with banking technology means that older people can find it harder to maintain financial literacy and capability.

3.2 Later Life Ambitions support the work of organisations such as Age UK which teach computer skills in local branches and encourages older generations to get online which helps to maintain their financial inclusion.

3.3 Specialist initiatives, such as the introduction of Digital Eagles by Barclays Bank should be welcomed. We would like to see more banks and organisations take on similar initiatives that encourage older people to use online services.

### **4. Addressing financial exclusion**

4.1 Later Life Ambitions believe that personal responsibility is important, however in terms of financial exclusion there are often factors beyond personal control such as the local branch closures.

4.2 Although there is support for older people wishing to access online services, more needs to be done by private companies who are increasingly moving towards online services to ensure that older generations are not excluded and are still able to access key financial services.

4.3 Those who are able to get online should be encouraged to, however there needs to be guidelines around how websites and apps are designed for use by older people.

4.4 In rural areas which have seen closures of local banks there needs to be improvement to transport infrastructure which will enable them to travel to their closest branch easily.

4.5 As an example of this, one of our members recently reported to us that:  
*"A few years ago I was attorney under a lasting Power for a person unable*

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<sup>365</sup> <http://www.lse.ac.uk/newsAndMedia/news/archives/2015/08/Internet-older-adults.aspx>

*to deal with their financial affairs when TSB and Lloyds separated. This person's account was transferred to Lloyds, even though they had initially opened the account with TSB. There was no option for the customer it was the banks decision. This meant the nearest branch was 12 miles from home, although the TSB branch was one mile away. At the time a lot of care, bills etc were dealt with by cheque and I ended up having to spend a lot of time and money travelling to the bank to pay in money/cheques... This is just one example of how closure has an effect and how little control the customer has".*

## **5. Government policy and regulation**

- 5.1 It's important that the needs of older people are considered by the banking sector when considering how older people access their savings. For example, we strongly opposed the phasing out of cheques in 2011 as we strongly agree with Payments UK who have found that cheques are "still valued as a convenient and secure method of payment by those who choose to use them".<sup>366</sup>
- 5.2 However, more needs to be done by the Government to make banking easily accessible for the older generations.
- 5.3 The Government is moving more of its services online and have set up the Government Digital Service to look at how they can deliver public services more efficiently online<sup>367</sup>
- 5.4 Although we appreciate that this might make services more efficient, those who are unable to access services online should not be disadvantaged by the change.
- 5.5 We are also concerned about the impact changes in interest rates will have on retirees. We agree with former Minister of State for Department for Work and Pensions, Baroness Altmann's call for the Government to launch an inquiry into the effects of lower interest rates. She compares the cut in interest rates to a tax increase; cutting savings and pensions income for older groups<sup>368</sup>. This is cause for concern as many pensioners rely on interest rate for income and there is little known about the long term impact these cuts will have.

## **6. Recommendations**

- 6.1 Financial services must remain accessible for older generations.
- 6.2 We support available and accessible network of banking branches in recognition of the trouble, hardship and expense that closures cause locally. Where closures are unavoidable, we would support an obligation

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<sup>366</sup> <http://www.bbc.co.uk/news/business-36345676>

<sup>367</sup> <https://gds.blog.gov.uk/about/>

<sup>368</sup> <http://www.expressandstar.com/business/uk-money/2016/09/13/low-interest-rates-act-like-a-tax-increase-former-pensions-minister-argues/>

for the banks to work closely with older customers who may be affected. This could include providing a dedicated telephone team for older clients and training to develop internet skills. So that no-one is excluded from the closures.

- 6.3 Transport links, especially buses need to be protected in rural and isolated areas to ensure that older people are able to travel to their nearest banking branch easily.

## **7. Further information**

Later Life Ambitions would be delighted to provide oral evidence to the Financial Exclusion Committee to support this inquiry.

*13 September 2016*



## **Leeds City Council – Written evidence (FEX0030)**

### **Executive Summary**

Throughout our full response, Leeds City Council has answered each question and provided examples of Financial Inclusion initiatives that are working well in the city in tackling financial exclusion. In addition to working examples, we have set out a response which is supported by evidence from national research and our own series of research; undertaken by Salford University between 2004 and 2010.

### **Definitions and causes of financial exclusion**

- Financial exclusion is intrinsically linked to other forms of exclusion, disadvantage and deprivation.
- Lack of access to affordable financial services and persistent debt means this it is very difficult to break the cycle of poverty.
- The withdrawal of mainstream financial services in deprived areas increased the opportunities for high cost doorstep, retail and online lenders to dominate the market.
- Combating financial exclusion is not likely to be very effective if done in isolation of wider social inclusion interventions and labour market interventions.

### **Financial education and capability**

- In our response we outline how current provision appears to be patchy and could be strengthened. Whilst we are fully supportive of financial education in secondary schools, we would also like to see primary schools being more active in this area.
- In Leeds a scheme has recently been launched to support the expansion of Credit Union School Savings Clubs within primary schools across Leeds. School savings clubs are also an excellent way to engage with parents to join the credit union and help them with their own financial awareness

### **Addressing financial exclusion**

- Whilst personal responsibility is important it is essential to put in place support mechanisms to help people to be able to better manage their financial affairs. In Leeds we have developed numerous initiatives that are designed to help build sustainable household management for residents.

### **Accessing affordable credit**

- When the national interest rate cap was introduced the FCA predicted that the impact on the market was likely to result in 3 on-line and one high street based payday lenders remaining in the market. This prediction has proved to be inaccurate with many more operators still active in the market. The Council believes that the FCA should have been more robust in its regulation of the high cost credit industry. It is also necessary to develop local and accessible facilities

based in communities and our response identifies initiatives which are addressing this.

### **Government policy and regulation**

- Clear leadership by Government on addressing financial exclusion is essential. The Government established the Financial Inclusion Taskforce in 2002, along with specific funding for credit union and community development financial institutions (The Growth Fund) and an expansion of face to face debt advice services.
- Since the Financial Inclusion Taskforce was wound up in 2011 no single government department has been tasked with promoting financial inclusion. This has meant that there has been a breakdown in interaction between national government and regional and local authorities.
- In Leeds since the introduction of the welfare reforms we have seen more tenants fall into arrears with their rent and council tax. A number of support mechanisms have been put in place to help mitigate these changes and are detailed in our response.

### **Financial technology (Fintech)**

- In order to facilitate financial inclusion using technology needs to become the norm, and support and guidance to enable people to use the technology is essential.

## **Select Committee on Financial Exclusion: Call for Evidence**

### **Response of Leeds City Council**

#### **Definitions and causes of financial exclusion**

##### **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?**

Our knowledge and understanding of financial exclusion and inclusion is as follows;

Financial exclusion: Lack of access to mainstream and affordable financial services

Financial inclusion: having the access, knowledge and capability to use mainstream financial services, and manage money.

In short financial exclusion is the problem and financial inclusion the solution.

Poverty and low incomes are a key cause of financial exclusion. The withdrawal of mainstream financial services in deprived areas increased the opportunities for high cost doorstep, retail and online lenders to dominate the market. This was reinforced by the type of finance required by people on low incomes, which are usually small sums for a short term in order to manage day to day living expenses. As mainstream lenders do not (and are unwilling to) provide credit on this basis, many people have no option but to use high cost finance.

##### **2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated and remote communities?**

In 2004 and 2010, Leeds City Council commissioned Salford University to carry out research into the extent and nature of Financial Exclusion in Leeds. In 2004, a survey of 410 households in deprived neighbourhoods was conducted as part of this study of financial exclusion. In 2010, the same survey was conducted with 602 households in the same neighbourhoods to see if the nature and magnitude of financial exclusion had changed since the last survey was conducted. In addition, 300 households in the economically average neighbourhoods were surveyed, this was called the 'Extended sample'. This latter sample focused on homeowners and intended to provide information about the extent of financial exclusion arising from the economic recession in recent years.

In both the Original 2004 and Repeat 2010 surveys, social housing tenants were far more likely to have fallen behind with bills than owner-occupiers. Owner occupiers were more likely to have savings and home contents insurance than other tenures. Overwhelmingly, workless and lone parent households were more likely to have no savings at all or less than £100. The groups least likely to have a bank account were men under 60 living alone and pensioner only households.

Almost 20% of residents living in the poorer communities surveyed, had loans from doorstep and high cost lenders. Some groups were more likely to have this kind of credit and single parents were more likely to borrow from this source. Of the single parents who had borrowings, 38% borrowed from doorstep lenders.

However, an examination of the respondents in the Extended sample suggest that financial exclusion was affecting those considered to be economically average as well. 40% of respondents of the Extended sample (economically average areas), in 2010 had no savings compared to 37% of the original 2004 sample which focused on the most deprived areas of the city. In addition 31% of the Extended sample in 2010 (economically average) were using credit for day to day living expenses compared to 23% in the 2004 survey. Overall participant of the 2010 survey whether they live in the most deprived areas of the city or not were more likely to be worried about getting into debt, be behind on paying one or more bills and be struggling to pay for fuel bills when compared to the 2004 study. This suggests that at this time following the recession financial exclusion was not only affecting traditionally financially excluded groups and areas, but also less deprived areas and households. It is crucial to note that this survey was conducted before the significant drop in public sector funding and the introduction of welfare reforms.

### **3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

Financial exclusion is intrinsically linked to other forms of exclusion, disadvantage and deprivation. Lack of access to affordable financial services and persistent debt means that it is very difficult to break the cycle of poverty.

Research undertaken on behalf of Leeds City Council in 2004 and 2010 revealed the influence of national factors on financial exclusion locally is likely to be considerable. Trends in financial exclusion are closely linked to trends in employment and other socioeconomic factors. This suggests that combating financial exclusion is not likely to be very effective if done in isolation of wider social inclusion interventions and labour market interventions. Local authorities and other stakeholders in financial inclusion need to be attuned to the national picture and seek support from national government for the implementation of more effective financial inclusion policies.

In Leeds, public health commissioners have long recognised the linkages between ill health and financial exclusion and fund the advice sector on financial inclusion initiatives. Citizens Advice service across Leeds and the Council's Welfare Rights Unit provide advice sessions across GP surgeries and Health Centres on issues such as benefits, debt, employment and immigration. Citizens Advice Leeds also provides advice in mental health hospitals, day centres and community health services across Leeds. Their service supports mental health service users, their carers and their family members.

In order to assess economic impact of financial inclusion initiatives, a survey of Leeds residents who have had support from Leeds Credit Union, Debt and Welfare Advice Agencies found that 67% of residents receiving debt advice said

they had reduced stress and worry as a result of receiving services and 41% said their health had improved. Over 63% of credit union clients believe that their quality of life had improved. A significant number of those surveyed said that they could now buy the amount of food that they needed to feed their families and to pay for heating their homes. All of this can have significant health implications and in turn result in fewer demands on the health service. (Economic Impact Study Dayson, K et al, 2009)

People's health influences their income. Most directly, ill health can prevent people from working, which reduces their income. Taking a longer perspective over someone's lifetime, ill health in childhood may influence their educational outcomes, which in turn affects employment opportunities and earning potential later in life. (JRF, How Does Money Influence Health? March 2014)

A qualitative study by Shelter interviewing 128 tenants in the private rented sector revealed many participants considered they were trapped in cyclical unsustainable debt, not knowing how to resolve the situation. Many of the people interviewed were found to be balancing competing debts and everyday cost payments, including using payday loans to manage bills or even debt repayments. People felt they needed support when something went wrong with their tenancies. This made them feel trapped in their tenancies, without options or support. Managing the challenges associated with the private rented sector made them feel anxious, stressed, and worried about the future. (Shelter, The Sustain Project; A Roof Over My Head: A longitudinal study of housing outcomes and wellbeing in private rented accommodation. January 2014)

#### **4. Do individuals with disabilities, or those with mental health problems, face particular issues in regards to financial exclusion?**

In recent years the link between debt and mental health problems has been well documented:

- In December 2015 The Picker Institute Europe published a briefing; Debt and Health: A Briefing, which focused on the relationship between debt and health. Including the health related consequences of debt, the impact it can have on individual mental health and recommendations for implication prevention. It shows that people in debt are between 2.5 and four times more likely to have a mental health problem.
- On 6 April 2016 a YouGov survey, commissioned by Mind, revealed that almost half (46%) of people with mental health problems have considered or attempted to end their own lives as a result of social factors such as debt, housing and welfare problems. The survey, of over 1,500 people who had used mental health services in the last two years, found that of those who had considered or attempted suicide: 41 per cent cited financial and/or housing pressures; 29 per cent cited the fear of losing, or the loss of welfare benefits.

- People with mental health problems are more likely to get into problematic debt. Rates of debt in people with no mental health problems are 8%. The rates for those with depression and anxiety are 24%, and for those with psychosis 33%. (Department of Health, February 2011)

Financial education and capability

**5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

According to a 2014 report by the Children's Society and StepChange, which looks at the impact of debt on children, schools need to do more to teach young people about money. The two charities said "A sound education on debt and money management may help to prevent young people getting into debt when they become young adults" (The Debt Trap – The Children's Society / StepChange 2014).

Since September 2014 financial education has formed part of the compulsory national curriculum for all maintained schools in England, as part of citizenship for 11-16 year olds. As a Council we have been approached by a number of the more proactive secondary school to undertake these sessions. However as far as we are aware there is no standard model or best practice guide for these lessons, so delivery is likely to be patchy.

Whilst we are fully supportive of financial education in secondary schools, we would also like to see primary schools being more active in this area. For example in Leeds a scheme has recently been launched to support the expansion of Credit Union School Savings Clubs within primary schools across Leeds. Under the scheme, all pupils entering key stage two would be offered a £10 contribution towards opening a credit union account. This would only be available to pupils in schools that have agreed to establish a school savings club and is designed to incentivise schools and pupils to become involved in managing their own credit union account, alongside the work of schools to provide greater education to pupils about the importance of saving and financial matters. School savings clubs are also an excellent way to engage with parents to join the credit union and help them with their own financial awareness.

**6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

Schemes like the credit union school savings club outlined in question 5 above are a great way to start the understanding of saving and banking services. Banks and financial institutions used to be active in this area, and should be strongly encouraged once again to take this up. This type of activity and encouraging banks and financial institutions to engage with schools would give children and young adults an excellent foundation from which to maintain a healthy financial status.

A good example of where a bank is undertaking activity in this area is a project being piloted by Yorkshire Bank in Leeds. Yorkshire Bank is working in partnership with The Chartered Institute of Bankers to train staff to deliver interactive financial capability sessions within schools. Staff within the bank volunteered to be trained as part of the bank's Corporate Social Responsibility commitment and the sessions include information on sensible borrowing, managing your money as well as CV writing and interview skills.

Yorkshire Bank have worked closely with Leeds City Councils Children's Services and have now identified a high school and primary school to organise pilot sessions. Once the pilot has been evaluated it is hoped that the sessions will be offered more widely across Leeds schools during 2017 with other banks on board for the delivery.

### **Addressing financial exclusion**

#### **7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

Personal responsibility is important to ensuring sustainable solutions to financial exclusion. In Leeds we are keen to develop services which offer clients the skills and knowledge to be able to help themselves, examples of this include the Multi Storey Flat initiative outlined in question 11 below and, the Money Buddies Service developed by Ebor Gardens Advice Centre.

A clear objective when the Leeds Money Buddies Project was developed was to ensure that when clients receive debt and money advice they are then well equipped with the skills and knowledge to better manage their finances, and do not need to return to the service. The aim of the Leeds Money Buddy project is to provide a service to support those clients who need it, after receiving debt advice. The service is delivered by volunteers. A Money Buddy training course has been developed in order to train volunteers and deliver the project across the city. The service has been very successful and has resulted in over £1m financial gains for clients over the past 20 months. This has meant that debt advisors are free to concentrate on legal debt advice and therefore see new clients in order to meet targets (targets set by Money Advice Service (MAS) as part of the debt advice funding programme). Money Buddies take up the support element in dealing with clients and debt advisors act as consultant to the volunteers. This resulted in a considerable reduction in the number of clients who previously repeatedly attended advice agencies (often referred to as the revolving door). The success of this project has been recognised with the services receiving Big Lottery Reaching Communities Funding in autumn 2015 for the next five years.

Further to supporting initiatives such as Money Buddies outlined above, policymakers should do whatever possible to encourage people on low incomes to save. One of the outcomes of the research undertaken, referred to above, was that in 2004 households, in the more deprived communities which had no

savings at all represented 37% of households. By 2010 the number of households with no savings had risen dramatically to almost 67%. Savings are an important buffer for a family in order that they can overcome life shocks which might not be predictable. Without such a buffer families can quickly find themselves in desperate situations because they have no means of covering unexpected events. There is then a danger that families will turn to high cost lenders leading to unsustainable debt.

In terms of tackling financial exclusion, four locally based debt forums led by the third sector and supported by the Council operate across Leeds. The forums meet regularly to network, share information and campaign on financial/debt related matters.

**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? What is the role of the Post Office in providing access to financial services for such customers, and how might the role develop?**

For many decades the mainstream banks have been withdrawing services from poorer communities in the UK, leaving a gap which has been filled by high-cost lenders. Legislation to enforce banks to look more equitably at where they provide their services should be considered. This could be based on the Community Reinvestment Act (CRA) which has been in place in the United States since the 1970's. This would oblige banks to divulge data about the population groups that they serve to ensure that they can evidence that they are serving more deprived communities in our cities and rural communities.

One of the facilities which has been seen to assist families in this situation are bank accounts which automatically assist in managing an individual's income and expenditure. Leeds City Credit Union has developed an account which manages the account holders money in a detailed way and has a strong emphasis on enforcing a clearer budgeting approach to family income. These type of accounts are often referred to as jam jar accounts.

In addition the further expansion of the availability of affordable short-term credit is needed, so that people have a genuine alternative to high cost credit, which in most cases only perpetuates financial distress.

There is significant anecdotal evidence that basic bank accounts have never been well supported or promoted by the banking industry. So, in the first instance, if basic bank accounts are to be effective, banks have to support the idea and promote them within their branches. Unfortunately, basic bank accounts have limited functionality and it is questionable whether they are in fact the best option for people facing financial exclusion. If banks are reluctant to service such accounts consideration should be given to contracting out such accounts to credit unions under agency banking arrangements that are equitable for both banks and credit unions.



Many people require low value relatively short-term borrowing. The banks are generally not prepared to lend less than £1000 or less than a 12 month term. Shorter term low value loans tend to be the kind that are favoured by people on low incomes or facing financial exclusion.

Banks do offer overdraft facilities but this assumes that people have accounts with the mainstream banks in the first place, which is not always the case. There are many issues with bank overdraft systems. Whilst agreed and authorised overdrafts can be helpful in some circumstances, the interest charges levied by most banks are little more favourable than can be obtained through a credit union loan. The greatest danger with reliance on overdraft is if these are taken on an unauthorised basis. In these cases the representative interest rates charged are astronomical high, on occasions even higher than some of the highest rates charged by payday lenders. The issue of bank charges and particularly overdraft charges is an area that the regulators have been reluctant to address.

In order to bring people into the mainstream credit the banking sector would have to seriously consider being able to offer low value loans at a reasonable rate of interest. It is questionable whether banks are prepared to do this.

Accessibility is also a key issue; in this regard the Post Office with its comprehensive network could play a very significant role in delivering financial inclusion. The government should oblige the Post Office to regard financial inclusion as a key for its remit in delivering services.

The only effective alternative provision to mainstream banks are credit unions and community development finance institutions (CDFI). It is unlikely that banks and building societies and similar providers will be willing to play a role although this would obviously significantly improve the situation if they were prepared to.

If they are unprepared to offer affordable options, mainstream credit suppliers could pre-screen customers before carrying out a full credit check, and if they are likely to decline credit to customers, or negatively impact their credit score, they should refer customers to credit unions and CDFIs. The less automated checking system adopted by credit unions can provide a more personalised assessment and enable credit to be agreed where it has been rejected by bank's automated systems.

For example Lloyds Bank /Halifax have run a successful scheme to refer declined loan applicants to Leeds City Credit Union. However, such referral schemes need to be adopted universally by the banks as part of standard process and in such a way that helps to build sustainable capacity in credit unions.

### **Accessing affordable credit**

**9. What has been the impact of recent changes to the consumer credit market- such as the capping of payday loans- on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

During 2015 data from national debt advice provider StepChange revealed 58% of clients with payday loan debts had 2 or more payday loans. This has fallen from 64% of clients in 2014. Clients with 5 or more payday loans had an average debt of around £3,000, this has fallen by almost £400 on the previous year. The possible reason for the fall in client calls and average debts could be linked to increased regulation of the payday lending market which came into effect in January 2015. Since January 2nd 2015, a price cap was placed on payday loans to prevent interest being charged above 1250% (representative) and to end the practice of excessive default fees and roll over loans.

The Council's view at the time was that the cap did not go far enough and some Payday lenders still charge rates of over 1,500% APR (this is within the new cap limits). When the national interest rate cap was introduced the FCA predicted in its analysis that the impact on the market was likely to result in 3 on-line and one high street based payday lenders remaining in the market. This prediction has proved to be inaccurate with significantly more operators still being active in the market.

The Council, as part of its response to the FSA consultation, conducted a major study looking at the operation of interest rate caps internationally. The experience of rate caps in numerous countries was looked at including the United States, Australia, Japan, much of Europe focusing on France and Germany. The cap rate introduced by UK regulators fell well short of the regulatory regimes implemented in other countries across the world. The Council believes that the FCA should have been more robust in its regulation of the high cost credit industry.

It is with this in mind that the Council believes that it is necessary to continue engagement with our many partners such as the advice sector, social housing providers and particularly Leeds Credit Union. In practice this has meant developing the best products and services in the best locations for Leeds citizens. Evidence from the New Economics Foundation (2014) has found that credit unions deliver greater financial inclusion than mainstream providers by successfully lending to low-income households and those with impaired credit access. In Leeds this situation has been enhanced by the sustaining of credit union cash branches in areas not well served by the mainstream banks. The Council has provided funding support to the credit union to maintain full counter service cash branches in 5 Council One Stop Centres in disadvantaged areas. This is in addition to the credit union's own branch in the centre of Leeds. Other initiatives have been supported including the development of a web based Payday product and a high street Loan Shop both run by the credit union.

Research undertaken for Leeds City Council in 2009 found that credit union services generated approximately £3 million in increased disposable income for Leeds residents. The study also found that for every £1 invested in these services, £9 is generated for the economy. Since 2009, the total loan book for loans to financially excluded members has increased from £2.3m in 2009 to over £7m currently. On this basis the likely current value of increased disposable income to Leeds families will be in the region of £9m per year. The important point here for Councils and for the Government is that the vast majority of this

increased disposable income will be to families in the more deprived communities in Leeds. This must be seen as an important part of any Government's strategy to tackle deprivation and poverty.

It is also the case that this value is likely to be an underestimate. The calculations in 2009 were based on the comparison with doorstep lenders charging interest at around 300% APR. Since that time there has been a massive increase in numbers of high cost lenders, including payday lenders, charging significantly higher rates of interest (see background information above). If this was taken into account the actual current increased disposable income for families would be significantly greater.

## **Government policy and regulation**

### **10. How effective has Government policy been in reducing and preventing financial exclusion? Does Government have a leadership role to play in addressing exclusion?**

Clear leadership by Government on addressing financial exclusion is essential. The Government established the Financial Inclusion Taskforce in 2002, along with specific funding for credit union and community development financial institutions (The Growth Fund) and an expansion of face to face debt advice services.

In Leeds our partners were successful in gaining significant funding from these two initiatives, so that debt advice provision was increased by 160% in the city from 8 advisers to 21. Importantly, it also signalled the start of joint working between the city's advice providers, with a joint funding bid across Citizens Advice and Advice UK partners being made. This partnership working continues today, and has resulted in services being largely maintained at these levels.

Leeds Credit Union also benefited from a successful bid to the Department of Work and Pensions Growth Fund. This contributed, along with continued commitment from Leeds City Council, to the credit unions growth in membership which has trebled to over 30,000.

These two projects were instrumental in reinforcing partnership working to tackle financial exclusion within Leeds. In Leeds we are fortunate to have had local cross party support for our work on financial inclusion from the very beginning of the project. Having support from two Government departments (DWP and BIS), including financial support, made a big difference to the Council's ability to develop strategic and sustainable policies.

In addition, initiatives such as the Improvement and Development Agency's beacon awards scheme, which recognised excellence in services delivery amongst local authorities, and for 2006/07 had the theme 'Promoting financial inclusion and tackling over-indebtedness' were important in raising the profile of the issues both locally and nationally. Leeds City Council was awarded beacon

status under this theme, which involved sharing best practice at conferences and seminars across the country, as well as inviting local authorities to visit Leeds to see our work in action.

Government commitment has continued and after the end of the 'Growth Fund' initiative, the DWP provided financial support to develop credit union back office systems and banking platform through its 'Credit Union Expansion Project'. Unfortunately, the final solution is proving too expensive for many (mainly larger) credit unions and is unlikely to meet its original objectives.

If the Government are serious about making a substantial difference to the size and capability of the credit union movement, the issue of an affordable banking platform must be a very high priority. In addition, since the withdrawal of the Coop Bank Credit Union Current Account facility, there is now no affordable platform for credit unions to be able to provide current accounts. This must be seen as a priority for future growth of the credit union movement which has not been satisfied by the DWP Expansion Project.

## **11. What has been the impact of recent welfare reforms on financial exclusion?**

The more general impact of welfare reform has been to reduce income for a significant number of groups who are affected by the changes. This is primarily a result of the impact of the spare room subsidy (over 6,000 households affected in Leeds with 67% of those affected needing 1-bed accommodation in order to avoid being classed as 'under-occupying'), the benefits cap, reduction in national funding for council tax support and an increase in the use of sanctions by JobCentre. This latter measure has been reported by our debt advice partners as being a significant factor in difficulties being faced by their clients.

In Leeds as a result of welfare reform we have seen more tenants fall into arrears with their rent and council tax. A number of support mechanisms have been put in place to help mitigate these changes; Changes in the recovery process for both council tax recovery and rent arrears recovery by instigating earlier intervention and additional time.

- Advice on alternative and affordable banking options by referrals to the credit union.
- Operating a Local Welfare Support scheme offering emergency support and basic household items to vulnerable people suffering the effects of welfare reform changes - the scope of the support scheme has had to reduce following the Government's decision to significantly reduce funding for local welfare schemes.
- A new advice contract awarded to the Leeds Advice Consortium (comprising Leeds CAB, Chapelton CAB and Better Leeds Communities) commenced on 1 April 2014. The aim is to develop a much more integrated advice service which is more universally available but also concentrates more on areas of greatest need.

We have also piloted three projects which are aimed at providing support to residents and tenants who are prepared to engage with the council about their arrears;

- Council Tax Hardship fund – an element of funding was made available to help people in arrears with their Council Tax who were prepared to engage with the council to look at ways of improving their financial situation.
- Multi Storey Flats initiative - This initiative focused on tenants affected by the Housing Benefit under-occupancy rules. The pilot saw key workers working with tenants to identify the right package of support to help tenants improve their financial situation and, where appropriate, help to improve their employment prospects. The additional support, which also included help to deal with the shortfall in benefit caused by the under-occupancy rules, was conditional on tenants fully engaging with the initiative. This pilot has now concluded and findings from this exercise are now being progressed as part of an ongoing support service for tenants affected by all aspects of Welfare Reform.
- Discretionary Housing Payments (DHP) and debt -The overall aim of this initiative was to encourage DHP applicants to engage in activity which would ultimately lead to them having greater financial independence. Any resident making a claim for DHP with debt levels who would benefit financially from engagement with welfare and advice services was considered for the pilot. This pilot has concluded and the findings from this exercise are now being progressed in more general day to day administration of the DHP funding.

In addition, although not largely impacting on Leeds at this point in time, the introduction of Universal Credit (UC) is forecast to have a significant impact on families in the city. One of the primary factors is the fact that claimants have to wait up to 6 weeks before payment is received and the financial consequences faced by families resulting from this gap in funding. The council, in partnership with DWP, is providing a package of support around Personal Budgeting. This budgeting support is aimed at helping people to manage the single monthly payment that the new Universal Credit claiming regime brings.

**12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

Following on from the comments made for question 10, since the Financial Inclusion Taskforce was wound up in 2011 no single government department has been tasked with promoting financial inclusion. This has meant that there has been a breakdown in interaction between national government and regional and local authorities.

Whilst in Leeds work has continued to promote financial inclusion this is largely due to the fact that we had been working on the issue for seven years when the taskforce came to an end, so that partnership and political commitment was strong and sustainable. Many other local authorities and local areas were not in

this position and as such focus on financial inclusion activities has declined in some local areas, as they have not had focused national leadership.

The Taskforce offered continued monitoring of progress towards financial inclusion, along with keeping the issue prominent at a national level. This now happens in a much more piecemeal and sporadic manner, with key issues being highlighted such as payday lending or banking charges, but without wider strategic coordination.

**13. To what extent is the regulation on financial products and services in the UK tackling financial exclusion? Are alternative or additional regulatory interventions required to address financial exclusion? What balance should be struck between regulations and incentives for financial institutions?**

Regulators and the state should ensure that consumers are protected. The FCA, whilst having a responsibility for regulation of financial services sector, is also funded by and highly represented within its ranks by the financial services sector. The consultation on capping the cost of credit is a clear example where the regulator seemed to place a high priority on the protection of the high-cost lending sector in addition to the interests of consumers. It is also disappointing and arguably a missed opportunity that the FCA's cap on credit and related regulations were limited to payday lenders and not the wider financial services market.

Whichever organisation continues to be the regulator for this market it is essential that representatives of consumers have a powerful say and influence over regulatory policy. It would be better, if the regulator was a truly independent body, which was able to ensure that the interests of the consumer was paramount in determining appropriate regulatory regimes.

**Financial technology (Fintech)**

**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?**

In order to facilitate financial inclusion using technology needs to become the norm, and support and guidance to enable people to use the technology is essential. For example the government and relevant bodies should be working to;

- Increase online application processes for benefit claims and self-service facilities to encourage people to view Council Tax accounts and set up appropriate payment arrangements via online tool.

- Provide support within the relevant public buildings to encourage people to access online facilities to assist in job searches, benefits applications and accessing financial/ budgeting information. With IT skills training offered within these settings which promote the benefits of being “digitally included”.
- Free the barriers in the banking system which;
  - Prevent or restrict credit union online automation.
  - Prevent banks from accepting electronic identification for opening bank accounts (as for benefit applications).
  - Restrict the portability of bank accounts from one institution to another.

*14 September 2016*

## **Leeds City Credit Union Ltd – Written evidence (FEX0069)**

### **Introduction**

This is the reply of Leeds City Credit Union (LCCU) to House of Lords Select Committee on Financial Inclusion Call for Evidence.

LCCU would like to thank the House of Lords Select Committee on Financial Inclusion Economic for their valuable interest in this subject. However, as an opening comment, we would have rather welcomed in the request for evidence the Select Committee's acknowledgement of credit unions in equal measure to the reference to the banks.

Many credit unions, large and small, are extremely dedicated in their work on Financial Inclusion making a real practical difference to families and communities on the ground.

This response follows the numbering in the request for evidence:

### **Definitions and cause of financial exclusion**

1. We do not think financial exclusion is the exact inverse of financial inclusion. There seems to be more "agency" about inclusion. An affluent person can choose not to put my money with a particular bank (or any) and can shop around. There is something about choice with inclusion and lack of it with financial exclusion. This means financial exclusion starts to mean something about services and access – and all the problems that arise when a person has neither or less that a more financially included person. In other words a financially excluded person will suffer more traps, limits, risks; adverse pricing when there is no competition or nowhere else to go.

However, in our area the committee may note that practitioners use the term 'Financial Inclusion' as the overall collective phrase for our work on this topic. Of course practitioners will still understand explicitly that in using the term financial inclusion to describe this sphere of work it can actually mean significant exclusion all the way to destitution.

We suggest that the causes of financial exclusion are twofold. Firstly, from perspective of service provision service providers e.g. the banks will be risk averse, heavily regulated, having a need to think about savers as well as borrowers, globalisation capital ratios, share value and profit. At the other end of the scale of service providers, the legal high cost lenders and at the very extreme illegal money lenders will be entirely profit driven and exploitative and have no concerns about aggravating financial inclusion. Service providers may also see the financially excluded as hard to serve, indeed some people will be 'needy' and financially chaotic; the vulnerable may need expensive personal service. Developments in retail services, such as new challenger banks may be seen to improve provision however, many new entrants, using the sophistication of technology will seek the hanging fruit of the more profitable customers of the



large banks. Indeed, the advances of technology especially in the sophistication of segmentation and the likes of credit scoring may actually worsen financial exclusion for some. In effect very clever 'red lining' of certain groups without there ever being an explicit list of excluded individuals that any organisation will admit to or the Committee could ever be able to discover. We would argue that it is these market pressures for the big banks on the one hand and the usurious and greedy high cost lenders on the other that creates the important and necessary space for community financial institutions like credit unions. We are local; we can be personal and philosophically do put our customers first including the financially excluded. We can include a second user authority on our accounts so that a family member or carer may act for a vulnerable person. We help offenders re-establish themselves by offering a basic account where other institutions would not help offenders.

The second reason for financial exclusion that we see on the ground in practical ways are factors such as joblessness, family break up, seasonality and vulnerability of employment higher housing – and other – costs, often referred to as the poverty premium, low educational attainment, digital exclusion, rurality/geographical isolation. It is clear to us that there is often a correlation between such factors. We can make these comments from an empirical experience of delivering service on the ground. However, we recommend that the committee refers to the expert studies of the Joseph Rowntree Foundation and our own Leeds City Council that have considered the factors leading to exclusion including financial exclusion.

However, there are specific financial aspects that also contribute to a person's financial exclusion. The lack of savings is one. By the Government's own statistics some 40% of the population has no practical savings beyond their monthly pay; the lack of savings is a considerably higher proportion in low income parts of the community. This means that when the domestic emergency strikes there is little alternative for many than to seek credit, often from the aggressive high cost lenders. This leads to debt and the downward spiral of further financial exclusion. In our credit union we actively encourage those who have to borrow to save too. For some of our members it will be the first time they have ever had savings. The importance of credit union savings cannot be overstated; for many of our members being able to save for the first time is an important step to break the cycle of debt and exclusion. Lack of financial education is another financial factor, discussed later.

2 Financial exclusion does affect people in different ways. Whilst as a generality those on low income and who may have at the same time some or all of the other factors mentioned above will be more likely or likely to suffer financial exclusion individual groups will be affected in different ways. From the research that Leeds City Council has done 'Mr Leeds Average' i.e. the person above classic low income or obvious financial exclusion is vulnerable to falling into financial exclusion. The Council's research showed that the financial circumstances of this group worsened post-recession. Again family emergency such as redundancy can push such people and families into financial exclusion. The point for the

Committee is that its work should not just be focused on the existing financially excluded but also those groups in the population at risk.

The elderly may be mentioned as another group suffering or at risk of financial exclusion. Lack of mobility, low internet skills or access make the elderly as excluded and remote as rural communities.

Interestingly we also help comparatively 'well off' members who have fallen into difficult financial circumstances leading to exclusion. Often this is due to taking too much debt, especially debt caused by aggressive pay day lenders. We see examples of members who turn to the credit union for assistance as they are unable to admit to financial distress to their employer, e.g. bank workers, solicitors etc.

Although we work in one of the largest Cities in the UK we also have swathes of territory in rural communities in Craven, North Yorkshire, and Wakefield. Rural financial exclusion is therefore clearly another group affected. This one reason why we have placed a dedicated peripatetic credit union worker into the Harrogate part of North Yorkshire to help reach remote people in need of the credit union's services. However, this is a high cost intervention that inevitably needs public support.

We would also mention that it is our view that low income single parent females are also likely to be significantly financially excluded and vulnerable to aggressive lenders and illegal lenders. Step Change Debt Charity has reported that in 2014 the proportion of female clients seeking assistance was 57%, a 14.1% differential to men and the highest on record.

Women account for 64% of LCCU members. On requesting information from 9 other medium to large credit unions, with a total membership of 172,600, LCCU has discovered that women members account for 60% of this sample and therefore if this figure is extrapolated over the Bank of England's UK mainland credit union membership statistic women members outstrip males by 233,000.

The relevance of credit union savings to women is particularly emphasised in LCCU's Christmas Savings Club product where 83% of account holders are women.

We are committed equally to all of our members however we hope that the Committee will note the particular role we and other credit unions play in respect of women.

3 We have commented above on there being a relationship between financial exclusion and other forms of exclusion. As a credit union we are especially concerned about the role of problem debt in financial exclusion. We assess some 10k of loan applications a year and we see clear evidence of problem debt and multiple borrowings. The growth of pay day lending in recent years from nothing to the extensive problem it is today is one problem we have identified.

Financial education and capability

5 An important role of our credit union is in the provision of school savings clubs to assist with financial awareness and support financial education. LCCU has some 5k junior members many in school savings clubs. As we have been keen to extend this reach we have recently introduced a web based school savings club to automate and to make it much easier for many more schools to run savings clubs. Our site includes links to financial educational resources and is coupled to a savings incentive for children generously provided to schools by Leeds City Council. See [www.schoolsavings.club](http://www.schoolsavings.club). LCCU is also part of the Church of England's Life Savers initiative. The Committee will identify the need to ensure that financial training is maintained as part of the curriculum. Although we have been able to develop a savings habit in primary schools the competing pressures of the curriculum in high schools make it much harder to bring attention to financial education.

6 In respect of maintaining financial awareness through life the unpopular thing to observe is that financial training is not engaging. To overcome this LCCU has been involved in programmes such as 'passion for fashion' and 'come dine with me' where clothing and food have been the lead themes to engagement rather than finance itself. A challenge is for the financially included to write material for the unengaged and financially excluded.

### **Addressing financial exclusion**

7 The very role of a credit union, enshrined in or legislation, is to help our members in the wise use of their money and to take personal responsibility. Our constitution mentions 'thrift' seemingly an old fashioned concept though as a credit union we would argue the need to return to such values. However, in respect of personal responsibility the fact is that Bank of England statistics show that the unsecured debt burden has grown inexorably since that war. This has been fuelled by freely available credit and accelerated in recent years by pay day, internet lending and similar aggressive forms of lending. It is arguable whether then this represents lack of personal responsibility or an over permissive and lightly regulated market where debt is encouraged to be the norm and default acceptable and one that is at odds to the cultures in other EU countries.

The charity Step Change has shown that unsupportable debt costs the economy £8.2bn therefore, there is a clear economic case as well as a social one for Government intervention to reduce financial exclusion.

8 For the reasons described in answer 1 there are inadequacies in service provision and products for the financially excluded. As a credit union with an extensive track record in addressing financial exclusion it is natural for us to say that we are already well placed to help address the deficit. However, where there is market failure or it is uneconomic for credit unions to provide service then we need assistance to meet the gaps. However, the fundamentally important thing is that unlike some other providers we are philosophically committed to our members who may be suffering financial exclusion.

Assisting credit unions does not necessarily mean providing fees to credit unions for the provision of services. The committee can recommend the breaking down of entry barriers to UK financial services to small financial institution such as credit unions. Allowing credit unions, along with other challenger financial institutions, to have better access to the UK payments systems, cost effective access to the likes of the ATM network and other money transmission services will better enable us to offer products for the financially excluded.

We welcome the banks recent commitment to the Government to make basic bank accounts available, the Government needs to ensure that the commitment from senior bank executives is reflected on the ground in banking halls. We also welcome examples of good banking practice. LCCU recently piloted a ground-breaking initiative where the local branches of the Lloyds Banking Group referred customers to LCCU; this was then extended nationally to involve other credit unions. However, the committee should consider whether more still needs to be done by the FCA to tackle the high cost of overdrafts especially unauthorised overdrafts.

### **Accessing affordable credit**

9 We are still assessing the impact of the recent cap on the high cost lenders. In our submission to the FCA on this subject we doubted that the high cost lenders would give up such a lucrative market easily. Indeed much of their physical presence on the high street seems to remain despite the FCA predictions. LCCU is concerned that by imposing the cap on high cost lenders that the Government and FCA will see that the 'job is done'. Can members of the House of Lords Select Committee really think it is acceptable for them to be able to access credit for as low as 3.3% when the financially excluded still face high cost lenders APRs as high as 1,200%?

The provision of affordable credit is the particular strength of credit unions and the significant competitive advantage we hold compared to the high cost lenders. However, the committee may consider how the credit union message can be heard over the campaigns of the high cost lenders massively funded out of their usurious interest rates.

Not standing still though, in addition to our own growing investment in marketing, LCCU is involved in a ground breaking initiative to improve the access to affordable credit. In a partnership sponsored by the Cabinet Office involving private sector partners including Asda, Barclays, Experian, five community lenders are forming a web portal that will enable Asda and in time similar private sector brands to introduce those seeking affordable credit to community lenders. The Post Office could usefully be encouraged to join this initiative.

### **Government policy and regulation**

10 The government does have leadership role to play in financial inclusion and the various initiatives over the years have been welcome. LCCU took part in the DWP's Growth Fund initiative and this enabled us to reinforce our provision of affordable credit to low income communities. The capital from that project is

now embedded in our within our own resources and continues to be recycled as lending for the financially excluded. Indeed Leeds City Council estimates that the savings that the credit union achieves for the community compared to high interest lending rates is worth £9M per annum. This is an important point; credit unions are sometimes considered net recipients of public funds by this measure LCCU is a net contributor to the economy.

LCCU actively supported the Credit Union Expansion Programme, funded by the government, though we have been disappointed that this initiative has fallen short of its aims as LCCU and many other material city size credit unions have been prevented from continuing our involvement principally due to excessive costs. It may not be too late for the committee to require a significant restructuring of this programme.

11 LCCU is concerned about the impact of welfare reform on our members. 73% of our members are in council tax band A and this would indicate a significant proportion live in social housing and private rented homes This is a group that are likely to have been affected by the application of the 'bedroom tax'. Indicative evidence of the impact on this group is that we have seen our loans arrears rise since the introduction of this reform. In turn an increasing bad debt charge puts pressure on providers of affordable credit such as credit unions and our ability to assist the financially excluded.

Although Universal Credits is still to develop fully in Leeds, in anticipation of the impact on our members, we have introduced a special rolling credit facility on our Bill Paying Account (sometimes known as a jamjar account) to assist claimants who have to wait for the benefit to be paid or variations in payment.

12 We would observe that Government coordination of this topic will vary as administrations change. In our own sphere the DWP has been active in this work, the Treasury is responsible for our enabling legislation and the Cabinet Office has shown a positive interest. However, in another consultation we did recommend the appointment of a Minister to oversee all community financial services provision. If a Minister is unlikely an active task group headed by a senior figure would be welcome.

13 The committee may consider whether it is the nature of a financial service regulator that they tend to regulate for the population as a whole and have less interest or understanding of segments particularity such as the financially excluded. A natural aspect of a regulator is that they tend to be risk averse rather than innovative. The FCA has an innovation hub; it has recently set up a bank start up unit. We strongly recommend that the FCA and PRA, working with the industry such as credit unions, are encouraged to establish a similar innovation hub or incubator to examine and encourage what products and services can be developed for the financially excluded.

The increasing regulation of the banking sector as a result of the banking crisis has also increased the regulatory burden for credit unions trying to assist the financially excluded. Although better regulation is welcome in one sense the irony is that social financial organisations such credit unions were never involved in the worst excesses of the banking sector.

We have already pointed to free competition in the banking sector and to improve access for credit unions to the like of the Payments systems

In respect of credit union legislation we have recently made recommendations to the Treasury, under one of their consultations of how to improve credit union legislation and we would welcome the Select Committee actively supporting credit union legislation reform.

14 The Government does have a role to encourage fintech to assist with financial exclusion. Indeed it may be considered that these initiatives are now running faster than the CUEP programme referred to above.

We recommend the establishment of a fintech incubator combining IT companies and organisations such as credit unions to explicitly explore initiatives in this area.

Fintech offers novel new ways to provide financial services solutions however, the Select Committee should be careful not to see fintech automatically as a silver bullet. We have already pointed to fintech sophistication possibly leading to a subtle 'red lining' and reinforcing financial exclusion. LCU is very concerned about fintech examples such as 'look alike' current accounts that, operating outside the protection afforded by credit unions, banks and building societies under the Financial Services Compensation Scheme, offer little security for depositors.

In summary LCCU is very active in the provision of service to the financially excluded, we will be pleased to give evidence in person or assist on a sub committee, working parties or innovation hubs that may stem from the Select Committees work.

Finally, the Select Committee would be very welcome to visit Leeds City Credit Union to see our financial inclusion initiatives first hand.

Chris Smyth

Leeds Credit Union is a financial cooperative set up to give member's access to affordable loans at a fair rate of interest and competitive savings plans. Credit Union members enjoy our straightforward, honest approach to their money.

Leeds Credit Union is a community focused organisation with 36,000 members and is one of the largest in the UK. LCCU has 9 community branches including an innovative 'loan shop' and 50 staff. We also work closely with our 'sister' Community Development Finance Institution (CDFI) in a novel partnership to extend the availability of affordable credit

*14 September 2016*

## **Lloyds Bank Foundation for England & Wales –Written evidence (FEX0010)**

### **1.0 Introduction**

- 1.1 Lloyds Bank Foundation for England and Wales is one of the leading community grant makers. An independent registered charity funded by the profits of Lloyds Banking Group, the Foundation invests in charities supporting people to break out of disadvantage at critical points in their lives, and promotes approaches to lasting change. In 2015 the Foundation awarded **total funding of £22m, directly supporting 1,765 small and medium-sized charities**. This equates to supporting **58,013 individuals facing multiple disadvantage**.
- 1.2 Having supported small and medium-sized charities in every region of England and Wales for more than 30 years, the Foundation is built upon the knowledge and experience of locally based charities, with regionally based Grant Managers visiting applicants and grantees and providing an avenue for identifying patterns and issues faced by the sector. The Foundation also conducts and commissions research specifically focused on the experiences and concerns of small and medium-sized charities, those with an income between £25,000 and £1m.
- 1.3 The charities the Foundation supports work across a range of social welfare issues, from domestic abuse to mental health and unemployment to homelessness. The majority of the clients supported by these charities also face issues of financial exclusion and the person-centred nature of the charities' work means they often provide support around this even where it is not their area of expertise. This submission is based upon their experiences and uses information from a survey in 2015 and events with grantees across 2015 and 2016.

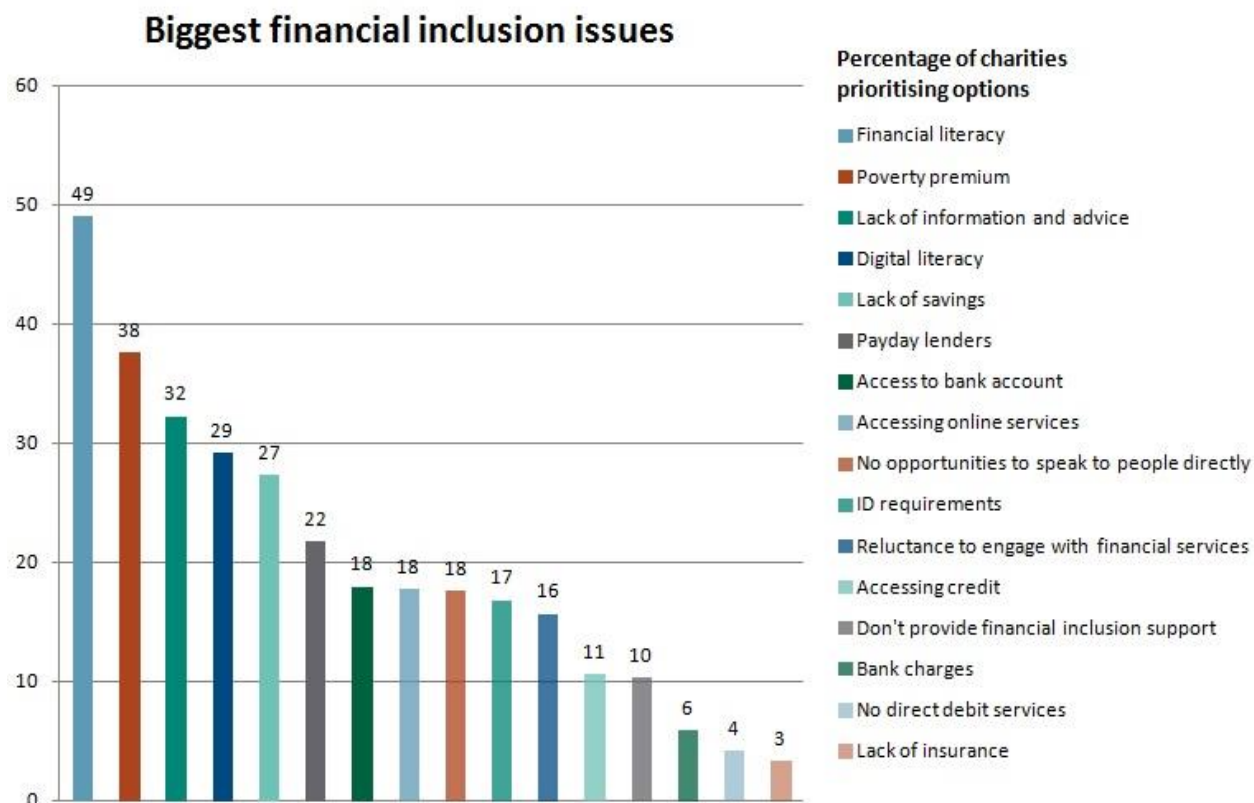
### **2.0 Definitions and causes of financial exclusion**

- 2.1.0 ***Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?***

***What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?***

- 2.1.1 Lloyds Bank Foundation funds charities supporting people facing multiple disadvantage who are affected by a number of issues: unemployment, homelessness, domestic abuse, mental ill-health, refugee and asylum seekers, caring responsibilities, young parents, criminal justice, care leavers, older people, trafficking and exploitation. Financial inclusion/exclusion is likely to affect many of the clients of the charities that the Foundation supports which in turn further compound the other challenges they face. This was confirmed by a survey of Foundation grantees which showed that charities' clients face a number of financial exclusion issues:





2.1. Individually, the financial inclusion issues identified can bring difficulties for people who are already experiencing disadvantage. Yet for most, they experience many if not all of the financial inclusion issues at the same time which can have a knock-on effect on each other: a lack of understanding about what is available can make it hard to access services while structural issues in terms of poverty premiums can increase financial pressures and make it even harder to access products and services such as bank accounts or regular payment systems. As the Foundation’s grantees explain:

*"Our clients face multiple barriers to accessing financial services such as no ID, lack of basic financial understanding at a personal level such as budgeting, lack of information on what services are available by financial institutions and also the range of institutions that can offer services such as banks or credit unions. Clients’ mental wellbeing is often so low that they are unable to even acknowledge their financial problems, let alone consider working towards solving them."*

*"Financial exclusion issues remain highly prevalent... The vast majority of our clients have no savings, many require support to open basic bank accounts for benefit payments and there does appear to be a common difficulty in understanding finance and therefore a reluctance to engage with financial services."*

2.1. In terms of who is affected, research by Heriot-Watt University for Lankelly Chase Foundation ([Hard Edges](#)) has shown that multiple disadvantage is not solely the result of individuals’ poverty – the distribution of individuals facing severe and multiple disadvantage clearly mirrors areas of structural poverty and economic decline. This indicates that tackling financial exclusion and multiple disadvantage

more widely requires action from all levels of society, including government, businesses, charities and communities.

2.1. ***Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?***  
5

2.2. Financial literacy is one of the biggest financial inclusion challenges for the clients of almost half the respondents to the Foundation’s survey, as the earlier graph shows. Many individuals that Foundation grantees support do not have the skills or confidence to deal with financial issues. This can be particularly problematic for those who are facing multiple disadvantage, whether that is from mental ill-health or disability or when facing homelessness or domestic abuse, for example. Accessing information about financial inclusion can be particularly difficult for these individuals which can lead them to be more susceptible to financial exclusion:

*"Many of our beneficiaries have poor budgeting skills which is something that our support workers try and tackle."*

*"The situation most regularly encountered is a consistent lack of information and advice, sometimes due to insufficient information on where that can be obtained, resulting in the use of payday and high interest lenders."*

The situation is compounded by communication difficulties more widely, whether this is due to language, age or disability:

*"Many of our beneficiaries have limited English. They tend to be daunted by the complexity of the financial system and the language that surrounds it."*

2.2. Difficulties also arise in relation to how information is shared, such as when it is online or when it is delivered by people far removed from the experiences of individuals. Digital exclusion is particularly prevalent amongst the clients of charities working with older people, those with head injuries and those with learning disabilities. Understanding on behalf of those supplying information and services of the needs of people facing financial exclusion is central to this:

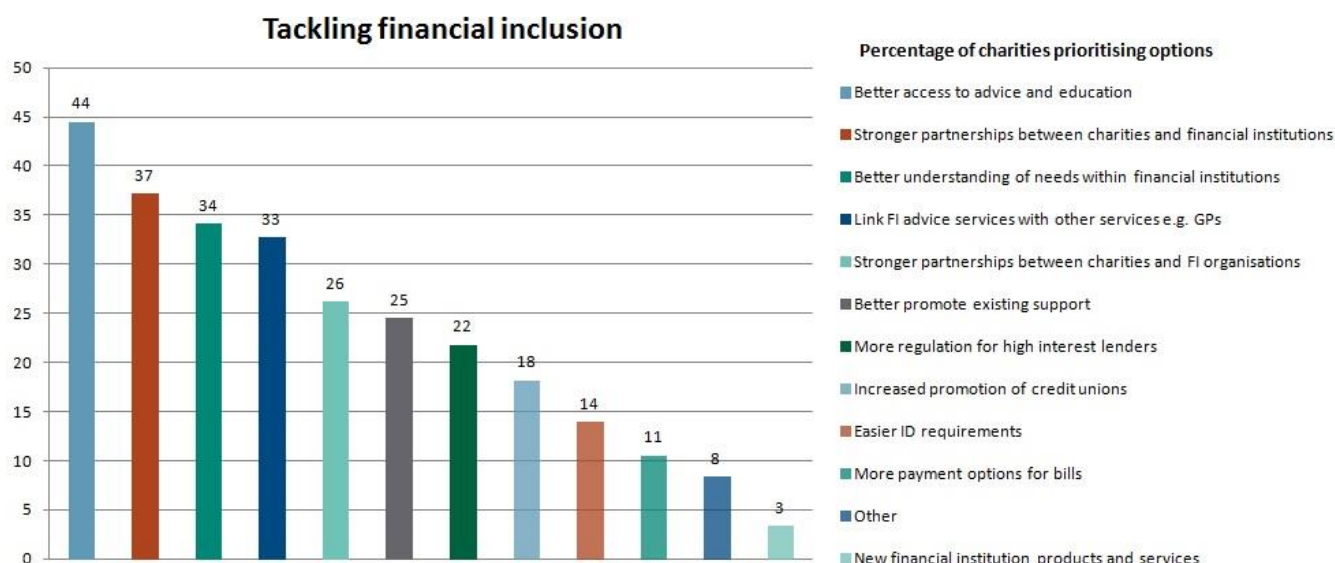
*"Our members are people with a learning disability. Many don't have much ID so find it hard to get an account, and have carers who don't want them to have access to their own money. Information in easy read format is hard to access, and bank staff can be unhelpful when they don't have training in working with people who have a learning disability, so someone can have a good service in a branch that knows them, but a very bad service in another branch."*

### **3.0 Financial education and capability**

3.1. ***Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?***  
0

3.1. As outlined above, access to information and advice is a key problem. Better availability of financial information and education was the key priority identified by  
1

Foundation grantees for tackling financial inclusion, as illustrated on the graph overleaf:



Feedback from charities involved in an older people’s funding programme at the Foundation which included a financial inclusion-focus highlighted a number of factors that influence engagement in financial inclusion support. This provides some insight as to how advice and information could be made more accessible. Learning includes the importance of:

- Engaging clients in other activities in the first instance, before support around financial inclusion is provided: Creativity is crucial e.g. for older people, teaching them how to use IT to communicate with family members and how to find deals online for services and shopping helped to build interest and trust
- Location is important – for some, talking about financial issues is easier when in a familiar setting, such as an individual’s home or in their community. For others, being a neutral or unfamiliar environment is helpful. This demonstrates the need to fully understand the client group before offering services
- Trust – building high levels of trust is important before many people are willing to talk about financial issues
- Time – charities have found that financial inclusion work takes longer than initially anticipated and this needs to be planned and budgeted for
- One-to-one support – while group work can be helpful, one-to-one support is typically needed for addressing more specific issues
- Peer support – this can be an invaluable tool to engage new people in financial inclusion, particularly as people often talk more openly with someone who has similar experiences
- Technology – it can act as a barrier as well as offering opportunities. Moving services online can marginalise people further.

## 4.0 Addressing financial exclusion

4.1.0 ***What role should the concept of ‘personal responsibility’ play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What***

***role should government, the charitable sector and business play in tackling financial exclusion?***

4.1. 1 There is a fear that the availability of support for individuals facing multiple disadvantage who are also financially excluded is reducing, particularly with the closure of services and Citizens Advice Bureaux often over-stretched and under-resourced. For small and medium-sized charities as a whole, their ability to respond to the financial exclusion needs of clients is threatened by the commissioning environment which is seeing small and medium-sized charities lose out as larger organisations offering generic services sweep up ever larger contracts. Where small and medium-sized charities are able to secure funding, this is increasingly tied to restrictive contracts which may not fund the full range of support individuals facing multiple disadvantage need. The under-resourcing of small and medium-sized charities is important because it is these locally embedded organisations that are trusted in their communities and are therefore ideally positioned to give individuals at risk advice about financial inclusion.

4.1. 2 For businesses, a key role is ensuring services are available to support individuals at risk. For example, ID & V remains a prominent issue for some sub-sectors of charities, namely for those charities working in the homelessness, domestic abuse and asylum seeker sub-sectors. The issue is not limited to these areas however - it was also noted as an issue for young people and older people for example. As charities explained:

*"Many of the people we support have no ID having been homeless or of no fixed abode. Few have passports and driving licences - passports are very expensive to obtain. Birth certificates can be a more affordable option but being homeless - where/how do they access this? Access to a bank account is impossible without ID or a previous address."*

*"As a charity that deals predominantly with the homeless there is a big issue with lack of ID e.g. no birth certificates, passports etc. and this has a knock on effect on their ability to get benefit payments."*

*"Young people in and leaving care can be very disadvantaged financially. Most financial services assume you have one name, one address and access to your birth certificate and many of our clients don't have this. In addition confusion about finance makes young people very vulnerable to payday lenders."*

*"All of these issues affect our clients and can hamper their recovery from the traumatic experience of domestic violence and abuse. Easier access to banking facilities with different ID requirements (not requiring expensive ID such as driving licences or passports) would be very helpful."*

4.2. 0 Financial institutions need to be clear about where and how individuals can access services if they do not have traditional forms of ID. At Lloyds Banking Group, each customer is treated as an individual, and there are ways to accept many different forms of ID. They are also working with the BBA to standardise requirements across the industry – a standardised approach to accepting a range of different forms of ID is very much needed to support people financing multiple disadvantage to access financial services.

4.2. **Are appropriate financial services and products available for those who**  
1 **are experiencing financial exclusion?**

4.3. As noted above, in some cases services are available but awareness of them is  
0 limited. A similar scenario is apparent for credit unions. Lloyds Banking Group is investing £4m in credit unions over 4 years through the Credit Union Development Fund but anecdotal evidence from Foundation grantees shows that awareness of their services remains relatively low. The Foundation has sought to build relationships between credit unions and grantees as a means of raising awareness of credit unions' services among charities working with many individuals who may benefit from using credit unions' services.

**5.0 Government policy and regulation**

5.1. **What has been the impact of recent welfare reforms on financial**  
0 **exclusion?**

5.1. In the survey in early 2015 a number of charities raised concerns about the  
1 introduction of Universal Credit and the impact this would have on financial inclusion issues:

*"We also think that changes in benefits - to universal credit on a 4 weekly system will make budgeting much harder for some of our beneficiaries - receiving all their money in one go not split into housing benefit / child tax credit / job seekers allowance will make it very difficult for some people to distinguish how they should prioritise their spending."*

*"All of the above applies to our clients - refugees and asylum seekers who have been affected badly by the welfare changes. We are expecting that the roll-in of universal credit this autumn into Kingston will make things even worse for our clients."*

*"The main problems that our clients will face with the implementation of Universal Credits and the changes that will bring include the necessity to access their online account once a month to enable their disability benefit to be paid. This is because 55% do not know how to use the internet and have been in receipt of benefits for many years and never had to 'sign on' as that has only been for Jobseekers' Allowance. Within that group are a large number of people who do not have the levels of literacy commensurate with learning how to do this. There will be many who will not manage to understand the changes and lose their income."*

5.2. More generally, welfare reforms are likely to have increased financial pressures on  
0 many which would inevitably impact on financial exclusion. For example, the [2016 Homelessness Monitor](#) showed that local authorities attribute the rise in homelessness to welfare reforms. Given the multitude of financial exclusion issues that homeless people face, it implies that financial exclusion will be more severe. In the Foundation's 2015 survey of grantees 88% of respondents also reported a change in demand for their services, with increases in actual numbers combined with an increasing complexity in the needs of individuals accessing services.

- 5.2. Welfare reform was identified as a key driver for these increasing needs. It  
1 includes benefit sanctions and rising thresholds for receiving support. Charities  
report seeing clients with more urgent needs as a result of these provisions:  
*"The changes to the UK's welfare system have led to a catalogue of socio-economic crises for many of our clients, leading to more and more people approaching our centres in a desperate state seeking help and advice."*

*"Due to the impact of welfare reform, demand has increased significantly. Clients are seeking advice not only on one issue, but several due to the impact of welfare reform. These issues have become more complex, and [there is a] need for financial assistance with regards to food parcels and costs towards gas and electricity having increased. We have had to develop our food bank and work with other agencies as well as [the] local authority in developing a system to meet the need of emergency utility costs. Many clients who are reliant on benefits are not able to meet the most basic provisions if they have been sanctioned or have not met the criteria for employment and support allowance, or 'bedroom tax' has been applied."*

9 September 2016

## **Lloyds Banking Group – Written evidence (FEX0077)**

0.1 Lloyds Banking Group's aim is to become the best bank for customers including for customers on low incomes and those who are at risk of financial exclusion. As a Group we are committed, through our Helping Britain Prosper Plan, to take a lead in financial inclusion by improving the financial health and resilience of low income customers through better access to banking and building their money management capability through education.

0.2 We're aware that nearly 1.5million adults in the UK don't have a bank account. And those families who are not fully utilising banking services can find themselves having to pay a 'poverty premium' of up to £1,300 per annum for their essential goods and services.

0.3 Many of our customers who have a basic bank account fall into the category of being 'underbanked' and by this we mean they have a bank account but they don't use all of the products and services available to them.

0.4 We have a dedicated team in Lloyds Banking Group that works across a wide number of areas to fully understand the critical issues that affect the lives of people who are on low incomes or at risk of financial exclusion and they are instrumental in working together with our product teams to create solutions to tackle those issues.

0.5 We are in constant communication with our external contacts to ensure we understand the changing environment together with the needs and pressures these customers face.

0.6 We also welcome the ongoing debate to identify the issues people face throughout their life and the work of the Financial Inclusion Commission and the recent FCA paper on Access to Financial Services helps to support this.

### Definitions and causes of financial exclusion

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?

1.1 Financial exclusion is when an individual is unable to access a banking platform. This is one simple set state. However, when it comes to financial inclusion there are many different levels and people can be anywhere along a sliding scale. This can range from someone who simply has access to a basic bank account, but no other financial products, through to someone who is fully "included" and can access a range of products such as insurance and a mortgage.

1.2 As such one concept is not simply the inverse of the other.

1.3 A survey of grantees undertaken by Lloyds Bank Foundation for England & Wales (independent to Lloyds Banking Group) showed that the extent to which charities' clients are financially included is driven by a range of issues including financial illiteracy, poverty premiums and a lack of information and advice. For most, it is the amalgamation of many issues that make managing finances

particularly difficult, which will then have further ramifications on the wider issues they face.

2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?

2.1 Financial exclusion is a state not a trait, meaning it can become an issue for people at different times and in different ways. However, while individual circumstances are unique there are common issues that can be identified among sectors, as the FCA highlighted in its Occasional Paper 17.

2.2 Those living in isolated or remote communities may face exclusion by location alone, perhaps in the form of inconvenient distance to their local bank or through lack of internet access to online banking. Our Bank of Scotland brand has a mobile branch service that travels over 80,000 miles a year helping our customers to do their banking in more remote communities across Scotland. This allows customers to use our key services such as making deposits, withdrawing cash and paying bills.

2.3 A change in customers' needs and expectations has resulted in an industry shift from traditional counter banking to a more digital offering. To understand the relationship between digital and financial exclusion and capability we commissioned the Consumer Digital Index, the largest study of its kind. The index revealed 7.1million UK consumers are both financially and digitally excluded, while 3.2million people have both low and digital capability. It also revealed the average annual saving for online consumers is £744. We will repeat the index in 2017.

2.4 Young people can be at a higher risk of financial exclusion due to not having developed the capability to manage their money independently. This is why our new financial education programme focuses on 16-24 year olds when they are likely to become financially independent and when they first need to understand banking services.

2.5 There is also the possibility that some consumers become financially excluded by choice, perhaps through lack of desire for a bank account, previous bad experiences or a mistrust of the banking sector.

3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?

3.1 The Lloyds Bank Foundation for England and Wales, the UK's largest corporate foundation, has extensive experience of supporting people to break out of cycles of disadvantage at critical points in their lives, and is better placed to provide evidence on the relationship between different types of exclusion (which it has done in a separate submission).

3.2 In terms of problem debt, now that basic bank accounts are available to all, including those who have been declared bankrupt or have poor credit scores, there is no reason that customers should be excluded from the banking



platform. These fee-free basic accounts offer a gateway to banking products for those at risk of financial exclusion and those who do not qualify for a regular account. Lloyds Banking Group is the biggest provider of basic bank accounts through Lloyds Bank, Halifax and Bank of Scotland, and holds a significantly higher number of basic bank accounts relative to our overall current account market share.

3.3 However, problem debt may still exclude individuals from accessing other type of products, where further credit would be available, e.g. loans.

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

4.1 At Lloyds Banking Group we recognise that customers with vulnerabilities, including those with disabilities and mental health conditions may require specialist help and assistance to ensure they are not excluded.

4.2 We are committed to being the best bank for all of our customers and we are always thinking of ways to make things easier for those with additional needs.

- 4.3 Mental health is a portmanteau term for a wide range of conditions that affect people in different ways. Those with mental health conditions can get into financial difficulty through a lack of understanding by financial institutions but also because they may ignore any problems and hope they will go away. This results in individuals being excluded by behaviour, not process. We have a specialist team to help support our customers with mental health issues and, as a result, we are sensitive and flexible in dealing with these customers. Customers with learning disabilities are often most prone to being financially excluded as they are unlikely to understand financial products and the terms and conditions that come with them. Often family members shelter these individuals from receiving their income and make decisions on their behalf, even when they might be able to do so themselves. We are the first financial services organisation that is looking at alternative formats to help those with learning difficulties. These won't replace our legal documentation but gives support to people to enable them to make their own decisions and therefore become less likely to be excluded. We offer SignVideo, a British Sign Language video interpretation service as well as Mobile Authentication to support our deaf/hard of hearing customers. For some customers, such as those with dementia, remembering and/or communicating pin numbers and account details can be a challenge, and we are therefore exploring other ways in which we can identify customers. One such example is TouchID, which allows customers to securely manage their finances without the need to remember multiple passwords.
- 4.4 Our physical branch presence in some locations does not allow for disabled access for various reasons, such as the structural limitations of the premises or planning permission refusal. These locations are recorded and reviewed on a regular basis. Where accessibility is limited we have service call bells in place, so customers can alert colleagues when they need help. In locations where we do not have a physical branch, we give customers free access to their money through the Post Office.

- 4.5 We also offer a range of channels by which all our customers (including disabled customers) can access our products and services - face to face, online and telephone. Customers can complete account opening applications online, including children's accounts. This is making our accounts more accessible to those who are less mobile and unable to visit a branch.

4.6 In addition to this support, we are designing several suites of training for all of our colleagues on Customer Vulnerabilities in general, which include those with disabilities and mental health conditions.

### **Financial Education and Capability**

5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?

5.1 In schools, the theoretical answer is yes. Financial education is on the curriculum of all UK home nations. Resources are supplied from various organisations. The Personal Finance Education Group (PFEG) provides material and runs a 'centres of excellence' programme which recognises schools that perform particularly well. Various banks and other financial institutions also provide materials. In Lloyds, we don't have a formal schools based financial education programme, but we do provide PFEG accredited materials for colleague volunteers to use.

5.2 Anecdotal evidence suggests that many schools do still struggle with financial education however. In many cases it is about teacher confidence and training, combined with a lack of resources, as well as conflict about where financial education should sit (is it in maths, general studies, economics etc.?).

5.3 In terms of young people aged 16 – 24, services are more limited. This is why our Money for Life programme is focused on this demographic. At a critical point in their lives, transitioning from school or care to living as an independent adult in the world of work, further education or benefits system there is a real and first time need for information and support.

5.4 Improvement in the overall offering will come from identifying the right time to provide education and advice, as well as focusing on behaviours and attitudes towards money – which is the hard part of improving financial capability – and the part that takes time to yield results.

5.5 An additional area to explore is that the expectation customers have of financial education provision in-branch is often not matched by their experiences. Why is this? Is it time constraints, a 'no advice' policy, a lack of resources? Anecdotal evidence from co-creation sessions we have held for the programme with young people suggests some do view banks as having a responsibility to deliver some form of education as part of the community branch offering.

6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?

6.1 Embedding the right behaviours and attitudes in the young is critical. There is debate around when this needs to happen, with some suggesting behaviours

and attitudes to money are fixed by age seven. In reality, we have found that the point where young people are first receiving an income of their own is when they need, and are most receptive to engaging to improve their financial capability. This is why we chose to focus on young adults for our new Money for Life programme.

6.2 That's not to say that schools don't matter and we shouldn't focus on providing support. There are also great examples of credit union activities in schools, where engagement levels are high and savings rates indicate the success of the initiative. These are all at primary school level however, maintaining the engagement into secondary school is (anecdotally) a real challenge.

6.3 There is a role for the Money Advice Service here to collect examples of best practice to look at other significant opportunities for engagement.

### **Addressing financial exclusion**

7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?

7.1 We recognise that there is still a lot more to do for people at risk of financial exclusion and one business or charity can't solve these problems on its own. The only way to truly tackle this problem is to ensure collaborative partnerships between Government, businesses and the third sector to raise awareness of the support available and refer to each other's services.

7.2 However this collaboration needs strong leadership and we therefore support the Financial Inclusion Commission's recommendation that there should be a "government lead on financial inclusion and financial capability.... championing the issue in each interested Department and in all devolved administrations". This leadership role could set a clear focal point for strategy, as well as monitor the effectiveness of initiatives.

7.3 At Lloyds Banking Group we work closely with the Government, with other banks (through the BBA) and with the charitable sector to help understand what more we can do to support the most excluded and explore workable solutions.

7.4 Our Digital Inclusion strategy already has programmes where collaboration is key to its success. Our Digital Champions programme sees LBG colleagues helping individuals, businesses and charities to increase their basic digital skills – we partner the Tinder Foundation in libraries across England, Wales and Northern Ireland to ensure our training and resources are deployed where they are needed most.

7.5 Another area of strong collaboration is with the credit union sector, where we currently provide monetary support, skills-based volunteers and an extensive signposting programme from our branches. This signposting initiative also involves raising customer awareness of other alternatives to taking out credit,

such as better debt management using the services of StepChange and the Money Advice Service.

7.6 And through the BBA, we are working with other banks to attempt to standardise identification and verification requirements across the industry. The aim of this will be to remove what is seen to be the largest barrier to opening a basic bank account and therefore accessing the banking platform.

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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?

8.1 As an industry, we have collaborated to implement an initiative, with Her Majesty's Treasury, to introduce a new suite of basic bank accounts, which have been available since January 2016. The initiative means those in financial difficulty, who previously may have been excluded from bank accounts, can now access fee-free bank accounts.

8.2 Feedback from our external stakeholders, market research and our own internal research indicate identification is an ongoing issue for consumers. At Lloyds Banking Group we treat each customer as an individual and accept many different forms of identification. We have also successfully lobbied the BBA to facilitate a discussion about how best to standardise requirements across the industry.

8.3 The credit union sector provides a vital service to many people across the country, offering responsible and affordable lending that helps their members manage their money. We have committed to invest £4million to credit unions through our Lloyds Banking Group Credit Union Development Fund, to help the sustainability of the sector and its ability to meet a growing social need and enabling the Credit Union sector to lend an additional £20million to their customers. Additionally we are building relationships with credit unions close to our employment hubs, encouraging local colleagues to volunteer their time and share their expertise.

### **Accessing affordable credit**

9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?

9.1 Lloyds Banking Group is a signatory to the BBA's 'Standards of Lending Practice', and we therefore only lend to customers who are able to clearly demonstrate they can afford to make the repayments.

9.2 We do recognise however, that automated credit processes are widely used to support responsible lending and borrowing, and these processes can exclude a number of consumers from credit due to the way they are set up. One such example of customers impacted in this way is military personnel - without a post

code registered to their records, armed forces personnel are unable to build up a credit history. This means when they look to take out a loan they are unable to due to a low credit score. However we are working closely with the BBA to support this group of customers by standardising our address format so their information can be shared in credit searches. As a result they will no longer be excluded from accessing affordable credit.

9.3 Where we are unable to support customers with affordable credit, we work alongside the Association of British Credit Unions (ABCUL) and their credit union network to signpost customers to their local credit union, to dissuade them from turning to payday or door step lenders. We also signpost these customers to debt management charities, such as Step Change, to help them explore if better money management might negate the need for them accessing credit. Individuals facing financial exclusion may also be entitled to more welfare benefits than they are claiming. More could be done to signpost them to charities such as Turn2Us to ensure they are receiving the right amount of money and so minimise their need for high cost credit or illegal lending.

9.4 Another important issue which needs to be addressed related to accessing credit is education about credit scoring. Credit scoring is a mystery to many consumers - they do not understand what their score is, how it is calculated, how they can improve it or the jargon used in most credit reports. Through our Halifax brand we have offered free access to Noddle for customers to check their credit score and receive simple tips on how to improve it. However there is certainly scope for credit references agencies to do more in this education space, and, perhaps, by looking at how they score credit. By purely looking at lending and not saving they inadvertently encourage a culture of debt.

## **Government policy and regulation**

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

10.1 The Government undoubtedly has a role to play in addressing financial exclusion and we welcome the Prime Minister's continued focus on the Life Chances agenda. However, as per our answer to question 7, we would reiterate our support for the Financial Inclusion Commission's recommendation that there should be a "government lead on financial inclusion and financial capability.... championing the issue in each interested Department and in all devolved administrations".

**11.** What has been the impact of recent welfare reforms on financial exclusion?

11.1 There are likely to be implications resulting from the introduction of Universal Credit, but as yet it is too soon to be backed up with evidence from our customers. At the moment, the customer segment receiving Universal Credit (i.e. new claimants only) has skewed the results, given the majority of these customers were already used to receiving monthly payments and budgeting accordingly. The real impact will be when Universal Credit is extended to existing claimants who will have to adjust from receiving a weekly payment to instead receiving a monthly one. These customers will also face a bridging period of 6-7

weeks as a minimum, and will find it hard to access short term lending during this time. The Government therefore needs to find a way to help these customers through this transition period.

**12.** How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?

12.1 As per our previous responses, we support the Financial Inclusion's Commission's recommendation that there should be a "government lead on financial inclusion and financial capability.... championing the issue in each interested Department and in all devolved administrations".

12.2 Conversations on Universal Credit with central Government and local authorities have highlighted a lack of co-ordination.

### **Financial technology (FinTech)**

**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?

14.1 We firmly believe that FinTech is at the forefront of digital innovation. Through collaboration and partnership, FinTech can support the evolution of how the Financial Services sector will serve its consumers both now and in the future.

14.2 To that end, we're committed to harnessing the creativity that exists within the FinTech ecosystem in order to ensure the Bank can provide its customers with new ways of banking, at a time, place and platform that best suits them and excludes no-one.

14.3 We believe FinTech will help us on our path to our digital future and as a result, we need to nurture and harness the creative and visionary power of FinTech through collaborations, sponsorship, events, membership and championing of the ecosystem – the Government can play a key convening role in supporting such collaborations in Financial Services.

*16 September 2016*

## **Lloyds Banking Group, Open Data Institute and Tinder Foundation – Oral evidence (QQ 168-174)**

Evidence Session No. 17  
174

Heard in Public

Questions 168 -

Tuesday 15 November 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (Chairman); Bishop of Birmingham; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Adam Micklethwaite, Director of Business and Innovation, Tinder Foundation; Peter Wells, Policy Associate, Open Data Institute; Nick Williams, Director of Consumer Digital, Lloyds Banking Group.

Q168 **The Chairman:** Do take a seat and make yourselves comfortable. Let me deal with one or two formalities. Welcome to this Financial Exclusion Committee evidence session. You have in front of you a list of interests declared by members of the Committee. The meeting is being broadcast live via the parliamentary website and a transcript will be taken and published on the Committee website, but you will have an opportunity to make any corrections or amendments to it, where necessary.

Would you please say who you are and whom you represent?

**Nick Williams:** Good morning everybody. My name is Nick Williams and I am the consumer digital director at Lloyds Banking Group, so I look after the online banking and mobile service across the group.

**Peter Wells:** I am Peter Wells and I represent the Open Data Institute.

**Adam Micklethwaite:** Good morning everybody, I am Adam Micklethwaite and I am the director of business and innovation at Tinder Foundation, which is a UK digital inclusion charity.

Q169 **The Chairman:** Thank you very much. I will put the first question to all three of you, and as we move on, questions may be targeted at specific witnesses. To what extent do you feel that digital and financial exclusion overlap, are those who are digitally excluded also more likely to be financially excluded, and what can be done to mitigate those issues?

**Adam Micklethwaite:** There are 12.6 million adults in the UK who do not have the five basic digital skills: managing information, communicating, transacting, problem-solving, and creating. Some 5.3 million adults in the UK—just over 10% of the population—say that they have never been online, and 13% of UK adults do not use the internet currently. There is a big overlap between digital and financial exclusion, which is borne out by the Lloyds consumer digital index. I will not steal any of Nick's thunder, as he will be talking about that, but it is clear that digital and financial exclusion correlate and interrelate. One does not cause the other, but they coexist and reinforce each other. For example, 28% of unemployed people do not have the five basic digital skills, and nor do 31% of those who earn less than £9,500 a year. By way of comparison, the figure for those earning over £75,000 is 4%. So you can see that there is a correlation between, in that case, unemployment and income, and digital exclusion.

Age is also a big issue, because the likelihood of digital exclusion increases with age. We know, for example, that only 38.7% of adults aged 75 and over have used the internet in the past three months, so there is a very big age dimension. The Money Advice Service produced a market segmentation back in July that also showed this correlation, which you can see by looking at the internet usage and smartphone ownership of people in different segments of that financial capability segmentation. For example, 58% of the most financially excluded people—the group that the Money Advice Service calls



“struggling”—use the internet for less than six hours a week. That compares to between 20% and 30% for younger adults who are at the “more comfortable” end of the segmentation.

Motivation is clearly the biggest issue when it comes to addressing digital exclusion among the adult population. One in 10 adults do not intend to get online in 2016, and 50% of those say that that is because they do not need it and it is not relevant to them—they are not motivated to be online. In comparison, 18% say it is about not having the skills to get online, and 15% say it is the cost. Interestingly, that is down from 21% last year, so cost is becoming less of an issue, while motivation and core levels of interest remain the most—

**The Chairman:** The one thing you have not raised is people living in rural areas. In your view, are there particular issues there?

**Adam Micklethwaite:** There are indeed. To go along with the figures that I quoted on unemployment and income, we also know that 26% of those in rural areas do not have the five basic digital skills, which is still disproportionate compared to the UK population. Clearly, there is also an issue with connectivity in many rural areas, despite the intention to get as much of the country connected as possible.

**The Chairman:** Thank you. I am sure we will pick some of those other issues up as we go along.

**Peter Wells:** Digital and financial exclusion are very complex problems. As we heard in the stats, there are different correlations between different groups, and I am sure we will hear more from Nick from the Lloyds Bank report. Complex problems do not often lend themselves to easy solutions. Sometimes it gets missed that, actually, a lot of financially excluded people are very digitally included. For example, homeless people actually have quite a high smartphone penetration, as it is a way of getting to services, because services are inbuilt to help those people in those situations. It is important to understand that the different segments might need different solutions to help people become digitally included, financially included, or both.

There are occasionally problems with confusing correlation with causality; the two things do not necessarily lead to each other, but they can do in some cases. According to a 2015 Lloyds Bank report on small businesses that are digitally excluded, 1.85 million small and medium-sized enterprises in the UK lack basic digital and online skills. If financial services are pushed online and some of the offline services are not necessarily there and being supported, that might push some of those businesses into financial exclusion and its associated challenges. I think we will find some other interesting challenges as we look through the evidence and the questions.

**Nick Williams:** I will complement the things that have already been said. For me, thinking about financial and digital inclusion or exclusion, we draw out the difference between having capabilities and being completely excluded. On the financial side, 1.5 million UK adults do not have access to financial services, but we know from the research that 30 million adults in the UK lack financial well-being: that is, financial knowledge to understand how to use the financial services they can access. Similarly to what Adam quoted, the circa 6 million adults who have never used the internet is much smaller than the 12 million adults who do not have the right digital skills to be able to take advantages of

the benefits it brings. Therefore it is important to draw a distinction between those who are completely excluded and those who have the access but do not have the right skills or motivation to take advantage.

The three things we would call out are motivation, which Adam mentioned, access and skills. Access has significantly improved; technology advancements in broadband and wi-fi, and mobile access have improved significantly over the last few years, albeit that it is still problematic, as you already said. It is incredibly important not to forget physical access. By definition, these customers are not online, so you access and engage with these adults through the physical channels. In my world that is the branches, but it could be libraries or youth centres. Therefore the physical access to get online is important as well as the virtual one.

On skills, it is important to understand what skills are available and how you educate and motivate. We talk about how we can get customers to think about how to earn money rather than how to learn money. How to earn money is far more motivating than how to learn about it. Then, just thinking about financial inclusion and mitigation, and access—to the banking platforms and the basic banks account—is incredibly important; identification is one of the critical barriers to getting access to that bank account in the first place.

On skills and motivation, again, there are programmes that we run in Lloyds such as the Money for Life programme, which is about educating 16 to 24 year-old vulnerable people who will not necessarily have the right educational support to be able to access financial and digital capabilities.

**Lord Haskel:** Nick, Lloyds Bank does excellent work on financial exclusion with things like the Lloyds consumer digital index. You should be congratulated on that. Can you tell us how these initiatives to address financial exclusion should be targeted so that we all know exactly what has to be done? Is there a role for the Money Advice Service, or its successor—it is being reorganised at the moment?

**Nick Williams:** I will answer your question by pulling out four or five components of what the index has told us. First, we mentioned motivation in the previous question. It is important to think about the outcomes and what you can achieve rather than the inputs into the process. As an example, the research shows us that if you are digitally and financially able—that is, you can use the internet to buy and procure services and products—you can save on average £744 per annum, and £516 when you have a wholesale income of £15,000. So there is a significant financial benefit to being online way beyond just banking online. I am talking about being able to access things in everyday life.

There is also a much broader well-being agenda with digital inclusion. People are connected. I know from personal experience of a role in the NHS with a mental health trust that our patients who have access to digital services can connect with people 24/7. It allows you to worry less. My customers worry less about their banking because they can access the information there and then. They can check whether they can afford something before they go ahead and buy it. Partnerships are also important—that comes out of the research. No one organisation can solve this problem, so partnering needs to happen with those who have expertise and specialisms to do this. Adam and I have worked very closely together over the last three or four years,

leveraging the Tinder Foundation with the ability to provide training material and access to the physical outlets such as libraries, where the UK online centres typically are, where we can help to support that.

Finally, one-to-one support is important. Again, by definition, these customers are not online. We found from the research that whether you are an individual or a small business, trusted faces in local places are the best way to engage with people to get them to build the confidence to use the service. Confidence is incredibly important; people fear the security of the internet because they do not necessarily understand some of the dangers of using it. But the benefits significantly outweigh the risk, so we need to build confidence and capability with those customers.

I would encourage the Money Advice Service to bring those two things together and to have a single dialogue, because they correlate with each other. As I said, if you think about the segment of customers who are digitally and financially excluded, around 3 million adults in the UK are in both categories, and they are the neediest. As Adam described, they are typically in rural communities, unemployed and live in housing associations. Therefore the Money Advice Service plays an incredibly important role in being able to target those who are in the most need.

**The Chairman:** Thank you very much. Would either of the others like to add anything to that?

**Adam Micklethwaite:** Briefly, I very much reinforce what Nick said. We believe that you should focus on the people for whom the barriers are greatest—the most vulnerable, who, as Nick said, are more likely to have low digital and financial capability. Their need is greatest. They put the greatest pressure on services, and by interfacing with those people you can drive other benefits too. So the focus should be on the most vulnerable. Each year, we help some 300,000 people through the UK online centres network, 86% of whom are socially excluded, so they fall into one or more categories of being disabled, unemployed, educated below level 2, resident in social or sheltered housing or homeless. We know that community-based interventions, which work through face-to-face support and are focused on understanding the person and what makes them tick—and finding the hook that can encourage them to engage with digital—are the most effective model. We therefore urge Governments, the Money Advice Service and excellent corporate partners such as Lloyds to think about this model.

On the role of MAS, I would add to what Nick said only that the digital skills entitlement that the Government recently announced, which we hope will go through as part of the current Bill, provides a golden opportunity to do something big in this space. Opening that funding up to community-based organisations, which have the deep reach into communities and the ability to engage the most vulnerable, would be a good move. MAS may be able to help with that.

**Peter Wells:** I reinforce the comment about existing community groups. A lot of these things have to happen locally and in the right context, which people recognise, and they have to be built with existing community groups and work with them. That is an important lesson for us all to learn.

Q170 **Lord Shinkwin:** We have heard from a range of organisations about the

problems encountered by disabled and older people: Mencap, Age UK and Citizens Advice. What specific policies or practices do your organisations have in place to try to reduce digital, and therefore financial, exclusion for particularly vulnerable groups of people, such as disabled or older people? What role would you like government to play in this area?

**Nick Williams:** From a policy governance perspective in the bank, we think about these things hand in hand. They are both two high-priority agendas for the group to address, and they both come with a group executive committee sponsorship, so a group executive member sponsors one of those two strands. We have a non-exec director who ultimately chairs the responsible business committee, where these two important agenda items are discussed.

On practices, we now have 22,000 digital champions. These are colleagues who have made pledges to help individuals, small business and charities get online where they are not, and we provide signposting for customers to know where to go to get help and support, whether that is online—a lot of it with Adam's organisation—on the phone or in physical outlets where they can access it. We also work closely with organisations such as AbilityNet and DAT to make sure that our own digital services are inclusive.

Our research showed that you need to think about inclusiveness from both ends of the spectrum. We have a population of young people who are very digitally savvy but not necessarily educated in financial well-being. They have not had the life experiences to understand what a credit card is, what a loan is for, what a mortgage and a pension will be needed for. Then we have an older demographic who have life experiences and have had time to create wealth for themselves but who are not necessarily digitally included. Actually, it is the 40 to 49 year-olds who benefit most, because they typically have both skills. So we think about this at both ends of the spectrum.

Reading age is important, and understanding the reading age of your site when thinking about the literacy skills of the general population. Typically, 1 in 7 has a reading age of around 11. Some online sites need a reading age of 21, so you need further education to understand the content. We work closely with the Royal National Institute of Blind People, and with the deaf society for sign videos. Typically, 40% of our customers could be in a vulnerable state. A physical or mental disability, a bereavement, giving birth, getting married, getting divorced—all these things make people feel slightly anxious or uncomfortable, so we have to think about all those different states. Some are traits and some are states.

I would like the Government to focus on how we can bring these two agendas together. Coming back to the previous question—they overlap—it is about using the existing complementary physical outlets to engage. We need a digital strategy that complements the Government's underlying objectives, not a competing strategy against existing priorities.

**Peter Wells:** A lot of our work is on infrastructure. We are about getting data and content to people, so that they can build services targeted at particular groups and needs. Obviously that infrastructure is necessary, but it is not sufficient; we need that work to be stimulated. A lot of the work is on making sure that the infrastructure is easy to use and is as impactful and open as possible. We do that by making sure that all the content and the data that we and our partners produce is openly licensed, so that people can rebadge it and

re-form it into different shapes, suited to people with a higher education or to people with a much lower reading age. We can reshape that content into many forms. For example, the main open banking report is 200 pages long, but we also produced a 10-page report. By shaping it into different forms we get more people to engage with it and make them aware of what is going on.

We also want to build trust by being open about how data is being used. That way, we can create trust and allow people to challenge where data is being misused. But they can do that only if they can see how the data they might pass over is being used. One example would be an authorised adult who is looking after somebody and handling their data on their behalf.

We often call for government to lead by example. Under the last Government, the Government Digital Service did some very strong work on accessibility that needs to be built on and brought to many more services.

**Adam Micklethwaite:** We are a digital inclusion charity, and we work with the UK online centres network, which comprises around 5,000 hyper-local organisations across the country. All of them have a deep reach into their communities, and many of them specialise in helping specific target groups such as older people and people with disabilities. We help them to build digital inclusion into that offer, so that they can ensure that these socially excluded groups are gaining digital skills.

We estimate that across our network, around 100 organisations are already providing dedicated financial and digital support programmes, and we want to build on that. We are doing three specific things. One is our work with Lloyds, and Nick. Last year, Lloyds sponsored the creation of two courses in digital money management, which are now live on our Learn My Way open learning platform. That means that in this community-based context, people are learning how to manage their money day to day and how to use and get the most from online mobile banking. We have also been working with Lloyds to help train their digital champions, which we might cover later. The courses I mentioned have been used by 19,000 people since they were launched in February 2016.

The safety point, which was mentioned, is really important. The 2016 Ofcom adults' media use and attitudes survey shows that newer users of the internet are more likely to say that they would never enter personal details online because they have security concerns, so the safety issue is particularly important. For example, 38% of newer internet users—people who have been online for less than five years—said that they would never enter their credit or debit card details, compared to a figure of 18% for people who are established users. That shows that there is a safety issue that we still need to address, and which both other witnesses have covered.

We have just launched a course on safety and protecting yourself online in partnership with TalkTalk, so we are partnering with organisations that can help to spread that message. We also have a programme in the field called Money My Way, which is funded by Comic Relief and has helped 10,000 people in its first year to gain digital skills and apply them to managing their money better. That was developed with the Money Advice Service and Citizens Advice.

Finally, we have a new research project, funding for which is being finalised. Assuming it goes ahead, it will test the introduction of assisted digital support

to financial capability interventions, increasing the likelihood that those interventions will drive sustainable change in how people use digital to manage their money. That means actually helping people to complete a financial transaction as part of the intervention, which is not often done. If that goes ahead, it should enable us to generate more evidence.

Government should be maintaining funding for programmes that reach vulnerable people and engage them with digital. I have mentioned the digital skills entitlement, which is a great opportunity to do that. I echo Nick's point about working with the private sector to leverage investment in digital, and about financial inclusion; government has a role to play there. Government can also do even more to prioritise being digitally inclusive by default, rather than just digital by default: in other words, they should think about how they can build digital inclusion into all their services and their touchpoints with citizens, as well as just designing brilliant digital services, which the Government Digital Service does well.

**The Chairman:** Can I just come back on that point? You talk about being digital by default. In the evidence we have received, I have always been very struck by the following quote from the Finance Foundation, which said: "If you are suffering from macular degeneration, are semi-paralysed by a stroke or suffering the side effects of chemotherapy, using self-operated technology—whether ATM, phone or computer—may prove too much of a challenge". I did not feel that I heard in your responses what you think needs to happen for those very vulnerable groups.

**Nick Williams:** We should have laid out that digital has to be taken in a multi-channel context. There is a danger that we focus purely on the online services, be it the internet or a mobile app. We think about it very much as a complementary service to our physical channels. There are also new channels, where you bring them together. We have video conferencing now, through which our customers can talk to our colleagues. That is a win-win, because customers whose ability to visit a branch is restricted but who still want to talk to a colleague face to face can now do that through video. One customer who is wheelchair-bound comes in every month to pay her credit card bill, but it really worries that in the winter months, when it is much harder to get to the branch, she will struggle and miss her payment. She now uses her mobile phone to pay the bill during the winter months, so she does not need to worry. Her preference is still to come into the branch if she can, but if she cannot she knows she can fall back on that.

Likewise, another Halifax customer in the north-east used to visit her branch frequently. She became her husband's primary carer when he was ill, which restricted her ability to come into the town centre. Because she is now digitally enabled through visiting one of the UK online centres, she not only does her banking with us online but explores the world with her husband. Their passion was to travel the world, and now they travel the world on Google. So there is that broader well-being. It is important that customers who are in a vulnerable state have access to multiple channels that can help their needs, whether in a physical or a digital environment.

**Peter Wells:** Digital by default should not mean digital only. That is not how it works. Digital is there as a tool to support human beings. That may be the human being using the service themselves, or it may be an agent acting on

behalf of somebody else. Both those routes always need to be present, available and accessible.

**Adam Micklethwaite:** That is absolutely true. The only thing I would add is that other intermediaries can also be part of that picture. For example, we are working with one of the NHS testbed innovation pilots in Lancashire and Cumbria. The aim is to work with people who have a variety of long-term conditions and to help them interface with more advanced forms of digital technology such as wearable tech, apps—that end of things. The partnership between the patient, the digital inclusion support worker and the clinician or doctor can also be very powerful in helping to address the additional barriers you were talking about.

Q171 **Lord Harrison:** Nick, you referred in your press release to physical branch presence and some locations not allowing for disabled access for various reasons, and you elaborated on that. On the digital champions initiative, are you on track to convert the 7,000 champions you created by 2015 into 20,000 by 2017? What is the advantage to your business? Is it to do with those champions' enthusiasm in communicating with the outside world? Are there any lessons that could appropriately rolled out to the industry as a whole? Are other banks biting at your ankles in trying to follow up this idea?

**Nick Williams:** Absolutely. First, on the numbers, I am delighted to say that we have 22,000 digital champions as I sit here today. We have seen an enormous growth in the number of colleagues stepping forward to drive this agenda forward in the last 12 months. That is predominantly because it helps colleagues to increase their own skills, and allows them to have better conversations with their customers and to help them more. We have also seen that colleagues can affiliate with it as a personal contribution: they can see the benefit in front of them when they help somebody get online there and then. The benefit for the customer is also much broader than just banking; it allows them to do many other things.

Customers do not come into the branch to learn how to use digital but because they want to have a conversation about their money. That is one reason why we put our digital champions into libraries. We created a partnership with the chief librarians. Our Halifax customers spend a day in the libraries when we run the IT taster sessions with the UK online centres. This is the "trusted faces in local places" scheme. We find that adults who go into the libraries recognise colleagues from the local branch and put that into the context of how they can help with their day-to-day skills.

It has worked by keeping it really simple. It is a simple pledge: "I am going to help two people, two organisations, every year, by giving access to great content", supported by Adam and his team, "and by having everything in one place". Through signposting, working with the Tinder Foundation and Doteveryone, we know where the charities, businesses and individuals are who are in need, so colleagues can find someone locally in the community to support. It is also about partnerships: do not try to do everything yourself. We have to remember what we are good at. We have some incredibly skilled individuals in our branches, but we are not a digital technology company, we are a bank, and we have to remember our role in society, but also think about how we can help beyond the course of our day-to-day business.

Finally, communication is really important. You referenced competitors. Clearly, there are a number of competitors that quite visibly communicate what they are doing with their own digital champions-type programmes. However, for us, communicating locally and being able to connect is really important. This year was the 10th anniversary of Get Online Week, which we were proud to help support. We had 100 charities in our London head office helping out, and the next day we and Age UK were helping 20 adults get online. So we are trying to bring this into the local community, so we can put it into context.

**Lord Harrison:** You have corrupted me, because I now go round saying “trusted faces in local places”.

I was concerned, Peter, when you said that 1.8 million small business may be made vulnerable because they lack the skills or are not online. Could you elaborate on that?

**Peter Wells:** Those businesses are spread across the country. If I were to dive into those stats, I think I would find a preponderance in rural areas, so there is a connectivity issue. A lot of those people are also sole traders. One of the things we are foreseeing is that, as more and more services move online, that is where the bigger market is. That is where services are being driven and where the greater profit is to be made, so there is a risk that some offline services start to become less available, whether that be through closing branches or just removing services. We are conscious of that and it merits further investigation. The open banking standard will allow the investigation of problems such as the availability and location of bank branches and their disabled access - understand them and people can remedy them as necessary.

**Lord Harrison:** A lot of small businesses where I live are up in arms at the loss of banks, for the simple reason of trying to run a small business. Adam, do you want contribute?

**Adam Micklethwaite:** Yes, if I may, if only to point out that digitally excluded businesses are also digitally excluded people, so you are also helping the person. Although the benefits of helping businesses to improve their digital skills are clearly first and foremost about productivity, growth and competitiveness, there is also a very strong well-being benefit. We find that a lot of the businesses we help might have multiple reasons for wanting to become more digitally capable, such as digitising their accounts so they can have their Sunday mornings back to spend with their family. So there are a whole range of different benefits.

Partly for that reason, and because there is a preponderance of digitally excluded businesses in rural areas, this year we are partnering with Google, which has an online learning platform called the digital garage that is designed to help small businesses brush up on digital skills and learn how they can apply those in a growth context. We are partnering to take that platform out to the small businesses that would not otherwise be reached, and working in that person-centred, community-based context to understand them as people—what makes them tick—and then introduce them to the idea of digital skills for their business.

**Baroness Primarolo:** I just want to make sure that I understand what you are saying, Adam, when you talk about excluded small businesses in rural



areas—the micro-business and the sole trader. Is it possible to divide this between those who just cannot rely on being able to do their business on the internet, so they have to have a branch, and those who have capability issues, which is what you are talking about? I am thinking of capability being the person's ability to do it, as opposed to the situation where I live. I live in a rural area and you could not do your business on the internet—it is just not reliable or fast enough to give you the constant access that even a sole trader business needs.

**Adam Micklethwaite:** I have lots of figures to share today, but I am afraid I do not have any to hand that deal with that problem. I would be very pleased to provide some afterwards. However, I expect that motivation is a key factor for these businesses, just as it is for the general population. You do see quite a few small business people who use social media a lot in their personal lives but who do not want to make the leap to using digital in a work context, which might ensure that they get seen more on Google searches, for example. You also get a lot of businesses saying, "I am quite happy at the moment. I don't need to boost my sales by 500% over the next five years. By word of mouth, I get by perfectly well at the moment". Then you are into this discussion about how digital could help you in other ways, not just growing your business but potentially your personal well-being.

**Baroness Primarolo:** I am just interested in that figure: how many are excluded because they do not have a reliable supply of the technology in the first place— and how many are excluded for the complex and interesting reasons you have given?

**The Chairman:** Adam, would you be able to let the Committee have a brief note on that? You said you had some facts and figures, but not at your fingertips.

**Adam Micklethwaite:** I am happy to look into that and to send a supplementary note.

Q172 **Lord McKenzie of Luton:** My question is about the open banking standard and is therefore addressed first to Peter. As we know, this is to be introduced fully in 2019. How will it help to address financial exclusion, and is the right support in place from all parts of the industry to ensure that the open banking standard actually works effectively?

**Peter Wells:** First, we need to be clear that the open banking standard is a mandatory compliance issue for the nine major UK banks, focused on retail banking. That was mandated by the Competition and Markets Authority in the summer. The remedies that they have to undertake are that they have to publish some open data about their products, their branch locations and the location of cash machines, then they have to publish some open APIs, which will allow people to grant to other individuals access to their bank account or to their statement data from their bank account.

**Lord McKenzie of Luton:** Open APIs?

**Peter Wells:** An open API will allow people to give somebody access to their bank statement data. It is called an open API because anyone can use it, but the data is still kept secure and shared under control and consent. Therefore the remedies do not specifically include financial exclusion. Remember, these

were targeted at the retail banking market and the competition. It falls back into that “necessary but not sufficient” category.

Opening up the data on branch locations, cash machines and products should increase competition in the market; it allows people to see what is happening and to build new products on top of those big banks or for the banks themselves to build products on top of their competitors. Again, opening up the statement data allows people to combine that and do interesting things with it, whether that is a better service for a sole trader or exposing my bank statement data to an agent, who might help me to manage my finances on my behalf, because I would struggle to handle it because of some issue. However, unless support is given to those supporters who are there, to stimulate that demand-side, we might find that a lot of the activity happens around people like me, who will be a far more profitable customer for many of those things. Therefore it is necessary but not sufficient; it creates an environment.

We are not involved in the current work in the UK at the moment; we were involved in the previous phases. We choose where to place our time, so we are not involved in the current work that happens with those nine big banks and Payments UK. We are doing a lot of work with organisations in France, New Zealand and Australia to see whether the organisations are there or to pick up a similar standard. Again, we might find exclusion activities happening there to tackle that challenge, which will be shared openly and could be replicated in the UK.

**Nick Williams:** I will build on what Peter said. There are three pieces of regulation happening at the same time that are all in the same space. You referenced open banking as one of them. The European payments service directive is the first that prescribes banks to open up the transactional data in the current account to third parties. The CMA inquiry into banking has also, as part of the remedies, asked banks to open up further information on what they hold about the customer at service level. Therefore, all three of these things will happen over the next three to four years.

Specifically, if you think about what it means for customers, it is about sharing greater information on what we call reference data. Peter referred to branch locations and ATM locations, but there is also product information: the types of products that we offer, the rates, and so on. All that information is opened up so that anybody can consume it. The technology—API means application protocol interface—is just the way in which two systems talk to each other. They are very prevalent today; we have open banking APIs in systems today. The banks share information with the credit rating agencies in an API that allows us to credit check and credit score. That is one example of where it works today. Therefore it is an extension of that.

The second phase is then to say that, with the customer’s permission, a third party will be able to access the banking information on behalf of that customer and potentially provide enhanced services such as comparing one banking provider’s service to another. Therefore you will get greater and more transparent comparisons than we have today.

The third aspect of what open banking brings is the ability to make and initiate payments. Again, with a customer’s permission, you may be able to

send and make payments from a third-party application rather than just your bank account.

Therefore it is progressive; it will drive competition in the market, as it will require the existing banks to up their game to be able to compete with new entrants, who can come into the market and provide new services, and it will hopefully bring greater competition in transparency, so you will get greater transparency in comparisons between what the incumbent banks and the new entrants to the market can provide, and ultimately it breaks down the barriers for new entrants into the market.

**Lord McKenzie of Luton:** I can see how it helps competition in the market, but what will it do specifically for the most financially excluded—the poorest?

**Nick Williams:** I will give you two examples, one of which is fundamental. Our ability to identify customers today electronically wholly relies on the accuracy of the credit rating agencies—Experian and Equifax. Open APIs allow us to access different sources of data and share information between different banks to be able to identify people. I may be able to identify a customer who does not bank with us today, but he has a relationship with somebody else, because there is open data sharing. That will break down one of the main issues of financial exclusion, which is being able to identify customers digitally and not force them to try to find physical evidence of identification when we know that they do not have a passport or a driving licence, but they have a digital footprint. Income verification—applying for a mortgage—will become a lot easier if we can share financial information, with the customer's permission, to be able to understand. This is not just in the digital channel. Think about a customer who is in financial difficulty and who walks into a branch. The colleague in that branch can see all their financial affairs, because you can account-aggregate. I can see the loan you have with that provider, the credit card you have with this one, and what you have with us. Now I can help you, because I can see everything that you have going on. In the past I could see only what you have with us. This will help, not only in the front-end process of opening accounts but with customers who may be in financial difficulty.

**Adam Micklethwaite:** I have nothing to add.

Q173 **Lord Kirkwood of Kirkhope:** Can I take you to the universal credit environment and the work set out by the DWP, which I am sure you will all have different experiences and involvement with? The application process is digital by default. I strongly take Peter's point earlier that digital by default does not mean digital only. There is a potential saving in the DWP using digital by default, and some of that saving can be redeployed to try to help the digitally excluded. How should we be doing that? The DWP is doing lots of little pilot projects and bits and pieces, but I hope that the information we have illustrates the importance of universal credit in the whole environment that we are talking about and that we might be able to get one or two recommendations agreed by the Committee at the end of the inquiry. What direction would you push us in with regard to trying to do something with this opportunity: that is, if you think of universal credit not as the threat that everybody thinks it is but as an opportunity to try to deal with some of the important issues you have been talking to us about? What two or three things would you want us to concentrate on?

**Adam Micklethwaite:** I talked at the start about the overlap between digital exclusion and people on low incomes, and those such as the unemployed. The UK online centres network supports around 65,000 jobseekers each year. They are signposted directly from Jobcentre Plus, and 56% of them do not have the skills required to complete an online form. Since 2010, we estimate that we have probably helped over 100,000 people to gain digital skills and move into employment, and we have 180 centres in our network at the moment which specialise in into work support. That is all by way of background; the two observations are that we hear a lot of stories—we have a lot of evidence—to show that digital by default can be a barrier for that group, both with universal credit and universal jobmatch. The critical thing is that the vast majority of this activity is unfunded by the DWP.

**Lord Kirkwood of Kirkhope:** Unfunded?

**Adam Micklethwaite:** Unfunded. This work goes on in the community sector. It is referred from Jobcentre Plus because it cannot deal with these people in the right way, and our network essentially picks up those pieces. In that context, we would certainly like to see three things happen if possible. The first would be to ensure that the operational staff in jobcentres understand the potential for digital to help their claimants as much as the claimants do. We talked earlier about digital champions. Having a digital champion programme across jobcentres would be a very good idea, so that there are more digital champions with better training so that they understand this and can build it into their touchpoints with claimants in the right way.

The second would be to introduce a digital skills assessment for all benefit claimants, again administered in jobcentres or perhaps also in community locations, and to link that to digital skills training for people without basic digital skills so that you lock in that assessment of digital skills to the claimant journey.

Finally, as I mentioned, this is not funded by the DWP at the moment, so investment in this activity would be very helpful, particularly when you see so many community organisations performing valuable functions on social exclusion and struggling from month to month.

**Lord Kirkwood of Kirkhope:** That is all very useful, and we will want to reflect carefully on what you have just said. I understood that universal credit, locally delivered, had a budget. From memory, it is delivered by the local authority, and there may be a block somewhere. I am certainly surprised that all this important work that you are describing is unfunded.

**Adam Micklethwaite:** Indeed. Most of the funding that supports that activity comes from a contract that we had with BIS and which has now moved to the Department for Education after the recent machinery of government changes. That is what supports the activity to happen. Future Digital Inclusion, which is one of our largest programmes, is designed to help 1 million people get basic digital skills over five years. We find that a lot of that money goes to helping the jobseekers who are referred. Therefore you are right that there is money there, but you referenced a set of smaller pilots and bits and pieces that are happening; there seems to be no concerted or coherent investment in this at a more strategic level.

**Lord Kirkwood of Kirkhope:** That is important for us to know. Thank you for that.

**Peter Wells:** There are two areas. A lot of the work that might be missing is in the space of skills and innovation. Adam has touched on many of the points relating to the skills space, but it is also about data literacy. We are pushing people with no digital skills at all, getting them online and giving them new tools on smartphones. We are now rolling out the open banking standard, and PSD2 and various other initiatives are coming down the road, so we are showing them that there are tools that they can use to get access to their bank accounts. How do we teach people to trust those tools, and how do we create institutions that ensure that those tools can be trusted? That area probably needs more focus, support and effort, and we hope that the banking industry, through the open banking standard, will start to look at a lot of that area.

Also, on the innovation side, there are lots of pilots around the country, which is brilliant, and lots of people trying out new things. We need to scale and support the things that work, so that when we find something that works we replicate it and scale it where we can, as that is vital. But we need to experiment in order to work out what those things are. These are hard problems.

**Nick Williams:** I will add a couple of things. Very few people who bank with us use one channel. Even our youngest customers will revert to a phone or a face-to-face conversation when they have a moment of truth with us. Therefore I encourage those who are designing universal credit to listen to their customers and their needs and to think about provisioning a multichannel proposition that allows those who are comfortable doing it digitally to do that. We have created digizones in our branches where customers can talk to us about their digital needs, and there are new channels; I mentioned videoconferencing and webchats. There are means of connecting to your customers through an online channel while keeping the human element in the digital channel. That is a big focus for us: how do you keep the human aspect in a digital service?

**Lord Kirkwood of Kirkhope:** So if you owned Jobcentre Plus you would have a digicorner in every JSA branch.

**Nick Williams:** Yes I would. I worked with digital champions who can support adults who are not digitally skilled so that they can learn how to do it and build their confidence over a period of time so that ultimately they will feel comfortable doing it digitally themselves. However, we also need to educate, because it is not just about accessing the money but about spending it wisely, so financial education and how to budget is important alongside the digital skills to do it.

Q174 **Lord Northbrook:** We have had an interesting session, examining the causes of digital exclusion, the relationship between digital and financial exclusion, and possible ways to mitigate the effects of that relationship.

I have one final question, which I will put to each of you. What is the one thing you would like the Committee to consider recommending when it draws up its final report?

**Adam Micklethwaite:** There are so many things, but I need to pick one. Investing in digital skills is the single most important thing. Digital can so often be a bolt-on rather than built in, and although there is a lot of fantastic

work across government on digital inclusion and digital services, digital inclusion could speak even louder as part of that. Investment in digital skills would be great, obviously, and I know that budgets are tight but the digital skills entitlement is a great step forward.

Championing that and working out how you can get most leverage from that entitlement through community-based organisations as well as colleges and adult education providers is the one thing I would recommend. Clearly, to go back to our earlier discussions, investing in and building digital skills drives a whole range of other benefits, whether it is those that relate to the work of this Committee on financial inclusion or health and well-being, employment, earnings, savings to the NHS, and a whole range of other things. If you invest in digital, you drive big impacts elsewhere in the system.

**Peter Wells:** For us it would be to encourage this area to be as open as possible, whether that is through additional skills training or through the content being open so that it can be reused by anybody across the country. It could be repackaged for different audiences, whether in multiple languages, with different accessibility and for different reading ages, or making the banking APIs and standards as open as possible so that as many people as possible can build services on top of them and target them at the groups that need help and that we want to get help to.

**Nick Williams:** I encourage the Committee to think about how this is one narrative and one agenda. Financial and digital inclusion have so many overlaps that there are economies of scale in having the conversation in one dialogue. It is important to think about how many of the answers to the problem lie in a non-digital channel where you can engage with adults who do not have the right financial and digital knowledge.

Finally, what pre-emptive things can we do to avoid the issue growing? How do we build financial and digital skills into education for young people so that they are there when we get to the point where they need access to these services? We are really talking about life skills. It is important that we build those life skills as early as possible in our children as they grow.

**The Chairman:** Thank you very much. That is the end of this session. Thank you very much indeed for coming and for answering our questions. It has been a very helpful session.

## **Local Government Association – Supplementary written evidence (FEX0090)**

Dear Baroness Tyler,

### **Financial Exclusion Committee evidence session - 25 October 2016 - further information**

I am writing further to your Committee's oral evidence session on Tuesday 25 October 2016 to provide additional information. I also wanted to take this opportunity to thank you for inviting the LGA to give evidence in person to the Committee.

#### **Local safety net**

The Committee asked a number of important questions about the availability of local support for individuals who are financially excluded. This is at the heart of the LGA's work on welfare reform and life chances.

The LGA conducted its own review of local welfare schemes in 2014, which included in depth case studies with ten English councils. This research highlighted the necessary time and care that councils put into setting schemes up following devolution of some of the money that had previously been spent on the Social Fund. Councils successfully and innovatively administered local welfare assistance funding, providing vital, timely support to some of their most vulnerable and deprived residents. Many local authorities gradually expanded schemes to manage demand, and were cautious about planning for future spend. Separately identified funding for local welfare schemes has now been completely removed.

The Government has in effect devolved all discretionary components of the welfare system as part of its reforms. This includes the former Social Fund, the use of Discretionary Housing Payment to mitigate the impacts of Housing Benefit reform, and the concept of Universal Support within Universal Credit. Local government is best placed to provide support that addresses particular individual or local circumstances. It is not realistic to expect us to do it without adequate resources, particularly against a backdrop of a further £12 billion reduction in spending on working age welfare benefits.

The localisation of welfare schemes has often been done in a piecemeal fashion with little or no commitment to providing adequate and appropriate long term funding for a welfare safety net. Proposals for 'universal support' have been a constant – but inconsistent – feature of the discussion between the Department for Work and Pensions and councils throughout the implementation of Universal Credit. We are seeking a commitment from the Government to effectively fund the crucial role of councils in supporting claimants with additional needs. One way in which we might be able to address this is as a clearly identified stream within retained Business Rates, an idea we are exploring with the Department for Communities and Local Government and HM Treasury.

The Government has been keen for local areas to offer personal budgeting support as part of its local support offer, but take-up for these schemes is often low. Without a responsive and integrated approach to housing and employment support, and an adequately funded local safety net, it will continue to be challenging to engage people with these programmes.

Councils are best placed to understand and meet the needs of their local residents. As I outlined in my oral evidence, the vital support local government provides to their residents in times of crisis is not always financial. It is often targeted support and in-kind help at an early stage that prevents further financial exclusion. People's problems are nearly always multi-dimensional and local government should be free from obstructions that prevent them from integrate services and intervene early. Councils should also be adequately resourced to allow them to undertake this work.

We would welcome discussions with the Government about how it expects people to respond constructively to welfare reforms, and how it wants local partners to support them to do so.

### ***Financial education***

The Committee raised an interest in the role of education in preventing financial exclusion. While an increased focus on financial education in schools would be welcome, local government plays no role in setting the agenda of the National Curriculum.

In supporting financially excluded adults, it remains very difficult to encourage people to take advantage of financial capability and personal budgeting guidance. Councils and voluntary and community sector organisations are often best placed to build that trust and we would like to see both the Money Advice Service and the Department for Work and Pensions (DWP) do more to fund, empower and support those partners to deliver that support.

### ***Local authority use of enforcement agents and council tax support***

The Committee raised concerns about the use of enforcement agents (bailiffs) amongst local authorities and registered social landlords.

Councils have a responsibility to their taxpayers to collect taxes so that important services like caring for the elderly, collecting bins and fixing roads are not affected. Bailiffs are only ever used by local authorities as an absolute last resort, when all other methods of recovery have been exhausted, to tackle persistent non-payment.

Before the situation reaches a stage where bailiffs are involved several letters will have been written, people will have been encouraged to apply for financial support, and efforts will be made to arrange new payment plans or to attach the debt to a salary.

Councils have been responsible for their own council tax support schemes since April 2013 although they must conform to Government requirements (for



example, pensioners cannot be charged any more than they would have been charged under the previous council tax benefit scheme). Councils are especially well placed to provide vital support services to the financially excluded as they represent a geography people can understand and relate to. In many cases, especially in rural areas, they are also more conveniently located than DWP offices.

Councils can improve how they deal with council tax arrears from vulnerable residents by following the good practice protocol developed by the LGA in partnership with Citizens Advice.<sup>369</sup> The protocol lists steps that councils can take to reduce the likelihood of council tax arrears building up in the first place. It also outlines how councils can make sure that recovery procedures are fair and transparent.

Officers in the local authority I lead, South Norfolk District Council, are currently working on providing a case study on council tax support and the use of enforcement agents. I will send this onto you in a separate document, once it is finalised, to provide further information on this issue.

### ***Dialogue between the Department for Work and Pensions and the LGA***

As I highlighted in my oral evidence, local leadership and decision-making should be at the heart of any new strategy to tackle financial exclusion. Importantly, councils should be adequately resourced to allow them to undertake preventative work.

The LGA has a good working and consultative relationship with the Department for Work and Pensions and our Chairman, Lord Porter of Spalding, welcomes the regular meetings he has with Lord Freud, Minister for Welfare Reform. Discussions centre primarily on how policies are implemented, rather than whether a policy itself is appropriate.

There are issues with siloed working both within DWP and between DWP and other key departments, in particular Treasury and DCLG. In our experience Lord Freud has been supportive of the merits of co-location and local employment support, but the Department's approach to the Work and Health programme remains centralised.

As the LGA has highlighted in our Autumn Statement submission, fragmentation of support services creates duplication, wastes scarce public resources, and fails to deliver on the scale required. If the Government can end the siloed approach that has characterised this agenda in recent years, for example by devolving the main employment and skills funding to local government, then councils will be able to develop a single, place-based strategy which is based on the needs of people rather than separate institutions.

We have also asked the Government to review further significant reductions to housing benefit and enter into a more constructive dialogue with both councils and housing providers about how we can work together to reduce the initial

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<sup>369</sup> [Collection of council tax arrears good practice protocol](#)

demand for support with housing costs by effectively and sustainably increasing the supply of affordable housing.

***London Borough of Newham Moneyworks scheme***

During the session I mentioned a local case study, the London Borough of Newham’s Moneyworks scheme, as an example of how local authorities can help alleviate problems with debt amongst their residents. Newham has entered into a joint venture with their local credit union to set up Moneyworks. The scheme describes itself as “an ethical and affordable alternative to high-cost short-term credit firms who exploit residents with extortionate rates of interest.”<sup>370</sup> It aims to make lending available at low interest rates but also provide money management advice and change mindsets over debt. In particular, the local authority has opened a shop in the shopping centre as a direct challenge to their local payday lender. They are using the councils’ own data warehouse to do credit checks, as they have good quality information on key financial issues including rent and council tax arrears.

In the longer term they are looking at the potential to buy debt from residents and recalibrate it. They are also aiming to set up a network of similar council initiatives elsewhere, and have been in discussion with other London Boroughs.

A copy of this letter has also been sent to the Clerk of your Committee, Mr Matthew Smith, and I am happy for it to be shared with other Members on the Committee.

Yours sincerely,

**Councillor John Fuller**  
**Vice-Chairman, LGA Resources Board**

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<sup>370</sup> [Newham Moneyworks website](#)

## **House of Lords Select Committee on Financial Exclusion:**

### **A view from a District Council**

Within the area of council tax collection there is a balance to be made between the many conflicting factors. As a Billing Authority we cannot ignore our responsibility to collect the tax to fund local services any more than we can ignore our responsibility to the majority of tax payers who regularly pay their council tax.

However, as the front line for the local taxpayer we recognise there is also a balance to be found between recovering public money and preventing our residents getting into debt. The conflict here is between being able to deliver local services with that of the potential cost to the public purse of an individual being burdened with spiralling debt.

For an individual owing council tax, the use of Enforcement Agents does add costs to the debt which is why at South Norfolk Council (SNC) we try hard to have a flexible approach and do not automatically go down the Enforcement Agent route. We send cases to the Enforcement Agent on a case by case basis and only as a last resort.

For example, at South Norfolk Council, from the liability orders we obtained at court for the financial year 2015/16, only 34% of cases were sent to Enforcement Agents. Of those sent to Enforcement Agents, 11% had been given Council Tax Support within that year.

We have recently moved away from using Enforcement Agents within the private sector, to an in-house arrangement run by a partnership of 7 local authorities governed by a joint committee. By retaining the work within the public sector there is a strong driver to work more closely with debtors who have patterns of default and find opportunities to change behaviours. With external agents there is no incentive for this type of work.

We also recognise that there is a relationship between council tax debt and the design of support schemes and so have shaped our scheme at SNC accordingly and have been careful to incentivise work, protect those who cannot work and is 'family friendly'.

Features within our Council Tax Support scheme enable us to demonstrate this. For example:

- our residents are better off if they work
- we protect those who have limited employment opportunities through disability
- we do not count Child Benefit as income
- single parents with children under 5 years are protected as their support is calculated under 'old' Council Tax Benefit rules (for them child maintenance continues to be disregarded)
- we have a well-publicised and generous discretionary scheme available for extra help where council tax is unaffordable and this is not restricted to those in receipt of support

Our support scheme has been carefully monitored since it began April 2013 giving us valuable insight as to where any further changes could be made to the scheme where it appears there is hardship with an identifiable section of residents.

For example, using this approach we were able to recommend that our scheme was changed to provide greater support to disabled people on out of work benefits who may be disadvantaged in entering the workplace.

We are working hard to change our working practices and are looking at ways of communicating with our residents in the way they want to be communicated with for example, SMS messaging and email. Other initiatives using more informal intervention are beginning to show that they can be useful tools with council tax debt.

At SNC we recognise that it is far less expensive for the greater public purse if individuals facing problems receive early intervention. We host an Early Help Hub which is a partnership made up of a range of early help providers from across voluntary and statutory agencies. The hub enables partners to consult with one another, share information and work together to ensure people receive the most appropriate and effective support at the earliest opportunity.

*18 November 2016*

## **Local Government Association and National Housing Federation – Oral evidence (QQ 102-111)**

Evidence Session No. 10

Heard in Public

Questions 102 - 111

Tuesday 25 October 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Councillor John Fuller, Vice-Chairman of the Local Government Association Resources Board and Leader of South Norfolk District Council, and David Orr, Chief Executive, National Housing Federation.

Q102 **The Chairman:** A very warm welcome to this evidence session of the Select Committee on Financial Exclusion. I will ask you to introduce yourselves in a second. Just for the formalities, you have in front of you a list of interests that have been declared by members of the Committee. This meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website, and you will have the opportunity to make any necessary corrections to that transcript. For the record, would you introduce yourselves, please?

**David Orr:** I am David Orr. I am chief executive of the National Housing Federation, which is the trade body for England's housing associations. I fear I am in slight danger of losing my voice, but I will do my best.

**The Chairman:** I am sorry to hear that. We will try to be kind.

**Councillor John Fuller:** My name is John Fuller. That will not be a problem, because last week I went to Ireland and kissed the Blarney stone.

I lead a local authority in south Norfolk. I lead local government finance resources for the Local Government Association. Among other things, I have just participated in the CIL review, on infrastructure levies, which we have reported to the Minister.

**The Chairman:** Thank you both very much. I will start with the first question. We have been hearing a lot in these sessions about the Government's role in co-ordination. To what extent do you feel the Government should take a lead in co-ordinating the response to financial exclusion among local authorities, business, housing associations and the third sector? How effectively do you think that role is currently being played? What impact would stronger national leadership and co-ordination have on the work done by local authorities and registered social landlords?

**David Orr:** I fear this will be a slightly complicated answer. Many people feel that it is important for government to play a leadership role. The challenge that many of us have found with government interventions is how lacking in stickability they are. What happens is that a new scheme is set up, some money is identified and people try to use those opportunities well and strategically to plan long term, and then a change is made: a decision to do something other. We in the National Housing Federation set up an agency designed to provide affordable credit for people who were not able to access credit—My Home Finance. It did exactly what it needed to do. To begin with, it was supported by funds from DWP. There were a whole lot of strings attached to those funds, which created a slightly unrealistic expectation of the cost of that financing. Then the funds were withdrawn, but the expectations remained.

It is a challenge to find ways of creating continuity in delivery. The majority of housing associations do not now look to government as a first port of call, or even a second or third port of call; they look to their own resources, to local

organisations or to local agencies, rather than looking to government. Perhaps the key role for government is not an interventionist one but much more a leadership one. Frankly, some of the decisions that have been taken have contributed to increased financial exclusion, which is perhaps a bigger area of conversation.

**The Chairman:** Perhaps John would answer on this issue as well. Would you welcome the recommendation for a Minister for financial health being set up, as was recommended by the Financial Inclusion Commission?

**David Orr:** We have had such people in the past. Yes, I think I would. The role of such a Minister might most helpfully be some kind of sense-testing of proposals from other parts of government, and being able to reflect back to government the impact of decisions that they might be making elsewhere.

**Councillor John Fuller:** Clearly, it is the role of government to set national standards or national expectations. People have the right to equality of provision to a certain extent, or of outcomes, across the country, but the idea that the Government nationally can address the needs of one family at a time is clearly nonsense. An overly national approach would stifle innovation. There are particular circumstances that might relate between urban and rural areas, for example; different areas need a slightly different approach, delivered at a geography that people can recognise and relate to.

Councils have a leading role. In most cases, along the route to homelessness and need—homelessness prevention is something that we may drift on to later—people present to the council first, yet sometimes the way in which we are forced to act is constrained arbitrarily. The DWP has certain requirements, and if people are on council tax support, for example, they have to give the same stuff again. That is nonsense. Collocation clearly has an important role—a single-stop or integrated approach. Councils have the opportunity to show leadership there.

It is not necessarily councils working on their own; there are CABs, RSLs—it is a whole team effort. That is fair. Our view is that, although expectations need to be set and managed nationally, local councils should have the freedom and flexibility to look to local circumstances, and they should not necessarily be constrained by separate pots. Under your lines of questioning, I hope we will talk about the different sorts of pots. Sweeping them into a single heap, with local leadership in a geography that people understand, gets best value, rather than chasing the pots—the initiatives that David referred to.

**The Chairman:** Would you support a Minister for Financial Health?

**Councillor John Fuller:** I would suggest more freedoms or flexibilities being given to local government, rather than more interference from the centre, because we are dealing with one family at a time.

Q103 **Lord Northbrook:** What do you think should be the role of the successor to the Money Advice Service in tackling financial exclusion? What good work have you and your members experienced from the Money Advice Service in the past, and what should the successor body do differently?

**Councillor John Fuller:** By the time it gets to the Money Advice Service or successor-type bodies, it is sometimes too late, because prevention and the work we do in preventing exclusion is sometimes the most effective thing. For

example, my council area is rural and you would think that there was not much of a problem. In the past four years, we have had 1,722 cases of prevention of homelessness—we prevented those cases—of which more than a quarter were the result of debt and debt-related issues. Another example is relationship breakdown. We spend money on marriage support, marriage guidance and relationship support to keep people together if at all possible, because keeping a couple together, especially if they have children, saves two cases of homelessness, potentially, with social cohesion as well.

The Money Advice Service was never set up to do that sort of preventive work. That plays to the previous points I wanted to make about a local, innovative approach. As an example, we hold a co-ordinating role in our local authority. I am not saying that we bend the rules, but we sweep together discretionary housing payments, the Social Fund-type lines and so forth into a single pot that we can apply flexibly. We get a lot more bang for our buck that way, with a more interventionist approach. The King's Fund did some work on behalf of the district councils earlier this year, and it found that every £1 spent on prevention saved £70 elsewhere in the system, whether in homelessness, the health service or whatever. Prevention is a really important role; once you get to the Money Advice Service, you have failed.

**Lord Northbrook:** David, do you have anything to add?

**David Orr:** Not really. When we discuss this with our members, the Money Advice Service is not at the centre of any of the conversations. It has been much more about the kind of interventions that they are doing themselves, the investment they are making, to support people inside their organisations. When you ask people, they broadly think, "The Money Advice Service has been useful, but here is another change and we are starting again". It is not the kind of intervention that our members are looking to in the first instance.

**Lord Kirkwood of Kirkhope:** I wish to cross-examine Councillor Fuller on his powerful pitch for localism. We heard some very interesting evidence last week from Francis McGee of StepChange. He gave us some worrying figures, I thought, that suggested that local authorities were the harshest in enforcing debts, particularly for things like rent and council tax arrears, and that they compared very badly to other financially regulated organisations. If local authorities do this better than anybody else, how do you defend yourself against that charge?

**Councillor John Fuller:** First, I do not recognise that charge. Thinking purely commercially for a moment, there is no point in instigating proceedings unless there is a chance of recovery. That is just a waste. Councils are in a better place to know that than anybody else. Our absolute focus is on using those powers sparingly. Technically, if one wants to get into a recovery situation one has to go for a court judgment, but clearly we want to try to resolve these with informal payment plans or whatever. I said earlier that we need the widest range of financial pots, if I can put it like that, whether discretionary housing payments or what have you, to try to resolve these situations.

Many councils have council tax support schemes, with hardship funds. We have other ways, and we have deep links with charities and social enterprises, but I do not recognise that we are quick to call in the bailiffs. In fact, quite the reverse: we go out of our way to try to prevent cases and to work creatively. At my own authority, we are one of the pioneers of what we call our early



help hub, which is where we collocate all the different services, whether they be police, adult social care or what have you, into a single place to try to fix issues creatively. It is not necessarily just money that does it. Providing a washing machine is sometimes the most appropriate intervention.

**The Chairman:** We will explore those issues later on, but thank you for raising that.

Q104 **Lord Shinkwin:** As I assume you both know, financial exclusion often goes hand in hand with other forms of deprivation, whether it is educational or digital exclusion, physical and mental ill-health, disability, unemployment or indeed underemployment. David, I was interested in your point about housing associations no longer regarding government as a first port of call and looking to themselves and other agencies. John, you made a point about the importance of an integrated approach. Given that, I am interested to know to what extent you feel that agencies, local government and the third sector are able to co-ordinate interventions to address multiple deprivations.

**David Orr:** Probably not to the extent that we should be. There are various heroic attempts to be more engaged, but this is a very complex challenge. To give one example, health and well-being boards have a key local role to play, but only a small minority of health and well-being boards have someone with a housing background as a full member, because housing is seen as a service delivered, rather than part of a strategic or co-ordinated response to problems of exclusion or poverty.

Secondly, the fundamental problem is often poverty. We wrap that up in all kinds of other things: unemployment, underemployment or digital exclusion, all of which are absolutely challenges, but the fundamental underlying issue is one of poverty—the fact that people do not have enough money to get from one end of the week to the other. A bigger challenge is how we can find some way of understanding what the key components are. Sometimes people are invited to budgeting courses when their problem is not that they do not know how to budget but that they do not have enough money. We have to be a bit more honest about some of the underlying challenges.

**Councillor John Fuller:** I agree with all that. It is a complex issue. It would be nice if your recommendations recognised that this is a very complex situation that requires local solutions to local issues. The Government, understandably, have a siloed approach; the DWP does some things and other agencies do others. Having the DWP leading on an element—universal credit, for example—makes little sense in north Dorset, because there are no DWP offices in north Dorset. The collocation type of approach is important. Credit unions are another element. They have their challenges, not least in getting deposits. Many credit unions now have to be subsidised in some way and have their overheads paid for by the organisations in order to try to compete against payday-type loans.

Homelessness is a very significant factor in financial exclusion. Unless you have a roof over your head, it is very difficult to get the rest of your life in order. Prevention issues and an interventionist approach are important, but there are other ways to help people get on the level, too. For example, many councils have exercise referral schemes for some of the complex reasons why people in poor health are not able to get work; they can take an integrated approach there. That is not obvious, but it is an example of the breadth and

full weight of council services that are offered in an area. It is more than just giving money. With dedicated staff working in a geography that people can relate to, you have the scale to deliver outcomes one family at a time. It is a complex area.

There is a technical detail on collocation. Data sharing has historically been an issue, with people putting barriers in our way, talking about data security and privacy—I cannot remember the term, but you know what I mean; it is about data privacy. The troubled families initiative has been in the news lately, and has not obviously delivered the benefits that were promised from it, but let us not throw the baby out with the bathwater. Among the good points about the troubled families initiative are some of the ways in which it allowed mental health issues, police issues and truancy issues as well as council housing issues to come together without overly worrying about data privacy. They were really creative, and it would be a shame if that sort of principle were lost.

**Viscount Brookeborough:** Councillor Fuller, you talk about prevention being better than cure and definitely being cheaper. Would you like to say something about education in schools, not taking too long about it, starting from primary schools? The LGA website says: “One hundred and fifty English local authorities and all authorities in Wales have the strategic lead for education of children”. Surely the best place to start prevention is when people are young, to build something into their education, yet we found it to be very fragmented. I wonder what you are doing as a local authority.

**Councillor John Fuller:** In my particular authority we are not responsible for education; we are a district council, as opposed to an upper tier.

**Viscount Brookeborough:** My apologies.

**Councillor John Fuller:** No problem. Education in itself is becoming fragmented, with academies, free schools and so forth, but that should not detract from the key objective, which is to prepare people for life. Education is more than just passing exams; financial education is a core, critical component of PHSE—the personal, health and social education-type thing—and should be encouraged. I would leave it to the educationalists to decide at what stage it would drip in, whether at four years, five years, 10 years, 11 years or what have you.

People need to come away, especially now, with financial security, and security about their finances; fraud prevention and those sorts of life skills, to prevent people from getting scammed, are part of people’s financial education. If a deal looks too good to be true, it often is. We need to help people to avoid falling into obvious pitfalls. That is a key role for education.

**David Orr:** The experience of many housing associations is that people who have financial challenges have no embedded knowledge or expertise about the way in which systems work. I would very strongly support modules in school about basic financial education. I suspect that many of our children leave school without ever understanding how to manage a mortgage, or what one is. That is a basic life skill that we are not very good at in schools.

Q105 **Lord Haskel:** At the previous evidence session, we heard from the Money Advice Service and the debt advice charity StepChange that a rainy-day savings buffer can be the difference between financial survival and financial

exclusion if people experience a shock to their income or expenditure. It is the kind of prevention that John spoke about. How effective is government policy such as the proposed Help to Save scheme in helping people to build such a buffer, and are further policy interventions required that could nudge people into doing that sort of thing? Do your member organisations have a role to play in that?

**David Orr:** Those organisations are right to say that having that kind of buffer makes a huge difference, but if you do not have enough money to get from one Monday to the next, even if government is prepared to provide additional funds to support any money that you have been able to save, the critical thing is that you have to save it yourself first. For many people, that is just not plausible. There are still many households in this country with a combined household income of £6,000, £7,000 or £8,000 a year. That is not an environment in which it is possible to save.

First, do no harm: if you look at the way universal credit is constructed, there is a week before you are even allowed to claim. Then it is four weeks in arrears, after a two-week processing. From the date of needing that support to the point of first payment, if everything goes absolutely 100% according to plan, it is seven weeks. If you are in an environment where you have struggled to get to the end of the week, waiting for seven weeks before you get anything is a real problem. Dealing with that, or making that challenge less of a burden, would have a much more profound impact than small-scale interventions by government to help people.

I do not for a moment want to suggest that it is unhelpful for government to create incentives to save, but there has to be an understanding that these incentives to save are possible only when people have enough cash to be able to save. Filling the gap for people who do not have that is a much bigger problem.

**Councillor John Fuller:** On the financial shocks, what is the quantum? A financial shock could be £50 here or there. If your washing machine has broken, that is quite a big lump. In our district, there was a case of truancy. A truancy officer went round, and it turned out that Johnny was not able to go to school because the washing machine was broken, so we bought a washing machine out of our DHP pot. That is the importance of having these pots all swept in together; you can be more flexible. That is a really good example of where sometimes in-kind contributions are more appropriate than just handing out a cheque, which is of course the DWP-type default issue, understanding the delays that David mentioned. In the seven-week hiatus that has been referred to, people often come to the council anyway. We end up getting drawn into what is essentially a DWP issue.

There are other ways. I referred earlier to the importance of getting a roof over your head. There, the sort of financial shock is £1,000 for a deposit in the private rental sector. That is a hell of a lump. Because rental deposits are held in trust by the deposit protection scheme, councils can lend; we can stand surety for a potential tenant to get into private rent, so we will do a rental deposit advance scheme—an RDAS. That helps get people a roof over their head, even if they do not have the deposit.

Although it is clearly desirable for people to have a nest egg behind them—a buffer—where it is not realistic, as David mentioned, there is a role for the

state at local level to be flexible and to try to understand the particular circumstances. Just writing a cheque is irrelevant, because you need a different cheque, whether you are £50 short of getting a washing machine or whether it is for a rental deposit. That is the sort of local leadership flexibility that councils need to hold a co-ordinating role. It would be much better, in my view, if councils had that leadership role.

We were operating the DWP system. It is a DWP system, and we should be operating it under contract. When people present, we can deal with all the other issues as well at the same time, rather than having people re-presenting and travelling to different offices trying to tell their story. They might not be as financially articulate as some of the people in this room. It is a difficult situation. We want to help people on their journey, and councils are best placed to do that.

**David Orr:** If I may add something on the washing machine question, there are of course many things where there is a sudden need to find £200, £300, £400 or £500, and people do not have the money to do that. We set up My Home Finance specifically to assist people in those circumstances, with affordable credit so that they could access the cash to buy the washing machine and then repay it. The delivery of that service is relatively expensive, because you cannot do it online. It is based on a 45-minute individual interview with the person seeking the finance. It goes through budgets—how much money you have, how much you can afford and how much of a loan you would be able to afford. We were very clear about the target group for this: often single parents—single mothers—in their 20s or 30s with one or two children. It was a product that worked absolutely for that client group. The problem, and the reason it failed, was that we found it impossible to get the investment we needed to keep the scheme going. The banks were not interested, despite the fact that we had set it up in the expectation of a partnership between housing associations and the major banks. Housing associations put a lot of money into it. We went back to that market in the same week the Chancellor announced a 1% per annum rent cut for housing associations, and they said, “Woah, no, we cannot do this”.

A possible intervention for government is not to provide grant funding for that kind of activity but to provide secure investment funding, which is repayable. We know a lot now. This is a small, immature market. Some heroic organisations still manage to keep going. We know that there is likely to be a 10% or 11% default rate. There is a whole lot of evidence about this. Some support from government, not based on handing over grant but putting in investment, with a degree of risk attached to it, where that investment would allow schemes of this kind to become properly stabilised, could make a significant difference.

**Lord Haskel:** By investment, do you mean loans?

**David Orr:** I mean loan finance, yes.

**Lord Haskel:** You think that Help to Save is too centralised and ought to be run locally.

**Councillor John Fuller:** There is a good example in the London Borough of Newham. Not only has it set up a MoneyWorks scheme; it has positioned it opposite the payday lender. It has gone out of the council office into the streets and thoroughfares where people might otherwise be attracted to other

things. Again, that demonstrates the importance of local leadership. In many areas, credit unions are supported by councils.

It goes back to the earlier point about education. The slider on the mobile phone is so beguiling, if you do not know the difference between 10% and 1,000% on the repayments; you need the understanding behind that. That is what we need to get to.

**The Chairman:** David, you made a very interesting suggestion about the Government not providing grant funding, but doing it through some sort of investment, with some degree of risk attached. Would it be possible for you to submit a brief note to the Committee, outlining a little more of your thinking?

**David Orr:** It surely would.

**The Chairman:** This is probably the first time we have heard that suggestion, and we would like to hear a bit more about it.

**Councillor John Fuller:** Would you like the Newham case study as well?

**The Chairman:** Absolutely. If you could integrate that with the Newham case study, it would be absolutely excellent. Thank you very much.

Q106 **Lord McKenzie of Luton:** I am sure you are both aware of the huge raft of changes that have taken place in the social security system in recent years. Some would argue that they have been offset a bit by changes in the national minimum wage and tax thresholds, but the impact of those changes has been well documented by such as the IFS and the Resolution Foundation, and they show huge aggregate losses, particularly for working families. What are your organisations doing specifically to support people and to mitigate adverse effects of changes to the benefit cap, payment delays and the freeze in benefit uprating, to identify just some of the changes? There are obviously more to come as regards the two-child family. Are there particular lessons to be learned from the different policies and strategies being implemented in the devolved Administrations?

**David Orr:** The core answer to your question is that individual housing associations—I am sure this is true for individual local authorities, too—are developing their own strategies in conversation with their tenants and residents. I do not think there is any way round that. As a landlord organisation, if you are to provide support, you have to know the circumstances that people are in. Housing associations have been investing a lot of money in increasing and expanding the teams of people who provide financial assistance and advice, debt counselling, and who help people properly to understand what is happening and what the consequences and long-term implications might be, trying to support people and to identify places where there may be funds that they are entitled to that they did not know about. We have provided some examples. Those are very local interventions by individual organisations with individual people.

There remains a lobbying challenge for organisations such as the federation and the LGA. Parts of the design of the new system could be improved. I do not know anyone who argued very strongly against the concept of universal credit and bringing things together in one much more coherent package, but the great promise of universal credit was that people would always be better off in work than out of work, and that the tapers in universal credit would

ensure that that was true. The compelling challenge with housing benefit has always been the scale of the tapers and the amount of withdrawal as people went into work. I am afraid that the last series of decisions made by the previous Chancellor have recreated an environment where the tapers are so high that that great promise is much less likely to be delivered. That is frustrating.

There is a lobbying challenge about getting rid of the one week before you are able to claim universal credit. The Government—the coalition Government and the current Conservative Government—believe that it is a feature of dependency when individual households request that the rent element of their payment be made direct to the landlord. Actually, for people who are under financial stress every single day of their life, it is an entirely rational and thoughtful proposition, and the idea that it is banned in the universal credit architecture is just wrong. It ought to be a matter of choice, rather than the Government saying, “You are poor, and therefore you have to manage your money yourself”. It is a misunderstanding of the relationship that people have between themselves, benefit payments and their landlords. There are still things in the design and architecture of the reformed system that could make significant differences.

**Lord McKenzie of Luton:** Are there other key ones that you would instigate?

**David Orr:** There is a significant challenge in relation to benefit decisions for single people under the age of 35. Perfectly good housing will lie empty and young people under the age of 35 will struggle to find good-quality affordable homes within the benefit structure. In many cases, people will find work and find alternatives, but there is an absence of strategic thinking about the relationships between the different components.

If I have one broader criticism, it is that many of the measures were introduced without public consultation in advance of their introduction. The parliamentary process of Green Paper possibly, but certainly White Paper before legislation, is helpful because it gives government an opportunity to hone its thinking and it gives those of us who engage with government a structured opportunity to respond in advance of the legislative process. The more we can see of that, the better; but that is a broader comment.

**Councillor John Fuller:** We must remember that universal credit now is only for the simplest cases; it will get more complex as we go on. There is some evidence that there have been some behavioural shifts. We have noticed a substantial reduction in the number of people who are looking for work who previously were on UC. They have now found work, so there is some evidence of a behavioural shift, but that is not to gloss over the issues that David raised.

You asked what we are doing to help people in that circumstance. In our council, we have designed our council tax support scheme. There is a question as to whether UC is one level and council tax support is still a parallel universe, but we have designed our council tax support scheme to make people always better off getting into work. You are better off in work than not. Those who cannot work, for example single mothers with children under five, would get council tax support regardless of circumstances. Not all authorities have designed their schemes in such a way, but there is the potential to design those schemes.

I mentioned our encouragement for private sector landlords, and the rental-type deposit schemes to get people over that financial shock issue. There is an issue where David made only half the point, I think, and I would like to complete it if I may.

**David Orr:** Please do.

**Councillor John Fuller:** As regards universal credit, paying the claimant, to encourage personal responsibility, is one thing, but one has to consider the impact on the supplier, which could be the YMCA or a charity. They need the security of an income stream to make borrowings and future investments. If it is possible for the council to pay the rent directly to that charity for vulnerable people, the cash flow to the provider is assured, and they can borrow and invest on that basis. Channelling funds through the tenants, some of whom are very vulnerable, reduces the certainty that the charity or YMCA is going to get paid. Who will lend them money to build? That is an issue. At the moment, there is provision for vulnerable people for payments to go to the landlord directly, but it goes back to the fact that our friend the DWP makes that decision. That is a classic example of where the council should be able to access the DWP system and set the right flag, rather than going through a huge bureaucratic process, adding more delay to existing vulnerable situations.

There are ways in which that sort of situation can be fine. Of course, the key thing is to get more affordable homes built. We have a record in our authority: 200 local RSL homes each year for each of the last six years. That goes hand in hand with the development of other homes. Getting the country building is one of the best things we can do to help increase the stock of homes.

**Lord McKenzie of Luton:** Do you think the LGA, as a cross-party organisation, is doing enough to bring those direct payment issues to the attention of government?

**Councillor John Fuller:** Yes, I do. It plays into the wider housing agenda. You mentioned earlier the 1% per year reduction for stock-holding authorities. There is also the other side of that: leveraging finance from the housing revenue account. It is part of a much more complex social housing situation, and the LGA's key lobbying points are on this, especially the housing revenue account. It is potentially a source of enormous capital, which could be used to improve the lives of not just the vulnerable but people in all walks of life.

**David Orr:** As you, Lord McKenzie and John have raised the issue of supported housing, perhaps I might add this point. Colleagues here will be aware that there has been a lengthy conversation between the sector and government about a solid basis for the future funding of supported housing. A big and important decision has been made by government that the amount of money going into supported housing at present should be protected and should be allowed to grow as need grows, but the mechanisms by which they propose that the money should be paid are a long way from delivering the certainty we need. There are a whole range of issues about ensuring that people have the opportunity to live fulfilling lives in the community that are as independent as possible, which I think have got lost in battles not about the total amount of public expenditure but between departments and over whose budgets it comes out of. That is deeply frustrating for those of us who are

concerned about users and providers. There is a consultation coming out about that shortly, and we will continue to make these comments. These are some of the core, underlying challenges that create the environment where people are talking about financial exclusion.

**Lord Empey:** What evidence have you that paying people directly means that, at times, they cannot manage and they slip into arrears? I am personally against them being paid directly, but that is just a local issue. What evidence is there?

**David Orr:** Universal credit as a full service is very much in its infancy, and, from experience so far, most of the challenges at present seem to be transitional ones. The evidence from housing associations where there is more experience of universal credit is that arrears have gone up slightly, but the cost of collection has gone up very substantially. Housing associations have invested a lot of money, as well as time and energy, in developing a different, closer relationship with residents. In some cases, that has been a good thing. In other cases, it is not what either party wants.

My challenge to government and to DWP on this is that the best solution is to have as much flexibility as possible to allow people to make good decisions about their own lives. If I as an individual in receipt of universal credit consider that it is right for me to ask to have that money paid direct, that is one area of financial stress that is removed from me. It means that, whatever else goes wrong, I know that my home is secure. That is an entirely rational thing for people to decide. There are issues not just of practice and impacts on arrears but really quite important issues of principle about the way the state interacts with individual citizens.

**The Chairman:** Before we move on, which we need to do, may I ask for a point of clarification? It is about the opportunities and the dialogue between the DWP and the LGA, representing local authorities. Earlier in the session, I got the impression, John, that you were saying that the DWP was not doing enough to consult you in advance. More recently, I think you said in answer to a question from Lord McKenzie that you thought that there were sufficient opportunities for you to lobby. Could you say whether you feel that there is enough opportunity for you to feed into some of these big changes in welfare policy and benefits before they happen?

**Councillor John Fuller:** The default position should be that councils, with a wide breadth of levers to pull, should be the default providers of the DWP service. That means collocating DWP functions in council offices or, if necessary, councils going into DWP offices. That does happen. Our benefits people from our council sit in DWP in Diss one day a week. I do not want to give the impression that there is no connection at all, but there should be a much more deeply integrated approach with DWP, with data being shared. Let us learn the lessons from the troubled families initiative, too.

That addresses the other point that David was making. Clearly there needs to be a predisposition that the state trusts people with their own money, but there are cases—you asked for cases, Lord Empey—involving drugs or alcohol dependency, certain mental health conditions or domestic abuse situations where it does not necessarily make sense to hand money to vulnerable people. There is a whole set of vulnerable clients, and they need our support. Paying direct to the landlord illustrates the importance of councils in helping



the DWP to operate their systems. Lord Dannatt and I went to see Lord Freud about that some years ago. Councils should be the default partner of operating these sorts of things in a local geography. We have a little way to go, but that is where I would like to see the direction, so that we have the freedoms and flexibilities to address things and make things better for one family at a time, drawing in partners from among RSLs, charities and CABs. There is no end of opportunities.

**David Orr:** We have had good access, particularly to Lord Freud at political level, and we have worked very closely with colleagues in DWP charged with the responsibility for designing and delivering universal credit. There has been a real sense of partnership. We have had people seconded in to help with the design of the housing component. A couple of my colleagues spend most of their time in conversation with DWP officials. It is important to say that, at official level, there has been a real commitment to doing as much as possible with us and others.

**The Chairman:** That is very helpful.

**Councillor John Fuller:** Paying weekly rather than monthly would be a big help as well in those cases.

**The Chairman:** We need to move on.

Q107 **Baroness Primarolo:** In your evidence this morning, both of you, David and John, made a clear case about understanding the challenges that individual families and smaller communities might face, on a continuum from not enough money to specifically needing more support. I want to push the localism and co-ordination point that you made. Regrettably, John, we know from evidence that when budgets were devolved to local authorities post the Social Fund, one-third of local authorities spent less than 40% of their total allocation. There is clearly an issue about co-ordination, despite some excellent examples of co-ordination that you have both illustrated today. Given that proposition and the results that are coming in, and your main arguments about working closely with families and communities knowing what to do, do you have further suggestions, given the localism agenda, about how we could improve that working relationship, so that good practice occurs not just in pockets in some local authorities but responds to need across the board?

**Councillor John Fuller:** The problem was that the social care fund was given to the upper-tier authorities, which is fine in the unitary or metropolitan situation. In the shires, it was given to the county councils rather than the district councils, and the county councils have no nexus with housing benefit payment or anything else. The Social Fund was given to the wrong target—organisations that did not have anything to do with it. That largely explains the narrow point. I cannot talk for the upper-tier authorities. Separately, when it was abandoned, it was given a single line of £74 million to be spread over all the upper-tier authorities. It has subsequently been deleted, so it is now just part of the general local government settlement, and the settlement is going to fall away to almost zero by 2019. There are quite a lot of challenges on the specifics of the Social Fund.

There is a wider point. At the moment, we have pots of money from the DWP, from councils and from other areas. To have had a separate pot of money,

small as it was, in a totally different tier of government was clearly opaque. One needs to bring these all together in an integrated manner at the benefit-processing authority level—the people with responsibilities for things such as debt advice, homelessness, health and into-work-type things. Then we might start to get some traction.

Your other point was that there is a shortage of money. That is undeniably the case; there has been a £12 billion reduction already, and there are further reductions, with the local housing allowance rate being frozen. It is not a problem that will go away, but in solving the problem we have to try to get people into work and get more housing built. That is very much in the planning and housing authorities' remit—the same authorities that deliver the benefits.

**David Orr:** There is a pretty fundamental question about local decision-making. In the places where this works, it depends on local leadership and it depends on two or three people having a commitment to doing it and making sure that it happens. There are one or two examples in the paper we provided today. The Social Fund is one example. Supporting People funding is another, disaggregated and distributed by local government. That is clearly consistent with a commitment to making decisions at the most appropriate local level, but if you do not have a ring-fence, some of the money disappears. It is quite instructive. In our part of the woods, with things like the Social Fund and Supporting People funding, you almost never see those funds increased after they are disaggregated. They nearly always go, and there seem to be other challenges. In the first year of the disaggregation of SP funding, without the ring-fence, some authorities held on to 100% of it. The biggest amount lost in any one place was half. Half of it disappeared in the first year.

As a nation, perhaps, there is a big challenge. We like localism when we like the outcomes. When we dislike the outcomes, we claim postcode lottery. It is like night following day. At some level, we have to make a decision about whether we trust local leadership or not. My own view, which is perhaps of no significance, is that two-tier local government makes it more difficult to identify exactly where decision-making should be. If we are to create an environment that is much more about local decision-making and leadership, we need to be clearer and more transparent about exactly where those decisions rest. In the new environment of there being no block grant transfers from central government to local government, with local government relying on council tax and business rates and no system yet in place for redistribution around individual local authorities, all this will be much more challenging, at least in a transitional period.

**Baroness Primarolo:** May I press you on the issue of having money devolved locally—the localism agenda? Is there not a different structure, which of course involves local authorities but has a broader base of organisations that can take the work forward? I know local authorities that were housing authorities, and they still did not distribute the money; they kept secret that it was there. They knew full well. David, you talked about needing to have the advice capacity if you have raised the funds. I am absolutely in favour of local authorities. The old model is where you give it to local authorities and they decide, but is there something else that we could push that gives a broader base—local authorities plus organisations such as yourselves?

**David Orr:** I am always keen to see sensible local partnerships being developed. Because they are a partnership, they have a greater capacity to think strategically over a period of time. There are good examples of that, and there are other places where they do not exist. In the end, a lot is determined by the availability of funding. The absence of ring-fencing creates a different environment for local decision-making.

**Baroness Primarolo:** I know that John will have a view on this. On the vexed question of ring-fencing—this is just a yes or no answer—there are things in favour and things against ring-fencing, but am I correct in assuming that both of you are saying that having a strategic ring-fenced fund would enable you to make progress at a faster rate?

**David Orr:** Any environment where it is possible to have a degree of certainty about future funding is easier to plan in than an environment where you have no certainty of future funding. Ring-fencing is one of the mechanisms that you can use. Annual financing programmes are always a challenge in any event. I would much rather have us looking at three-year and four-year funding planning periods, rather than annuality.

**Councillor John Fuller:** It goes back to your opening remarks. What is the role of central government in setting expectations, with local people delivering them? To address the other point briefly, there has to be a role for local government to hold the ring. Ultimately, it is on the hook. Charities come and go. Where is the accountability? We have had cases where we have tried to contract with charities. They start with good intentions, but after a while they do the easy cases and leave us with the difficult ones. There is no benefit; it should be all or nothing. That is just the way of the world. There is a key role for authorities going forward.

**The Chairman:** We are starting to run out of time, so I must ask for quick questions and quick responses for the last two questions, please.

Q108 **Lord Kirkwood of Kirkhope:** This is on the narrow question of robust transfer processes. In the context of universal credit, as you know, a locally delivered support mechanism is being run by the DWP, which will be delivered by local authorities. This may give Councillor Fuller his opportunity to develop what he was telling us a moment ago, importantly, about some of the integrated services. The pilots that were staged between 2014 and 2015 were described as a cautious success, mainly because universal credit is so new. To what extent have your respective organisations been involved in the outcome and evaluation of those pilots? What input do you have into ensuring that universal credit delivered locally delivers some of the warm handovers that we think are necessary from DWP to other agencies locally to get the kind of beneficial outcomes that Councillor Fuller was advocating earlier?

**Councillor John Fuller:** Through the LGA, we were intimately involved with trying to work with Lord Freud and others on shaping those universal pilots. Some good lessons came out. I referred to the north Dorset one earlier. The district council area has no DWP office, so we had to think about that. There was also digital exclusion. The online system requires access to good broadband. There is a whole series of things that can be problematic. The trials were good, in that they were the simple cases. It probably took the Government's foot off the accelerator to get it right, rather than rushing it, and we should give credit for that. They are making progress in small steps.

Once you are on universal credit it stays with you, even if you move around. We had a single case of universal credit in our district at one point, even though we were not in the pilot, because a gentleman who was based in Warrington got on universal credit, made up with his old girlfriend and came back to live in south Norfolk, and the universal credit came with him. At that early stage, nobody knew quite what to do, because we were not in the pilot. These are transitory changes. We learned a lot that way.

**David Orr:** Not much and not much are the answers to your two questions. Housing associations need to be more involved, as do potential contractors, in a relationship with DWP for the delivery of some of those services.

**Lord Kirkwood of Kirkhope:** But you both agree that a robust transfer process is an essential part.

**David Orr:** It is critical; absolutely.

**Lord Kirkwood of Kirkhope:** It is an essential part of the undertaking that DWP is making to stakeholders.

**David Orr:** Absolutely.

**Councillor John Fuller:** It is critical. A separate point is that people in receipt of universal credit often have council tax support as well. Council tax support is operated exclusively by the district or the upper-tier authority or unitary council. That is a compelling reason to have it all done in one visit. DWP will never do council tax support, so, by design, there has to be a one-way trip, should councils end up doing this.

Q109 **Lord Fellowes:** The issue of the difficulties in the wide disparity of practice between different authorities and landlords has largely been dealt with in an earlier answer from you, Councillor Fuller. Could I add to that? Surely there must be some tension for local authorities, in that they are acting as creditors and benefactors at the same time as trying to cut costs. You make it sound not terribly difficult, but it sounds almost impossible.

**Councillor John Fuller:** It is difficult. I believe that the state is there so that people who can get on should be able to do so, but the state is also there to help those who cannot. That means doing things in a businesslike manner rapidly. We are proud that we do all benefit processing in eight days. Many local authorities do it in 90 days. In chaotic lifestyles, people may have moved twice during that period, so no wonder they never catch up. It needs a businesslike approach.

In fairness, the Government give us a housing benefit processing grant as a small contribution on the way, but it comes down to, "What is the state for?" Our having a degree of flexibility that we have carved for ourselves has allowed us to innovate, and that has given good outcomes, I would say. The opportunity is there—if you put aside the postcode lottery—and good leadership should win out. Not only is that a good thing, but it is good for society, and it should be popular at the ballot box. There are all sorts of incentives to get this right, as well as social cohesion, which is sort of what we are here to do.

**David Orr:** I do not have anything to add on that specific question. You referred in an earlier question to local authorities and housing associations

being quick to go to court. I do not recognise that. I am quite anxious about it, and I would like to see the evidence.

Q110 **The Chairman:** I was going to ask if you could help us. We have received evidence, both written and oral. We have had some from citizens advice bureaux in various parts of the country telling us that council tax arrears have shot up to the top of their problem debt list. We also had some evidence that, at national level, local authorities with the highest bailiff use were recovering 22% of arrears, and those with the lowest bailiff use were recovering 31%. That is what we have received so far. If you have other figures, we would very much like to see them. As a Committee, we really need to get to the bottom of this. Is that something you would be able to provide us some written evidence on?

**David Orr:** We will see what we have.

**Councillor John Fuller:** I wonder whether this is down to the design of local council tax support schemes. There are two ways of doing it. On the vesting date, which I think was in 2012, the Government cut it by 10% in aggregate. Therefore, many authorities just slashed; simplistically, they took the benefit down by 10%. We took a different approach, which I think was more intelligent, to try to design it to keep people in work. I suspect the problems are probably in authorities where they just took an arbitrary 10% cut. A bit of focus on the design of CTS—council tax support—might help you.

**The Chairman:** Thank you very much. We would be very grateful to receive written evidence from you on that point. It would be fair to say that the Committee generally feels quite perplexed on that issue at the moment. It is really important for our final report that the evidence we use is pukka and agreed. The final question is from Viscount Brookeborough.

**Viscount Brookeborough:** Before I ask that question, I want to ask whether there is an issue with who is paid universal credit in the family unit. Is it the homemaker or the breadwinner?

**David Orr:** We pretty strongly believe that, in almost all circumstances, it makes more sense to pay it to the woman if there is a woman in the household.

Q111 **Viscount Brookeborough:** Thank you. Finally, in considering the subject of financial exclusion, where should the Committee focus its attention? Please, can it be something that might be achievable? Could you answer in two simple sentences for each of you: first, as it affects you or your organisation; and, secondly, looking at the situation overall—a more sweeping statement as to what can be done? Just two sentences.

**Councillor John Fuller:** Prevention is better than cure—£1 spent on prevention—and collocation, so that the person can tell us once and have a single conversation for the entire interaction. That is the answer to the first one. Local leadership is critical. If one is to tinker with universal credit, having it paid weekly or direct to the landlord is much better than paying monthly in arrears. Plenty of people have a salary, but hourly paid workers tend to get paid by the week. It is an obvious thing.

**David Orr:** The first is understanding that the fundamental problem is poverty, not a system or structural one. We support the idea that there are

changes in the design of universal credit that could make a fairly significant difference.

**The Chairman:** Thank you both for your evidence. It has been very helpful. David, I hope this has not made your voice worse.

**David Orr:** Thank you.

**The Chairman:** Thank you very much indeed. We will move swiftly to our next evidence session.

## **M&S Bank and Nationwide Building Society – Oral evidence (QQ 219-230)**

Evidence Session No 22

Heard in Public

Questions 219 – 230

Tuesday 6 December 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Northbrook; Lord Shinkwin.

## Examination of witnesses

Sue Fox, Chief Executive, M&S Bank; and Stephen Uden, Head of Social Investment, Nationwide Building Society.

Q219 **The Chairman:** Welcome. Thank you very much indeed to both of you for coming. I hope you have water and everything and are comfortable. Let me just run through a couple of the formalities first. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by Members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website and you will have an opportunity to have a look at the transcript and make any corrections where necessary. Just before we kick off with the questions, could you just, for the record, introduce yourselves, saying who you are and what organisation you represent?

**Stephen Uden:** Thank you for giving us the opportunity to give evidence. I am Stephen Uden and I am Head of Social Investment for the Nationwide Building Society.

**Sue Fox:** I am Sue Fox and I am the Chief Executive of M&S Bank.

Q220 **Lord Fellowes:** What sectors of the market are your products aimed at, which financial inclusion difficulties are most common among your customer base, and do you try to include any customer cohorts who might otherwise be excluded?

**Stephen Uden:** Who first?

**The Chairman:** Let us have Stephen first this time, and then Sue. We will do it the other way around next time.

**Stephen Uden:** I am very happy to. Nationwide, as you are probably aware, is a mutual, so we are owned by our 14.8 million members, who represent all sectors of society. We tend not to focus on the ultra-high-net-worth people, but we represent all sectors of society. Because we were set up to enable people to come together to save in order to then spend on things, notions around credit and lending are core to us. Maybe we will come to it later, but we have some quite well-developed practices around how to help avoid problem debt and help people who have financial issues deal with them. That is probably the biggest issue we have.

In terms of the vulnerable, probably illustrative of our approach was the issue around helping people who have had a cancer diagnosis to get access. I took our executive committee along to the Macmillan Cancer Centre at University College Hospital, and they met with the Macmillan team. It was quite shocking to realise that people were very afraid to go to their financial services provider—it was 2% of people—and yet Macmillan get more calls around finances than they do around the health implications of cancer.

Off the back of that, we created a specialist support centre, which started off focused on people with cancer issues, but we have grown and used it as a vehicle to provide good-quality support around other areas. We are now



extending it to motor neurone disease, Parkinson's and other specialist conditions. Where our members are coming across issues that will affect them and cause them risk of detriment, we will always as a building society try to do our best, within the constraints we have, to support them.

**Lord Fellowes:** But the financially excluded are pretty rare in your customer base. It depends what you call excluded, of course.

**Stephen Uden:** Yes. The definition is as broad as you want it. We will probably come to basic bank accounts later, but we certainly make sure we represent people who have relatively small amounts of money. You can open a savings account for £1, and indeed we have lots of people with very small balances. We want this to be very much a membership organisation. In some ways our solution to problem debt is to make sure that people have at least enough savings to be able to see them through those peaks and troughs in their income. Because we have quite a lot of people who have relatively limited means—and that is where the building societies came from—we are well represented among basic bank accounts in terms of our offering.

**Sue Fox:** From the perspective of M&S Bank, we launched in 2012, building on the foundations of M&S Money, and the aim was to bring M&S brand value, those values of trust and service and value, to banking. We have developed a range of very simple and easy to understand products and services, and very much view ourselves as a credible alternative to the high street banks. We are inclusive to all. We now believe that we include all sectors of society and all customer groups, in having something that is appealing to everyone.

Because of that, and similar to what Stephen was saying, we see customers with a broad range of vulnerabilities. Financial exclusion covers many more areas than just people who are in financial detriment or financially challenged—low incomes. We look at people with permanent vulnerabilities such as physical or mental health issues, physical disabilities and situational vulnerabilities. People will maybe enter the organisation without being financially vulnerable, and something might happen in their lives that creates that situation. Bereavement would be an example.

We work hard to ensure that we invest in systems and technologies that address those issues, particularly around accessibility. For the hearing impaired, we have just recently launched video-sign relay, so that people can communicate with our contact centres, which is really important to us. We have revised all our bereavement policies and our training around bereavement to ensure that that process is as painless as possible for customers through that very challenging time. Our business is working towards being a dementia-friendly business, and we have commenced Dementia Friends training for all our employees, including me and other executives in the business, from earlier this year.

**Lord Fellowes:** It is not necessarily anything to do with being an M&S customer.

**Sue Fox:** Absolutely not, no.

**The Chairman:** As a quick follow-up on that point, is it the case broadly that the services and products you are offering through M&S Bank would be aimed at the same sort of customer base who use Marks & Spencer more generally?

**Sue Fox:** We are uniquely positioned as a challenger bank but we have significant heritage. Historically, when the business was established in 1985, there was a proportion of customers who took what was the original store card product. It was very much a customer shopping who had a financial product that supported that shopping experience. However, products have been added over the years, and when we launched M&S Bank in 2012 and created our current account, it was very much intended to be broader than someone who would be an everyday shopper at M&S. It is worth noting that there are many millions of shoppers, because there are 21 million visits to M&S stores per week. That in itself is a broad range of people who are using M&S for a shopping experience and have an affinity to the brand, but the brand has a broader appeal than just to the shoppers.

Q221 **Lord Haskel:** Nationwide has been an enthusiastic and early adopter of fintech. How do you think fintech can be used to help address exclusion issues for your customers, and how do you address the potential for decreasing digital exclusion with the increasing reliance on digital channels?

**Stephen Uden:** That is a very good point. We regard ourselves as the original crowdfunders, because a bunch of savers coming together to provide a mortgage for somebody is effectively crowdfunding. I should probably declare a bit of an interest, because four years ago I joined Nationwide having spent 25 years in the technology industry, so I have seen technology in all its forms. We are very passionate about its potential to transform and improve services, but our philosophy is not that technology should replace services but that it should enable people to deliver great service. I will give you an example in a second.

Essentially, technology is a great servant but a poor master. We are building services into our branches, and continuing to invest in our branch network, to equip the people in there to provide great service. For example, in smaller branches it may not be very economical to provide a mortgage adviser, so we have created a service called Nationwide NOW. This is a high-speed broadband video link that enables one of our mortgage advisers in Bournemouth—we have several hundred—to speak to a client in Oban or somewhere else and offer them a mortgage. They can order them local tea and coffee; they can print out documents and receive documents. They can do the whole service, to the degree that we have seen people who have gone up and tried to shake the hand of the person on the screen, so immersed have they been in the experience.

That is using technology to support the branch staff to deliver the service. If you are interested, we are running this in 400 branches, and if you would like to see one local to where you are based, or indeed the branch in Victoria Street, we would be happy to demonstrate it. That is using technology to enable people to deliver great service, to keep branches open and to support them.

In fact, we have opened a branch recently in Glastonbury, which we have called a community contract branch. Glastonbury is one of those places where the last branch had closed, so there were no banking services there. We had not been there originally. We went to the local community and worked with the local stakeholders and said, "Look, if you would like, and enough of you will say that you will open and use an account with Nationwide, we will open a

first branch back in town. We can do that more cost-effectively than others because we will use Nationwide NOW and some of our other services to provide some of the services there”.

It has been really successful and over 1,000 people have signed up to do it. We are now in the process of opening that as a new branch, very much as a community branch. The community are aware that they need to deliver the level of volume of business to make it economical because, as somebody said in the previous session, we are not a charity, and it is our members’ money that we are investing. However, we believe that we can show, with a relatively small number of people signing up, that you can create an economic branch. Again, that is using technology to deliver, and empower individuals to deliver, great service, rather than to replace the human interaction.

**Lord Haskel:** You are using technology within your own business. People who are less familiar with technology may prefer to have physical presence, and that is what M&S has, presumably, because the branches are in your shops. Many people have told us that there needs to be a continued physical presence in order to avoid creating digital barriers. Is this part of your policy?

**Sue Fox:** Yes, absolutely. Similar to what Stephen has said in terms of investment in digital and technology, it is very much customer-led as well. I want to make the point that customers are increasingly more demanding about speed and ease to access our services, because many customers are used to using that type of technology in other parts of their lives. However, it is about enhancing the customer experience for us. To your point around branches, branches are our newest channel, which is probably unique.

We have had online capability for a number of years. We have had telephony, so we have a 24/7 contact centre, and when we launched M&S Bank, it was really important to us that we gave customers another way of interacting with us. That was what customers told us at the time they wanted. That is a new strategy for us, and we continue to invest in that face-to-face presence. It is customer choice. It really is about customers. We have many customers who will start a process or a customer journey with us in one channel and see it through another, and then service through another. They are equally important, I would say, but definitely a core part of the strategy is to have somewhere for people to go.

**Lord Haskel:** A physical presence—yes.

**Sue Fox:** Yes, somewhere for people to go.

**The Chairman:** Stephen, just so I understand the point about how you are bringing together the digital advances with the physical presence, in the very interesting example you gave, I did not quite understand who was pouring the cup of tea at the other end. Can you just explain that to me—how you have brought those two bits together?

**Stephen Uden:** We are not de-manning our branches completely, and if you walk into our branches somebody will welcome and greet you and direct you to the right services. However, some of the services might be specialist and may not be economical. Therefore it is those people who can do it down the line. What happens is that the person who is speaking through the screen to the customer can order the local tea and coffee, and something pops up in the branch, so the local branch staff bring it in and deliver it for people. It creates

a nice, cosy, people-friendly service, where people feel they are, and are, being serviced by individuals, but we are using technology to do it when it would not be economic to maintain in a small branch in a small village or small town otherwise. They can still access the full range of services. It is the empowering the person with technology that is the bit that makes the difference.

**Lord Haskel:** Do you find that the lack of public understanding of fintech is holding you back? Do you feel that part of what we have to do, to try to decrease exclusion, is to help the public understand fintech better?

**Stephen Uden:** I spent many years running digital inclusion programmes, trying to get people to adopt digital technology—with some success but, to be honest, that is quite a difficult way to approach it. The thing for me is to provide the services that enable people to deliver a personal service but make it easy for them to do it. An example of that would be our next-generation banking app, through which, if you are a young person minded that way—and many people want to access our services that way—you can do the whole thing on the phone. You can originate a whole mortgage through that route.

If you go into a branch, though, and you are maybe a little unsure, the branch staff will show you how to do it on the iPad in the branch. That might be somebody who is digitally nervous, shall we say. Then somebody who does not really want to have any engagement with digital—some of our members, not all elderly, do not want to touch technology at all—would just interact with a member of staff. The member of staff would have the same app on the iPad and do it for them there and then. You are using the technology to support the person who is doing the customer service, and we very much believe in service through people, but doing it in different ways.

Some younger people do not want to go into a branch and see somebody. They want to do it on their sofa, watching TV. They can do that, all the way through to somebody who does not want any engagement with technology. But we can have a single underlying infrastructure—that is important from a cost-of-delivery perspective—that underpins the interaction, however you want to engage with it.

Q222 **Lord Northbrook:** I think to a certain extent you have answered this question. The Committee has heard that fintech could lower costs to the extent that many people who are currently financially excluded could one day become profitable customers. Do you agree with this, or do you think there will always be a proportion of potential customers who will be financially excluded because of age?

**Sue Fox:** I am happy to answer that one first. It is an interesting question. From the perspective of M&S Bank in particular, the principles on which we make the decision to provide financial products and services are based on the suitability of those products for those individuals. They are based very much on customer need; it is not a cost-based decision. If, for instance, we are unable to provide lending to a particular customer, because we feel that that would be particularly challenging from an affordability perspective for that customer, the ability to deliver it in a lower cost way would not change that decision.

It is good that, similar to what Stephen said in the last answer, customers are able to interact in many different ways, and it is their choice how they interact with us. We see that digital investment from our perspective as very much around customer experience and not about reducing costs. All our products and services are available on all our channels, so customers can interact with one or all them. They do not get a different type of product or a different pricing structure. We do not incentivise customers to use one channel over another. It is not something that would inform our decision-making in the future with regard to financial products and services.

**Stephen Uden:** I would completely agree with that. It can dramatically reduce the cost, but that is probably not the way in which to come at it. It should be from a customer perspective, exactly as you said.

**The Chairman:** Stephen, in your business model, is it also the case that whichever channel customers choose to use, it is the same pricing structure to them? Is there any sort of differential pricing structure?

**Stephen Uden:** Yes, the delivered cost to the member is the same regardless. There is no differential. Our cost of delivery through different channels obviously will vary.

**The Chairman:** Of course, yes. Thank you very much.

**Lord Harrison:** Stephen, when you were describing this human being leaping out at us to offer financial services, I was thrown back to Saturday night and watching *Match of the Day*. They manage to project a player out and meet up, so I am beginning to fathom this very curious world.

**Lord Empey:** I thought you were going to talk about Ed Balls there for a minute.

Q223 **Lord Harrison:** Sue, if I can concentrate on you, many people are concerned—I think of the community I live in—about the closure of bank branches, which is then a driver to financial exclusion for a lot of disabled people, older people and lower-income people. You in many ways have developed this model of placing the banks inside retail services. Again, I have to say, my mind was taken with the earlier conversations we had with Andrew Bailey about the role of post offices; I thought that was fascinating. What has been the element of success where you pursued this model of rolling out the M&S Bank within other retail services?

**Sue Fox:** In terms of success, I would just like to start by saying that when we measure customer satisfaction in our branches, which we do monthly, we achieve over 90% satisfaction continually, so clearly we are doing something right in our branches. To go back to why we did it, it is our newest channel. It is something we felt was very important and we wanted to invest in. That is what our customers, when we launched our first current account and became a more mainstream provider of financial services, said they wanted. They wanted somebody to talk to.

The idea of putting the bank branches in stores meets a lot of that customer feedback and demand. We talked to nearly 4,000 customers before we put pen to paper on what those branches would look and feel like. Having a bank branch in-store gives us convenience in extended opening hours, because the banks are open when the stores are open, and those stores could be open up

to 89 hours per week. We have evenings and weekends, which are very popular times for our bank branches. Customers liked it; they told us they wanted to be able to bank while they shop.

In terms of the look and feel of the bank branches as well, it was a big learning for us regarding finding out what customers wanted. They wanted a much more relaxing environment. If you have visited an M&S Bank branch, it will not look potentially as you would expect a bank branch to look. There is a much more retail feel and a much more relaxed environment. We have customers who come and sit and have a drink and just have a chat, and that is the kind of environment we wanted to create. Customers told us they did not like queueing in other banks they have been to, so we do not have it. We have a mechanism where we give them pagers. They can carry on and do shopping, go and have a coffee in a café, and we will call them when we are ready to have a conversation.

We include tiny details like having hooks under ATMs, because you would not know unless you asked a customer that they felt quite vulnerable when they were getting cash from an ATM and putting their bag on the floor. They want to be able to have that in close proximity to them. Building on that feedback, we designed those bank branches exactly as the customers said they wanted them.

I visited a store and a bank branch about three weeks ago, and when I do that I do customer focus groups as well. I talked to a number of customers, and they continued to reinforce the fact that they like the fact that they know all the staff in the branch, they know them by name, and no problem is too small. That is the thing: they can go in for anything, and even if it is just a minor issue, they do not feel embarrassed that they are going in to ask the bank for help or just for some advice. That is the principle on which we developed our bank branches.

Q224 **Viscount Brookeborough:** You talk about your customers and your customers now banking with you. Do you think there are many people who were not customers before whom you have attracted from outside your customer frame? Okay, they are bound to have bought something from you afterwards, because your food is so good.

**Sue Fox:** Absolutely. We very much see that our banking service is quite independent and should be attractive to all customers.

**Viscount Brookeborough:** How do you quantify that? Is it quite a large proportion of them?

**Sue Fox:** We have a legacy customer base who would have been those original customers, who have stayed with us for a long time and would have had the original store cards. In terms of customers we acquire today, they look very different. They have banked elsewhere. Many customers who apply for current accounts with us now are already banked somewhere else, or they do not have any other M&S Bank financial products. We very much see that we are bringing people in. Everyone knows the brand. There is a trust and an element of: "If M&S are offering something, their products are very simple, straightforward, easy to understand, no charges, no hidden fees, everything else", then it is definitely a draw to people who potentially would not have been the traditional M&S shopper.

Q225 **Lord Shinkwin:** Sue, I was very interested to hear earlier about your work relating to dementia awareness and, Stephen, about the work you have done with Macmillan and people affected by cancer. I used to work at the charity and have some fond memories. My question is in three parts, and what you are saying about people with cancer and dementia relates to the first, which is identification. How do you identify customers who are in or at risk of financial exclusion? The second part relates to support. What support would you offer to such customers? The third is about referral. How active are you in referring customers to organisations that might offer assistance?

**Stephen Uden:** Those are really good points, because sometimes people at risk of financial exclusion do not necessarily present as such. On vulnerable customers, as well as the specialist support centre that I referred to earlier, we have trained all 17,000 of our staff, even those who are not customer-facing, on the identification of vulnerable customers, at least to make sure they can make a referral, if relevant, to that central service. That central service, as well, refers on to organisations we partner with: obviously there is Macmillan, and we help fund their financial advice service as well, but others that we work with too.

When it comes to debt, which is one of the big areas, one thing that helps us quite a bit is having a reputation of being an organisation that is quite understanding about people who are potentially facing debt. We have what we call a money worries team, a triage team effectively, who get about 5,000 calls per month from people who have not missed a payment but are concerned that they might need to do so, which as I am sure you will know is a much better time to engage. We can do far more about it then than when the debts become highly problematic.

We have also introduced, and I would be happy to send you details on this, what we call a money advice liaison manager, who works across the business units and works with debt management charities. We work with StepChange, the Money Advice Trust and a number of others. The money advice liaison manager helps to make sure that the people who are in the business dealing with customers are aware of the issues, that we are taking on board best practice and that we are working with charities and third parties to embed that in our debt management practice.

I venture that that is one of the reasons why we have a good reputation for managing it. It is not just because of our own expertise but because we call on the expertise of those people who are working in the field every day and really understand it. Your question is spot on in the sense that it is not just identification; it is how you deal with people, but you will never have the expertise in-house to deal with very specialist circumstances. Therefore, it is also having that broader set of connections to be able to refer people on.

**The Chairman:** Would it be possible, as you offered, to send the Committee a short note about how that works—the way you are interacting and referring with the third sector and charities and the like?

**Stephen Uden:** I would be delighted to.

**Sue Fox:** There are three ways that we approach the identification and then the support that we provide to those who find themselves in difficulty. We can do that through systems, so we have some technology that helps us identify particular cases of vulnerability, which I will expand on in a second. We do it

through policies and procedures, and how we develop those policies and procedures to make sure the support is enhanced wherever possible, particularly around situational aspects of vulnerability, and knowledge and education, similar to what Stephen has talked about. It is important that our employees know how to spot something that has changed with a customer.

In terms of the Dementia Friends in particular, we are robustly going through that training. It is aligned to the fact that we also chose the Alzheimer's Society as our charity partner. Our employees chose that, and we have a large community focus and CSR focus in our business, so we are using the Alzheimer's Society to help us in terms of the ongoing education and support we can provide to those individuals.

In terms of an example of some of the systems, the technology identifies people who were perhaps not vulnerable when they joined but are becoming vulnerable, similar to Stephen's example around people who find themselves in financial difficulty. We have a system that helps us identify changes in account behaviour: limited utilisation, repayment changes—anything that would indicate that somebody is at a very early stage of coming into financial difficulty. They may have lost their job and they have not told us.

That gives us the opportunity for very early proactive contact with those customers. We have a financial support team who can look at solutions for them in terms of whether we want to stop charging interest for a period of time or agree a different type of repayment plan or structure for those individuals. In that, we will also signpost debt management environments and people who can help them. We work very proactively with StepChange. In terms of what we would consider customers in that challenging situation today from a repayment perspective, around 10% of that in our business is being actively managed by StepChange. We signpost that on our website as well, and for anyone who thinks they are going into financial difficulty, or if they have accessibility issues through other vulnerabilities, we signpost everything we offer and what is available to them.

In terms of more situational stuff, I talked about our bereavement policies as well. That has been very much enhanced in the last year or so. We have developed guides for customers, and our customers have asked us for more of the guides that we have developed and provided to them, so they can give them to friends and family who have not had those kinds of guides. We take that kind of responsibility to help people very seriously.

We have a general insurance business as well, so we are very proactive around events that are beyond a customer's control. If you think of something like an extreme weather event, we have a home insurance to help customers. In the serious flooding 12 months ago, we proactively contacted customers within postcodes we thought might have been affected. We did not wait for them to see if they could claim or whether they had insurance. We were very proactive, and we have a similar approach to training and education. It is really important for customers that they spot the signs. They have to spot the signs of customers telling us things that would indicate that circumstances have changed for them, so that they can make sure that we can offer that support.

Q226 **Viscount Brookeborough:** This is for Stephen, because it is about basic bank accounts and you provide them. What has been the level of the take-up



with your organisation? Since the launch of it, has there been a decline in the number of customers who have been rejected totally for the current account and therefore you did not have anything to offer them previously? How do you market the basic bank account, and to what extent do you market outside your customer base?

**Stephen Uden:** We already have lots of basic savings accounts. We are already in that sector, and so when the revised agreement for basic bank accounts came out, we were very much involved in that and particularly welcomed the transparency around it. I do not have the figures in terms of our detailed market share and decline rates. What I can say, though, is that it is very much in line with our overall market share of current accounts, which is about 7%. But I believe the Government are about to announce very shortly market share figures, which were part of their transparency agreement and will therefore be in the public domain shortly.

To your other question around prominence, we very much in-branch make it available. It is part of our portfolio of offerings. We do not direct people towards it or away from it. One thing that would make it very difficult for us to promote a particular offering is that we do not incentivise any of our branch staff. We do not have sales quotas on anything, and therefore they do not have sales quotas on basic bank accounts either. We still have a good market share and we recognise that it is an important part of the market that we have always served and it is something that basic bank accounts enable us to do.

It is also worth just adding that, while the point was made in the previous session that it would be wrong to encourage people to move out of them, people's circumstances do change. We see a significant amount of turnover of people who had basic bank accounts at one point naturally migrating into other services over time. It is often a particular life stage for many people and, as their life stages develop, they will move on to other services.

**Viscount Brookeborough:** Do you have protocols in place so that, if somebody is being turned down for a current account, they are absolutely guaranteed at that stage to be offered a basic bank account?

**Stephen Uden:** Yes. Our purpose, our reason for being, is to serve our members, so we would always seek to try to find them the appropriate product if somebody is coming into branch. If it is clear that a regular current account will not meet their needs or they would not qualify for it, we would always seek to say, "Is there a better alternative?" That would be completely endemic in our culture.

Q227 **Lord Harrison:** Sue, basic bank accounts are not provided by M&S, we understand, even though HSBC have signed up to what the Government are encouraging firms like yours to do. What is the rationale behind that?

**Sue Fox:** As I talked about previously, our entry into the current account market is quite recent, so we are new and we are establishing ourselves as a current account provider today. The vast majority of customers who come to us for current accounts—a high 90%, I would say, although I do not have the exact details—are already banked. They are coming to us because they see us as an alternative to a traditional high street bank and something different.

That is how we positioned ourselves. We wanted people to see there was an alternative to the big four, including HSBC.

**Lord Harrison:** I feel there is a big “but” coming, and you will give us good news.

**Sue Fox:** At the moment we have very high accept rates, as well, so over 90% of customers who apply for our current account in stores, for example, in bank branches, are accepted. We do not have customers telling us that they need an alternative today, but as our products develop and our market share grows, if we get that feedback from customers that there are more that need a more basic-type bank account than the one we offer, we will absolutely consider offering one.

**Lord Harrison:** You would not think an old cynic like me would think you are trying to spurn that opportunity of providing a basic bank account.

**Sue Fox:** No. Our current account today is a very straightforward account and very easy to understand. There is no minimum balance criterion. It comes with an automatic £500 overdraft, with no charges and interest free for the first £100. If a customer has come to us and we have not been able to offer that product, we have examples where we have said, “We will have another look at that customer if they want us to”, and we will just take the overdraft away. That way they may still qualify to have banking facilities with us.

**Lord Harrison:** Would you refer them up to HSBC’s other facilities?

**Sue Fox:** We have not had need to do that, and if we did—and, as I say, as demand increases, if that becomes the case—we would talk to our customers about the availability of basic bank accounts with other providers. However, we would not be brand-specific. We would not see it as our role to say, “You should go to HSBC in particular”. That would be customer choice.

**The Chairman:** Just so I fully understand that last point, you said there has not been the demand so far for you to have a basic bank account, but you said you have acceptance rates of 90%. What currently happens to the 10%?

**Sue Fox:** The majority of customers who are coming to us, which is higher than that—I would say very close to 100%—are already banked. They may have come to us because they see us as an alternative, but they have a bank account, so they may not have succeeded in transferring to us, but they have not said to us that that has caused them any difficulty.

Q228 **Lord Empey:** This is a question we have asked virtually everybody that has come before us, and that is the question of ID. It seems bizarre in this day and age, but it seems to be a major obstacle, and is in fact creating and adding to the problems that we see. Have you looked at alternative ways of identifying people, or would you need any government support in order to introduce any alternative mechanisms? It seems to be, from what we are learning, quite an issue.

**Sue Fox:** Clearly it is important. We have a responsibility to customers and society in general to know whom we are banking to prevent financial crime. We understand it sometimes can be challenging for customers to provide, in certain circumstances, appropriate identification. We have not seen it as huge problem in our business to date, because of what I said before. People are switching from other providers, so they have probably already had to provide

identification. We electronically identify wherever possible. Of our current accounts, 90% are validated and electronically identified, so you would not have to produce any more documentation. That said, where we do require documentation we try to make that as broad as possible and give people every opportunity to positively identify themselves. It is important that we can demonstrate we know whom we are doing business with, but it is not a tick-box exercise.

**Lord Empey:** Would the provision or presentation of DWP documentation be of any help to you?

**Sue Fox:** Yes, any kind of government-issued documentation. We have a list of standard documentation that we accept. However, we have also empowered our people to exercise judgment if we feel there are special circumstances—for example, customers who are in a care home.

**Lord Empey:** You are not operating in a vacuum, because there is a legal requirement.

**Sue Fox:** Exactly. For us, I want to be able to create in our business the ability to say, “We have fulfilled our duty of care to society and the individual that we can positively identify”, rather than being so rigid around, “It has to be a photo ID of this description”. In terms of other types of documentation, we will do that on a case-by-case basis where people are in special circumstances. We allow our teams to exercise judgment in that regard as well. We recognise that it could be a problem, but obviously in our business, particularly given that we can electronically identify 90% of customers, it is not huge for us today. We do not see it as a big issue.

**Stephen Uden:** Certainly, we have regulatory requirements that we have to deliver, but there is quite a broad range of documents that can be acceptable. The challenge is often that front-line staff do not necessarily know about that. Coming back to the point of empowering front-line staff to deliver great service, we have a clear list with which we equip them, saying, “These are the other documents that you may not come across very often but would be acceptable”, such as a universal credit welcome letter. First, they are trained to know where to go and look, and then they are encouraged to check on that list. We have found that is accessed quite a lot and is quite useful. The danger otherwise is if the staff are not aware of it and people do not present themselves in a way that is familiar, and they know there is very strong regulatory scrutiny around knowing your customer, by just saying no they are playing it safe.

**Lord Empey:** That is one of the issues that has been coming up with us. Staff maybe find themselves at risk of making a mistake, and then they would suffer an internal sanction for making a mistake.

**Stephen Uden:** For everybody in Nationwide, from the top down, but certainly the staff they are dealing with, part of their remuneration and measurement of their success is around customer service. Therefore, the people who do the training have a strong incentive, and I have a strong incentive, to make sure that those front-line staff are aware of all the options so that they can better support people. Those organisations, I suspect, that invest heavily in staff training and staff empowerment would be the ones where that kind of service and those different options are better serviced. If

you have somebody who has very little time and very little training, they will always struggle to be able to look up things from a list.

**Sue Fox:** We benefit in M&S Bank from having a culture of wanting to say yes and wanting to do the right thing for customers in the first place. We are also relatively new to current accounts, so we do not have the legacy issue of this principle of there being an adverse sanction if you get it wrong. We can start from a principle of, “We want to do business with customers wherever possible and we will be as flexible as possible, but within the regulatory guidelines that we need to adhere to”.

**The Chairman:** Sue, could you just explain, very simply and very briefly, when you have talked about electronic identification, what you mean precisely?

**Sue Fox:** Based on the information that a customer gives us on their application, we can use centrally held data—voter roll information, credit bureau information—to give us the likelihood that we are dealing with the person that is being presented to us. When that is a pass, it is a pass, and we would not ask for any further documentation.

Q229 **Lord Haskel:** Nationwide is one of the few mutuals that did not become a bank. It has worked out well.

**Stephen Uden:** It has. We are very proud of that.

**Lord Haskel:** Does mutual ownership make a difference in the way the organisation addresses financial exclusion or the way you deal with financially excluded people?

**Stephen Uden:** It is easy to say, and people do, “It is different for Nationwide because they are a mutual; they do not have shareholders. They can do that”. The one thing that mutuality does for us is make sure that we are absolutely focused on our customers. I could name a number, not necessarily in financial services but certainly across the commercial sector, of shareholder-owned, for-profit companies that have an absolute focus on their customer. That is the key thing; mutuality gives us that really strong reason to do it.

There are some things that we do that maybe others would not do. Post the referendum vote, we announced a number of things to provide stability around consumer finance, a five-point plan, having consulted with some of our members. We have also created a Brexit consumer panel, drawing together a number of experts like Citizens Advice, MoneySavingExpert and so on, to help look at what challenges and questions are coming up from consumers in response to it.

There are some things we probably do more vigorously because we are originally, and still act today as, a collective of people who come together to tackle things they could not do alone. However, that core thing about whether you really respond to your customers is something that any commercial organisation can—and many do—step up to.

**Lord Haskel:** Most commercial organisations try to look after their customers as best they can. Do you feel that in mutual ownership there is something special that gives it the edge?

**Stephen Uden:** Yes. We can take decisions that are backed by our members that are not, of themselves, commercially attractive. Nationwide was originally founded with a social purpose, and its commercial purpose came later. You might wonder at my slightly unusual job title of Head of Social Investment. That is because we make investments where we are looking to make a commercial and social return. That lens is certainly very helpful but, as I think someone in the previous session said, we are not a charity. We need to make a commercial return in order to reinvest in next-generation banking apps. We over-invest in customer service and branch networks, but we do that because that is what our members tell us they want us to be doing.

Q230 **The Chairman:** To wrap things up, I wondered if you could tell us—and this is something we have asked all our witnesses—if there is one recommendation that you would like to see this Committee making to the Government when it draws up its report, what that would be.

**Sue Fox:** It is pretty straightforward. We take financial inclusion and vulnerability really seriously; I do personally, and we do on our board. We believe it warrants dedicated focus and resource at government level.

**Stephen Uden:** I was tempted to say “extending financial education into primary school”, but I decided not to say that. We certainly do financial education across the board, and we certainly believe that developing good, strong financial habits has a strong value. The thing we would focus on would be around the role of government in sharing some of the good practice that exists more broadly. The Government itself has done some very good work in that area, around bereavement, for example, with Tell Us Once. It would be very easy to create a blueprint and encourage other organisations to do that and show how they are doing it.

I talked to you earlier about the specialist support centre. We have decided that is not an area where we want to achieve a competitive advantage, so we have not signed an NDA with Macmillan around that, and we do not sign NDAs with the other organisations we work with. In fact, we want them to be effectively disclosure agreements. We want to share what we do and use it to lead the sector. Government has a role in taking those blueprints, encouraging others to take and adopt them, and sharing its own good practice as well to get people to adopt them. That would be the one thing that would be very simple and practical and would not take a lot of investment. There are a lot of good works out there, as I am sure you have heard through your evidence sessions. Making sure that those things are being taken, adopted and applied across companies would make a huge difference.

**The Chairman:** Thank you both very much indeed. Thank you very much for your time. It has been a very good session.

## Macmillan Cancer Support – Written evidence (FEX0057)

### Executive Summary

1. Macmillan Cancer Support welcomes the opportunity to respond to the Select Committee on Financial Exclusion's call for evidence. People with cancer represent a large and increasing group of consumers. By 2020, almost 1 in 2 of us will get cancer in our lifetime, and around half of those diagnosed with cancer today will live for at least 10 years after diagnosis.<sup>371</sup>
2. However, currently a cancer diagnosis can leave people excluded from some 'mainstream' financial products and services – most notably travel, life and wider protection insurance. This can put people with cancer at risk of financial difficulties and leave them without the financial safety net that others take for granted.
3. For many people, the change that puts them at risk of financial exclusion can occur almost overnight. An individual who had previously been seen as a 'standard' customer will be viewed differently by the industry from the point of diagnosis and can be at risk of being excluded from financial products and services solely as a result of their cancer. As cancer can affect anyone – regardless of income, profession, or location – this creates the potential for new groups of people, who may not traditionally be seen as at risk, to become financially excluded.

#### Case study from Macmillan's Financial Guidance Service

##### Joanne<sup>372</sup>, aged 44 – diagnosed with lung cancer in November 2015

Joanne was diagnosed with lung cancer in November 2015. She underwent treatment and was responding well with a good outlook, so decided to book a 'holiday of a lifetime' to Florida for herself and family. Joanne had to call numerous insurance companies in her search for cover, and found the process of applying for travel insurance 'very distressing'.

Joanne was keen to purchase full cover for her trip, however the cheapest premium she was offered was £1700 – an amount she could not afford. Subsequently she then applied for travel insurance with exclusion for her cancer for £50. Joanne said this made her trip very stressful because she was concerned about what would happen to her if she fell ill.

4. These issues do not just affect people with cancer. In the UK at least 18 million people are currently living with at least one long term health condition<sup>373</sup>. The idea of a 'non-standard' market for financial products and services such as insurance may be increasingly inappropriate as a growing proportion of the population experience health problems. The industry needs

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<sup>371</sup> Macmillan Cancer Support (2013) *Cured but at what cost?*

<sup>372</sup> Name changed to protect identity

<sup>373</sup> British Bankers Association (2015) Long-term conditions (critical and chronic illness): A briefing for banking staff, Available [here](#).

to be ready to meet the needs of all financial services consumers, however complex.

5. Addressing the dynamics of financial exclusion faced by such a significant group of consumers is not only positive for individuals, but for the effective functioning of the market and the wider economy. It also makes commercial sense: people living with cancer are consumers who want to buy a wide range of products and services. A poor experience will damage their view of a provider, whereas one who makes it easy for them at one of the toughest times of their life is likely to gain and keep customers.
6. This submission sets out how and why people affected by cancer are at particular risk of financial exclusion, what drives this problem and where solutions may be found. Tackling financial exclusion is complex, and will require coordinated action from Government, industry, regulators and other organisations. However, the Committee's inquiry provides an excellent opportunity to bring these actors together to explore how this can be achieved, and to turn good will into action.
7. In developing our submission, we have drawn upon Macmillan's research conducted with people affected by cancer as well as our experience of providing support through the Macmillan Financial Guidance Service.<sup>374</sup> This helps equip people affected by cancer to make informed decisions about mortgages, insurance, savings, pensions and other financial products. The service offers help with jargon busting, information and guidance. In more complex cases, such as disputed insurance claims, the service also provides casework and advocacy support. In addition, the service can support people with financial planning, and helps to improve people's ability to manage their money after a cancer diagnosis. Since launching in 2011, the telephone service has helped over 22,250 people affected by cancer.
8. In 2014, Macmillan launched the *Counting on Your Support*<sup>375</sup> report, which set out nine recommendations for how the banking sector could improve the support provided to people affected by cancer. We then worked in partnership with Nationwide to put these recommendations into practice, resulting in the launch of the Nationwide Specialist Support Service in April 2015. This service, the first-of-its-kind, provides a tailored and confidential service to their vulnerable customers and is both a proof of concept for the industry and a blueprint of how to support other vulnerable customers - not just those with cancer.

## Financial Exclusion amongst people affected by cancer

**Addressing:**

**Q2** – *Who is affected by financial exclusion?*

**Q3** – *What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation?*

**Q4** – *Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?*

<sup>374</sup> Further information on the Macmillan Financial Guidance service can be found [here](#).

<sup>375</sup> Macmillan Cancer Support (2014) *Counting on Your Support*

9. 4 out of 5 people with cancer are affected financially by their diagnosis, being on average £570 a month worse off as a result.<sup>376</sup> Many have to stop working, or reduce their hours, whilst facing significant increased costs – such as extra heating, special diets, travel to and from appointments, and hospital car parking costs. This can leave people with cancer struggling to keep up with bills and credit commitments, and taking action such as selling possessions or taking out loans to try and balance their finances. This impact can put cancer patients at significant risk of financial exclusion, particularly in the following areas:

1. Insurance, particularly travel and life (and other protection) insurance
2. Credit scoring and access to mainstream banking products

## **1. Access to Insurance, particularly travel and life and other protection insurance**

### **a) Travel insurance**

10. Accessing insurance - particularly travel insurance - is a significant problem for people affected by cancer. They are often quoted huge premiums (sometimes more than the holiday itself), may not be able to get cover for their cancer, or may be unable to get insurance at all. This occurs even when people have clearance from their healthcare professional to travel, or are in remission.

#### **Case study from Macmillan's Financial Guidance Service**

##### **Faye and Jack<sup>377</sup> (diagnosed with Melanoma)**

Faye contacted Macmillan's Financial Guidance team to discuss the difficulty she and her husband Jack were having finding travel insurance. Jack had previously been diagnosed with Melanoma, however his condition was now stable and he was expected to live with the condition for a significant number of years (up to 20) with little change.

Jack and Faye were therefore planning a trip to Prague for three days. They contacted specialist brokers and insurers directly. However, despite his condition being stable, the cheapest quote they received for the trip was £1200. Jack and Faye decided to travel without any cover. Faye said they did not feel the insurance companies were properly considering Jack's condition.

Even when Faye tried to go away with her children, without Jack, she struggled to get insurance, with many insurers not wanting to cover her in case she needed to cancel the trip, or return suddenly because of Jack's cancer.

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<sup>376</sup> Macmillan Cancer Support (2013) *Cancer's Hidden Price Tag*

<sup>377</sup> Names changed to protect identity



11. In addition, we often hear how confusing and distressing the process of looking and applying for insurance can be. Many people are asked blunt and insensitive questions, or have to phone numerous different insurers. Some people may complete long online application forms to then receive a message that they will need to phone the insurer, only to find out they are refused cover anyway. These experiences can also cause people to question whether they are as 'well' as they have been told they are by medical professionals.
12. From our work with people affected by cancer, we know how important being able to travel is for someone's wellbeing, whether it's a holiday to help with their recovery from treatment or making one last big trip. Not being able to access insurance restricts people's choices so that they sometimes can't travel at all or aren't able to travel to the places they want to go. These are choices that people without cancer are able to take for granted. As a result, people with cancer can end up paying premiums they can't afford, travelling without cover – which can be extremely risky – or having their cancer excluded (with many not really understanding the implications of this).

#### **Case study from Macmillan's Financial Guidance Service**

##### **Tony<sup>378</sup>, aged 87 – living with prostate cancer**

Tony was diagnosed with prostate cancer 12 months ago. His cancer is controlled by quarterly hormone injections.

Tony decided he would plan a trip of a lifetime to visit his children and grandchildren in Australia. He called 6 different companies in order to obtain travel insurance – 5 of them declined to cover him, and the final company offered him cover but at a significant price of £8000. Tony was unable to afford this and was left with the choice to either take the risk of travelling without insurance or not see his family.

In the end, Tony decided the risk was too great and has cancelled his trip. Tony said it would have been the last time he would see his family and describes the situation as 'very upsetting'. He is now resigned to a situation where he won't see his children or grandchildren again in his lifetime.

13. Difficulty accessing insurance doesn't just impact on the individual and those around them; there can also be a detrimental effect on the insurance industry. People with cancer are consumers with a range of insurance needs, who wish to access a number of different financial products. Difficulty in accessing one type of insurance can create a negative view of the industry, damaging trust and potentially dissuading people from purchasing other products.
14. It is not just cancer patients themselves who are affected. As the case of Faye and Jack (see above) demonstrated, family and friends can also experience difficulties accessing travel insurance if, for example, they are

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<sup>378</sup> Name changed to protect identity

travelling with the person diagnosed with cancer or if their travel plans could change or need to be cancelled as a result of a close relative's diagnosis.

15. The frequency of requests for digital and print information about insurance, the annual volume of calls to the Macmillan Support Line and the case studies from Macmillan's Financial Guidance Service all demonstrate how widespread this issue is. In the last year (August 2015- August 2016), the Financial Guidance Service provided guidance about insurance over 3000 times; our insurance web pages had over 110,000 unique views; and travel insurance was the second most searched term on our website.<sup>379</sup>

## **b) Life and other protection insurance**

16. People with cancer also experience difficulties accessing life and other protection insurance products – either being quoted unreasonable prices or struggling to find cover at all. For some, this can continue many years after diagnosis. The rationale for the time periods and definitions of when someone is deemed to be 'recovered', 'all clear' or 'in remission' used by insurers when considering someone who has had cancer as now having a more 'standard' risk can be inconsistently applied and hard to understand.
17. People with a cancer diagnosis often begin to look for life and other protection insurance as part of the process of 'moving on' with their lives when their health begins to improve again. The shock of the initial financial impact of their diagnosis and the consequences may even be a trigger for them to think about putting in place an adequate financial safety net in case of future serious illness or other life events.
18. Being unable to access life and other protection insurance is not only putting people and their dependents at increased risk of financial harm, but can also restrict significant life choices. For example, someone may feel unable to move house or take on a new mortgage if they are unable to find adequate protection insurance for the financial commitments involved. People also find the process distressing, stating that the experience can make them feel permanently 'labelled' with cancer and give them doubts about how 'well' they really are. It can also compound the longer term financial impact of cancer.

## **c) What is driving the problem?**

19. The Equality Act 2010 contains specific provisions relating to "insurance business". Ordinarily discrimination could occur if an insurer charged higher premiums, applied exclusions or declined cover to customers simply because of a protected characteristic. However, insurers are able to do so provided that they can show this to be reasonable. In the case of cancer or another disability, this would mean demonstrating that the decision was based on information from a reliable source that was relevant to the risk.
20. In contrast to the tailored approach that this suggests, cancer patients' experiences of looking and applying for insurance can give the impression

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<sup>379</sup> Internal Macmillan data.

that a significant part of the industry uses a blunt 'one size fits most' approach to risk assessment of people with cancer, as if they were a small group of 'non-standard' customers who are risky and hard to cover. They are the 'imperfect' consumers at risk of financial exclusion highlighted in the Financial Conduct Authority's recent occasional paper.<sup>380</sup> However, by 2020 almost 1 in 2 of us will get cancer in our lifetime, and many people are surviving and living well with their cancer for longer.<sup>381</sup> This leads to a question as to whether the insurance industry is keeping sufficiently abreast of the changing story of cancer to meet the needs of its current and future customer base and ensure that people with cancer are treated fairly and able to access cover equitably.

21. Good practice guidance from the Association of British Insurers (ABI) states that "The basic principle is that insurers should offer people with a protected characteristic the same cover and on the same terms as other people, wherever possible".<sup>382</sup> Similarly the guidance recommends that insurers avoid "making assumptions about people that may lead to discrimination" or imposing "precautionary" higher premiums. However, this positive starting point does not currently seem to be reflected in the experiences of people living with cancer who tell us that they feel discriminated against when there is no way to have their individual circumstances taken into account. They may therefore be refused cover or charged significantly higher premiums despite their condition being stable, or it being many years after they have recovered from cancer.

**22. We would welcome the Committee exploring with representatives of the insurance industry whether the availability and use of the most up to date information about cancer and other disabilities is a recognised barrier to increasing access to affordable cover. This could include considering whether current pricing and underwriting systems accurately reflect the level of risk posed by people affected by cancer. In addition, the Committee could also explore whether there is a need for more guidance on when someone should be considered 'clear from cancer' for insurance purposes. As outlined above, there is currently no set standard for this, and in some cases people who have had cancer will never be considered in the same situation as someone who hasn't – an assessment which may be inappropriate given that around half of those diagnosed with cancer today will live for at least 10 years after diagnosis.**<sup>383</sup>

23. The ABI guidance also states that "where appropriate... [an insurer should] help customers understand the reasons for a particular underwriting decision"

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<sup>380</sup> Financial Conduct Authority (2016) *Access to Financial Services in the UK, FCA Occasional Paper 17, May 2016.*

<sup>381</sup> Macmillan estimate based on; Maddams J, Utley M, Møller H. Projections of cancer prevalence in the United Kingdom, 2010-2040. *Br J Cancer* 2012; 107: 1195-1202. (Scenario 1 presented here) Forman D, et al. Cancer prevalence in the UK: results from the EUROPREVAL Study. *Annals of Oncology*. 2003. 14: 648-654; Office for National Statistics; Information Services Division (ISD) Scotland; General Registrar Office Scotland; Welsh Cancer Intelligence & Surveillance Unit; Northern Ireland Cancer Registry; Northern Ireland Statistics and Research Agency

<sup>382</sup> Association of British Insurers (2012) *Equality Act 2010, An ABI Good Practice Guide for Insurers.*

<sup>383</sup> Macmillan Cancer Support (2013) *Cured but at what cost?*

as well as documenting the basis for that decision. We appreciate there will be legitimate reasons why someone with cancer isn't able to access travel or protection insurance. However, it is important that the rationale for this is made clear to them. For example, if an insurer's view is that they will not offer cover because it is simply too risky for someone to travel and hence they are genuinely 'un-coverable', this needs to be made explicit. Similarly, if higher premiums quoted reflect an individual insurer's risk appetite, this must not be allowed to give people the false impression - as people affected by cancer tell us is often the case - that other insurers will not cover them, or offer more appropriate cover at a better price. Helping people affected by cancer to understand the basis of underwriting decisions should not only enable them to find the best cover for their needs, but also to make well-informed decisions about whether to continue seeking cover and how this might affect their other choices.

**24. Macmillan would therefore welcome the Committee exploring with industry representatives what more can be done to ensure people who are refused insurance can understand the reasons for this and to enable them to make appropriate decisions going forward.**

25. Macmillan does not endorse or recommend individual insurance providers. However, we are interested and encouraged to see that some specialist insurers are actively seeking to improve the situation faced by people with cancer and other illnesses; for example by testing underwriting 'assumptions' about different conditions and continuously improving the data that they use in order to develop the capability to carry out more personalised assessments using automated systems. The Committee may wish to explore this further as part of their inquiry.

**26. We would also welcome the Committee exploring the need for good practice guidance for insurance providers – such as on how to have sensitive conversations with customers with cancer so they aren't subject to distressing questions when looking for insurance.**

#### **a) Credit Scoring and Access to Mainstream Banking Products**

27. The financial difficulty caused by cancer can leave many people struggling to keep up with their household bills and credit commitments, with Macmillan research estimating that almost 400,000 people living with cancer each year find themselves in this situation.<sup>384</sup> If this causes missed payments, as can often happen, there can be a resulting impact on an individual's credit history and score. Many people with cancer also rely on income from the welfare system to help them cope with the extra costs of their cancer, or to supplement income if they have to give up work or reduce hours. Problems with, or delays to benefit payments can have a knock-on effect on people's interaction with the financial system. It can cause Direct Debits to be rejected, or lead to people having to pay additional fees or charges – for example if they go into an unauthorised overdraft.

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<sup>384</sup> Macmillan Cancer Support/YouGov online survey of 2,011 UK adults who have ever been diagnosed with cancer. Fieldwork conducted 7-11 November 2014.

28. All these issues can impact on people's credit history and scores, limiting people's ability to access certain products, preferential rates or services, and leaving them trapped into products that are no longer suitable for their circumstances. This can mean that not only are they ineligible for the preferential lower rates reserved for their existing lenders' new or 'prime' customers, they are excluded from accessing the wider market as new customers. Similarly, a reduction in income can mean that, on re-assessment by their lender, a customer becomes ineligible for a new, lower rate on an existing mortgage even if this would make their financial situation more manageable. This can exacerbate the existing financial impact, making it harder for people to recover their financial health and meaning that it takes longer to return their financial situation to its pre-diagnosis state.

#### **Customer case study<sup>385</sup>**

A customer fell into arrears with his mortgage because he was unable to work due to illness. He subsequently recovered and paid off the arrears but had gone on to a variable rate (SVR). He wanted to move to a fixed rate, as this would provide him with the security he wanted. The bank declined this because of his credit history and the fact he had previously been in arrears. Despite his earnings having returned to pre-illness levels, the bank advised they would not make the desired change.

29. Under the Consumer Credit Act (1974) an individual has the right to add a notice of correction to their credit report to highlight 'exceptional circumstances' behind a missed payment. However, this must be a written statement of the individual circumstances lodged separately with, and adhering to the rules set by, each of the three major credit reference agencies. It has to be manually reviewed for underwriting, slows down the process of applying for credit products and does not have to be taken into account in the lender's decision. **The Committee could therefore examine people's experience of the current system of adding notices of correction to credit reports to consider whether improvements are needed in order to simplify the process for people with cancer and other serious illnesses. This could also consider whether there is a need for a greater obligation on lenders to take this into account and make a more personalised decision, particularly on secured lending decisions.**

#### **Personal responsibility**

**Addressing Q7:** *What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened?*

30. We know that the earlier people seek help for financial problems, the less likely it is these will escalate. Macmillan's *Make money one less worry* campaign<sup>386</sup> therefore aims to raise awareness with people affected by cancer of the financial support available so that they recognise and respond to the

<sup>385</sup> Macmillan Cancer Support (2014) *Counting on Your Support*

<sup>386</sup> Further information on the campaign can be found [here](#).

financial impact of a cancer diagnosis, and can make proactive, informed choices where possible.

31. Many people may not have faced financial difficulties or claimed benefits before the financial shock of their cancer diagnosis hits. Ensuring support is available to help them to take steps to manage this and navigate the system is therefore vital.
32. A third of people living with cancer are taken by surprise by the financial impact.<sup>387</sup> However, despite this we know from our experience of providing financial support services that many actively seek to take personal responsibility to manage the financial impact of their diagnosis. This also extends to ensuring that they have an adequate financial safety net appropriate to their circumstances and future choices.
33. Unfortunately, our evidence suggests that even when people do take responsibility for tackling their own financial exclusion, the system still does not work for them. Macmillan's Financial Guidance Service provides guidance to people affected by cancer on 'navigating' the financial services system - who to contact, the right questions to ask and how to access support. However, even after receiving this help and taking proactive steps to address their financial situation, such as contacting their bank, many people get back in contact with Macmillan to say they are still experiencing difficulties getting the help they need from their bank, or finding insurance.<sup>388</sup>
34. For example, our research has found numerous cases where customers have contacted their bank for advice, in anticipation that they may struggle to meet their credit commitments, only to be told to come back once they are in arrears because additional options are only available to those already in financial difficulty.<sup>389</sup> This will almost automatically lead to some form of financial exclusion at a later date due to the impact of missed payments on a customer's credit rating. Despite specialist 'pre-arrears' support being available within some banks, it is difficult to access and not widely publicised internally or externally.

#### **Customer case study<sup>390</sup>**

A patient awaiting surgery for cancer expected to miss work for 3 months, but also to make a full recovery. He had a current account with an overdraft and an unsecured loan with his bank. Anticipating that he would struggle to meet ongoing repayments, the patient contacted his bank to discuss his options with regard to managing his loss of income. The bank refused to discuss his options because he had not missed any payments at the time of him contacting the bank.

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<sup>387</sup> Macmillan Cancer Support/Truth Consulting online survey of 955 adults in England, Scotland and Wales who have a cancer diagnosis. Fieldwork was undertaken between 3 - 21 September 2015. Data has been weighted.

<sup>388</sup> Macmillan Cancer Support (2014) *Counting on Your Support*

<sup>389</sup> Financial Conduct Authority (2015) *Occasional Paper No.8 – Consumer Vulnerability*

<sup>390</sup> Macmillan Cancer Support (2014) *Counting on Your Support*

35. As mentioned earlier, Macmillan and Nationwide worked in partnership to successfully pilot and embed a Specialist Support Service. This provides tailored one-to-one help for customers affected by cancer to manage their financial affairs. The service enables Nationwide to provide a wide range of support before their customers enter into financial difficulties or arrears (in order to prevent this from happening). This includes flexibility with mortgage options, waiving fees and charges through to help with longer term financial difficulty. Macmillan is continuing to work with other banks to support similar change across the sector.
36. **As we recommended in our *Counting on Your Support* report<sup>391</sup>, banking providers should ensure that people with cancer and other health conditions are transferred directly to the most appropriate team or individuals within the organisation, ideally with staff able to provide specialised support with an understanding of the specific needs of these customers. Steps must also be taken to ensure that customers no longer have to be in arrears before they are able to access appropriate flexibility to help stop them from falling into financial difficulty.**

## Conclusion

37. As a result of a cancer diagnosis, and the financial impact that accompanies it, people with cancer can be at particular risk of financial exclusion. This might be because of:
- **The financial impact of a cancer diagnosis** – leading to poor credit ratings, or exclusion due to low income.
  - **The nature of the diagnosis itself** - for example, difficulty accessing travel insurance.
  - **The effects of a cancer diagnosis** – which can make it hard for people, including those who might otherwise have had a high level of financial capability, to manage their finances - for example if they are breathless, have difficulties communicating or are overwhelmed by the situation.
38. By 2030, 4 million people will be living with cancer and, as the idea of 'non-standard' consumers becomes increasingly outdated, the financial industry needs to be ready to meet the needs of all financial services consumers, however complex, or risk an increasing section of the population becoming financially excluded.
39. The Select Committee's inquiry therefore provides a vital and timely opportunity to explore the causes of the problem with the industry, regulator, Government and civil society, to consider where improvements can be made and how organisations can work collaboratively to develop solutions (as demonstrated by our partnership with Nationwide Building Society). This submission has aimed to set out potential areas of focus for this and we hope that the needs and experiences of people with cancer, and other health

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<sup>391</sup> Macmillan Cancer Support (2014) *Counting on Your Support*

conditions, will form an important part of the Committee's inquiry going forward.

*14 September 2016*



## **Mastercard –Written evidence (FEX0068)**

### **Introduction and context**

1. Mastercard welcomes the work of the Financial Exclusion Committee and its dual aims of better understanding the problem of financial exclusion and identifying potential solutions. We recognise the negative impact financial exclusion can have on people's daily lives and are committed to driving financial inclusion in the 210 markets we operate in around the world.
2. Promoting financial inclusion is not merely a philanthropic effort for Mastercard, it is a key global priority for our business. We want to deliver real change and have set ourselves the stretching target of reaching 500 million excluded people globally by 2020<sup>392</sup>. In order to meet this goal we have put in place many financial inclusion initiatives around the world.
3. Mastercard works in partnership with a diverse range of stakeholders in the financial inclusion space. Here in the UK, we are the sole sponsor of the Financial Inclusion Commission (FIC). This is an independent, nonpartisan body of experts and parliamentarians who champion the UK's financial health and believe passionately that Government should take a lead on this vital policy area<sup>393</sup>. This is a view that Mastercard wholeheartedly supports.
4. Our experience has shown that there are common barriers to financial inclusion around the world. These issues include physical access (e.g. failure to meet identity requirements), deep-seated distrust (e.g. a negative experience which has led a loss of control and cost) and financial literacy (e.g. lack of financial skills). It is Mastercard's view that these barriers to financial inclusion can be overcome by using technology to enable access, education and positive personal experience.
5. As a global payments technology company, we will focus our response to the House of Lords Select Committee on Financial Exclusion on how technology can, and is, enabling financial inclusion. Given our experience of this subject we would welcome the opportunity to provide oral evidence to the Committee. However, by way of summarising our position Mastercard believes that the following recommendations would help drive down financial exclusion in the UK:
  - The Department for Work and Pensions (DWP) to mandate online payment capability as an absolute minimum standard for the Post Office Current Account (POCA)
  - HM Treasury (HMT) and DWP to commission a detailed study segmenting the financially excluded population in the UK
  - HM Government (HMG) to continue to support and nurture the UK FinTech sector

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<sup>392</sup> <http://newsroom.mastercard.com/news-briefs/financial-inclusion-commitment-reach-500-million-people-by-2020/>

<sup>393</sup> <http://www.financialinclusioncommission.org.uk/>

- Joint Fraud Taskforce (JFT) to establish international minimum standards and a safety mark for devices using biometrics
- DWP to roll out prepaid solutions to support all welfare claimants with budgeting needs without further delay (to include Universal Credit recipients)
- The Department for Local Communities and Government (DCLG) to set out a framework for digitising all local authority payments.

**Question 8: Addressing Financial Exclusion: Are appropriate financial services and products available for those who are experiencing financial exclusion? What might be done to address any deficit? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

**Electronic payments are necessary tools of inclusion in a digital age**

6. Financial services are an enabler, people are predominantly looking for a straight-forward and convenient way of making or receiving a payment – doing a weekly food shop, securing a place on school trip or getting paid wages. Unfortunately, as we have outlined there are often barriers that prevent the financially underserved and excluded from undertaking these simple everyday tasks in the most efficient and convenient way – that is paying electronically rather than using cash.
7. It is well documented that financial exclusion creates unnecessary economic inefficiencies. In particular, those who manage their finances in cash have to sustain additional expenses for doing so which is thought to amount to £1,300 each year<sup>394</sup>. The provision of accessible electronic payment solutions are imperative to help reduce this phenomenon, which has become known as '*the poverty premium*'.
8. Mastercard believes that if electronic payment solutions are not utilised now, then this is likely to be exacerbated in coming years as increasing numbers of services and consumers go digital. For example over the next five years it is anticipated that through the growth of the 'Internet of Things', 30 billion connected devices will be in use globally. As a top three digital economy in the world it can be assumed that a large proportion of this growth will be in the UK.
9. The need for all UK citizens to have access to the digital economy was recognised by HMT when payment cards with online functionality were mandated as a standard feature of Basic Bank Accounts<sup>395</sup>. The absence of this feature from the Post Office Current Account (POCA) is concerning and in its current form it is likely to be perpetuating the '*poverty premium*' through its reliance on cash based services. ***We would urge the Committee to consider recommending the need for online transactional capability as an absolute minimum standard for the POCA.***

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<sup>394</sup> Save the Children, UK Poverty rip-off, 2010

<sup>395</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/386953/141211\\_basic\\_accounts\\_agreement\\_text.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386953/141211_basic_accounts_agreement_text.pdf)

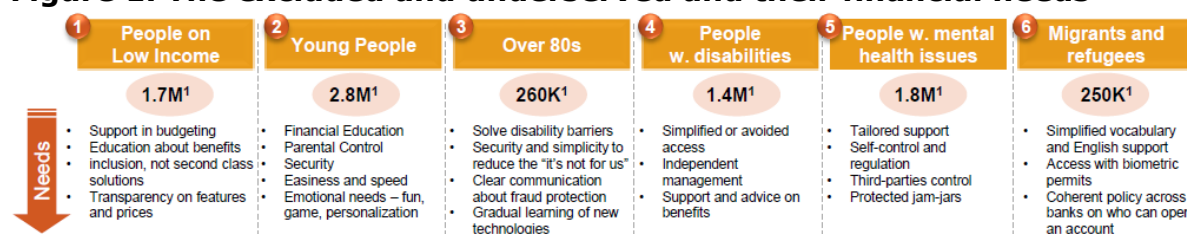
## Understanding financial exclusion to enable technological solutions

10. It is Mastercard’s view that products and services are available which could enable financial inclusion. However, we believe that provision and uptake could be boosted by developing a deeper understanding of who and how people are financially excluded in the UK. Figures are often quoted such as “1.5 million adults were personally unbanked”<sup>396</sup> and while helpful, statistics like this often appear to assume that the financially excluded are a homogenous low income group. Exclusion is much more complex and must be better understood to enable technology to meet the specific needs of the financially excluded. **As such, we would encourage the Committee to recommend that the Government, via HMT and DWP, commission a thorough analysis to better understand and provide insight into financially excluded populations in the UK.**

## Tailored technology solutions

11. As outlined, Mastercard believes that a deficiency in addressing financial exclusion has been a failure to fully understand who is underbanked, and the tools and resources that would enable them to participate in society fully. In the absence of such a study, Mastercard has sought to segment this market using available external resources, to identify the needs of these six groups and to provide needs-based technology solutions. Please note that an excluded individual may fit into one or more category.

**Figure 1. The excluded and underserved and their financial needs<sup>397</sup>**



12. Enabling these groups to access and use electronic payments which work for them is Mastercard’s objective across all categories. Respecting the Committee’s desire for succinct submissions, it is not our intention to provide a detailed account of all the technology solutions which can, and are, being used to meet the needs of each of these financially excluded groups. Instead, we will highlight some key opportunities.

13. **Young People:** It is understood that young people are one of the largest groups who face financial exclusion. Financial education is a key element to ensure young people develop adequate financial capability and become financially independent, which may help address exclusion in future generations.

<sup>396</sup> University of Birmingham and Friends Provident Foundation, Financial Inclusion Annual Monitoring Report, 2015

<sup>397</sup> Mastercard’s role in delivering Financial Inclusion in the UK and Ireland, Aug 2016 (internal report)

14. Mastercard is supporting several start-ups using technology to provide financial education and management tools within our StartPath programme, which is aimed at nurturing SMEs in the payments space. In particular, Kasisto<sup>398</sup> and PennyOwl<sup>399</sup> are two models looking at teaching responsible savings and spending to children which have the potential to drive inclusion.

- **Kasisto** taps into the ever growing trend of messaging to enable young people to manage their money in a way that fits in with their lives. It has created a platform which can provide instant personalised banking. Kasisto enables users to track spending, split and make payments and get advice all via a virtual assistant who communicates through simple messages. For example a young person could ask questions like “*how much money did I spend on my mobile phone this month?*” or “*pay Mum the £5 back that I borrowed from her*”.
- **PennyOwl** is a mobile pocket money app for families that ensures young people develop money skills from an early age. This solution promotes saving money, uses part of the savings for charity and facilitates safer online spending.

15. Mastercard is delighted to be able to lend its expertise to these start-ups. They have successfully created money management and electronic payments tools that educate and work with young people’s lives by using messaging and gaming to engage this group in familiar ways. ***To protect this potential, we would ask that the Committee recognises and calls for the continued support of FinTech from Government, given its potential to find solutions that address financial inclusion by offering targeted services which meet the specific needs of the excluded.***

16. **Biometrics:** To protect our information in the digital world we are all expected to know a multitude of passwords, log-in credentials and PINs. This complexity can act as a barrier forcing older people and those with disabilities to rely on others to help them, which can put personal and financial information at risk. Alternatively, it can lead to a reliance on cash which is less convenient for those who are less physically able and leads to increased cost.

17. We view the development of biometric technology as an opportunity to overcome this barrier by simplifying the process of the identification needed to access and approve payments. Mastercard is investing heavily in this technology. It may be high-tech in approach, but it will simplify accessing financial services by using a feature that is unique to every person like your face, fingerprint or pulse, while at the same time enhancing security. Mastercard has already run successful pilots in the United States and the Netherlands where consumers embraced the use of biometrics. We are delighted to share with the Committee that Mastercard will be making biometric solutions available to UK financial institutions later this year.

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<sup>398</sup> <http://kasisto.com/kai-banking/on-messaging/>

<sup>399</sup> <https://www.pennyowl.com/allowance-app/>

18. As consumers become more familiar with biometrics and its popularity grows low cost devices enabled with this technology are likely to become available. This is positive as it will enable future access for lower income groups who may otherwise be excluded on the basis of affordability. **However, to ensure that low-cost does not result in a lower security standard we would ask the Committee to recommend that the Government's Joint Fraud Taskforce works to establish international minimum standards for devices with biometric capability to ensure that manufacturers are building uniformly robust technology. A simple quality mark could also be developed to help inform consumers that a device has met a minimum security standard.**
19. **Prepaid:** The first step to financial inclusion no longer has to be a traditional bank account, and prepaid technology is proving successful in the UK at providing an alternative. Research by Mastercard supported FinTech startup Pockit<sup>400</sup> found that six million Britons have been refused an account by a High Street bank in the past two years and one in eight have been rejected by banks since 2014. Unsurprisingly prepaid solutions are growing in popularity across many of the excluded groups including migrants who often face access issues.
20. Transaction accounts powered by prepaid are becoming more widely used because they provide a route into the financial system without a need to open a savings account or pass a credit check, while offering the same transactional functionality as a traditional bank account. Products can also offer financial management and capability tools and have no overdraft facility removing the risk of incurring charges.
21. For example The Change Account is a Mastercard enabled prepaid card programme aimed at supporting people who have difficulty budgeting<sup>401</sup>. A Change Account gives access to two "jam jars", one for disposable funds and one for budgeting purposes, it allows a time lock on account transfers and has an online and mobile service, gives access to money transfer, faster payments and significant savings as a group of retailers.
22. The functionality and benefits of prepaid is also being recognised by local government where this technology is increasingly being used to introduce electronic welfare disbursements, driving efficiencies and enabling service improvements. MasterCard is currently partnering with over 100 local authorities in this regard. Councils have reported that prepaid cards can help users manage finances as they keep individual budgets enabling inclusion and capability.
23. In addition, to the success shown to date at local authority level we believe that prepaid technology has huge potential to drive wide-scale financial inclusion by supporting the successful delivery of Universal Credit (UC). The DWP recognised the importance of electronic payments when they stipulated that UC would be paid digitally, not in cash. However, it is estimated that

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<sup>400</sup> <http://www.mirror.co.uk/money/banks-refused-give-6-million-7927536>

<sup>401</sup> <https://www.thechangeaccount.com/>

circa 20 percent of UC recipients will not have a bank account and this barrier to access must be overcome.

24. The clear potential of prepaid as a UC payment solution has been demonstrated through the successful 'proof of concept' test run by DWP in partnership with Kent County Council<sup>402</sup>. This study assessed the viability of using prepaid card systems to make benefit payments to claimants. It has demonstrated that prepaid technology can meet the needs of this group of financially excluded people and enable inclusion. The following is a verbatim extract from the evaluation summary which demonstrates this potential:

*'There were a variety of ways in which the prepaid card, as implemented in Kent, promoted financial inclusion, allowing people with restricted access to banking to access the features and facilities of a traditional bank account – for example, paying bills by standing order or Direct Debit, using a card for purchases, withdrawing small amounts of cash as needed, and checking statements and balances on an ongoing basis. Some participants were unable to open a bank account, while others were reluctant to do so (due to concerns about overdrafts, bank charges or prior negative experiences). Others had bank accounts that were problematic to use (for example, because they were overdrawn). The prepaid card provided these households with the equivalent of a banking product. Some of the main benefits identified included:*

- The use of prepaid cards provided a 'safe' financial environment for people in debt whose benefits were otherwise being swallowed up by overdrafts or credit debt payments in their current bank account.*
- The prepaid card allowed participants to protect some core income for essential and priority expenditure while working with their support worker to address their debts.*
- The prepaid card provided an important tool to help claimants and support workers address financial problems and help prevent debt.*
- The prepaid card was also found to provide greater financial safety for a few participants who had been exploited by previous or current partners or peers in the past.*
  
- Many participants and support workers thought that the use of prepaid cards had promoted financial independence and clients spoke about having more control over and ownership of their finances.*
- Another perceived benefit of using the prepaid card was that it could bring financial savings. Participants could buy products and services online where cheap deals could be found, and could benefit from discounted utility bills by paying by monthly Direct Debit. Stakeholders and participants also pointed to the convenience of the prepaid card.*
- Evidence also pointed to the prestige, status, and sense of social inclusion associated with having a prepaid card. These are important, if more intangible, benefits that can feed into an enhanced sense of self-esteem. Clients spoke of being able to sign up for goods and services –*

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<sup>402</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/535234/rr926-evaluation-of-the-prepaid-card-live-test.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535234/rr926-evaluation-of-the-prepaid-card-live-test.pdf)

*like internet access, for instance – that they were unable to access before without a bank account and Direct Debit facilities.'*

**25. Based on the success of existing welfare disbursement programmes taking place in over 100 Local Authorities around the country and the highly successful Universal Credit Prepaid 'Proof of Concept' in Kent, we would encourage the Committee to recommend that DWP roll out prepaid technology to support all welfare recipients with budgeting needs who are receiving payments via UC or any other another method without further delay.**

**26. In support of this, we would ask the Committee to consider recommending that DCLG also sets a framework for digitising all local authority payments for service users.** The London Borough of Brent provides a model for what can be achieved having become the first fully 'Cashless Council'<sup>403</sup>.

14 September 2016

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<sup>403</sup> <http://www.wired-gov.net/wg/content.nsf/industrynews/London+Borough+of+Brent+becomes+the+UKs+1st+Cashless+Council?open&id=BDEX-6ZFKSP>

## **Professor Stephen McKay, University of Lincoln - Written evidence (FEX0029)**

### **INTRODUCTION**

I am professor of social research at the University of Lincoln, and worked previously within CHASM (Centre on Household Assets and Savings Management, University of Birmingham) and PFRC (Personal Finance Research Centre, University of Bristol). I was part of the team conducting the original baseline survey of financial capability in Britain, and have looked subsequently at financial inclusion in Canada and in Russia. On an annual basis since 2013, together with Prof Karen Rowlingson (University of Birmingham), I have written a report on the state of financial inclusion. The latest report was published on 13 September 2016 (McKay and Rowlingson 2016).

This note is written in a personal capacity. It presents new results on the links between mental health and financial difficulties, drawing on a survey from 2007.<sup>404</sup>

### **WHO IS AFFECTED BY FINANCIAL EXCLUSION?**

1. The annual reports on financial inclusion provide a wealth of data on different kinds of financial inclusion (such as bank accounts, indebtedness, saving, pensions). In 2016 there was evidence of a slowdown in progress towards full access to bank accounts. Those doing well are certainly seeing improved circumstances, but with poorer families at risk of being left further behind. The Committee has access to these reports, and they are also online at the CHASM website.
2. An area that is often mentioned as important is the link between mental health and financial behaviour. However evidence in this area tends to be small-scale and not necessarily based on nationally representative samples (e.g. Mind 2008). There is good evidence on mental health collected from time to time in the series of three *Adult Psychiatric Morbidity Surveys* that have been conducted in 1993, 2000 and most recently 2007 (McManus et al 2009). Whilst these surveys collect relevant information on debt and on borrowing, these questions are not included in the main reports which focus on mental health. There is therefore an opportunity to explore the linkages between psychiatric morbidity and patterns of financial behaviour. Such information does not seem to be regularly produced (though see Meltzer et al 2002 for analysis of the 2000 survey). Note that the 2007 took place only in England.

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<sup>404</sup> Data was supplied by the UK Data Service. I thank the funders, data collectors and respondents. None of these groups is responsible for any interpretations drawn here.



3. A new survey was conducted in 2014, but neither the results nor the data are available at the time of writing. A report is expected in September 2016 (see <http://digital.nhs.uk/article/3739/National-Study-of-Health-and-Wellbeing>) but information on debt and finances is not expected to be included in the main report.

### **Suicidal thoughts**

4. According to the 2007 survey there was a strong association between having suicidal thoughts in the previous year (had by 4.3% of the sample of 7403 people aged 16+ living in private households) and a range of debts and borrowing outcomes. Table 1 shows a range of outcomes. For example, among those with suicidal thoughts in the last year some seven per cent reported having been seriously behind in paying with the rent, compared with two per cent of others; and, eight per cent had been behind with Council Tax compared with three per cent in the wider population. Those with suicidal thoughts in the last year were more likely to have used various forms of informal borrowing in particular from family (19 per cent, compared with six per cent among others).

**Table 1: Suicidal thoughts and borrowing/debt**

<b>Debt and borrowing</b>	<b>Had suicidal thoughts in past year</b>	<b>No such thoughts</b>
<b><i>Area of debt/arrears [selected areas]<sup>405</sup></i></b>		
rent	8	2
gas	5	2
electricity	5	2
water	7	2
council tax	8	3
credit cards	7	2
TV licence	5	1
Not seriously behind in any of full list of areas	74	91
<b><i>Area of borrowing in last year<sup>406</sup></i></b>		
Moneylender	4	1
Friends	11	2
Family	19	6
Raw sample size	339	7,050

Source: analysis of Adult psychiatric morbidity in England, 2007.

- There are two caveats we should put forward regarding this analysis. The first concerns the direction of causation – what causes what? The above presentation implies that the presence of suicidal thoughts may be the *cause* of financial difficulties, when of course it could be the *result* of financial difficulties. Expressed the other way around, 12 per cent of those who had borrowed from their family in the past year had had suicidal thoughts in the past year, compared to four per cent of those who had not borrowed in this year. Similarly, 11.5 per cent of those with serious arrears had had suicidal thoughts in the past year, compared with 3.5 per cent of those who had not. The second caveat is that there are other relevant differences between these groups – those with thoughts of suicide tend to be younger, and more are women, and fewer are married,

<sup>405</sup> The question asks: "Have there been times during the past year when you were seriously behind in paying within the time allowed for any of these items?"

<sup>406</sup> Respondents were asked: "And have there been times during the past year when you have had to borrow money from pawnbrokers or money lenders, excluding banks or building societies, or from friends and family in order to pay for your day-to-day needs?"

which could also be affecting proportions with financial difficulties. A fuller multivariate analysis would be needed to better identify the independent effect of mental health.

### **'Common mental disorders'<sup>407</sup>**

6. In Table 2 we show the rates of being in arrears, and using informal borrowing, in the past year. These are shown for a range of common mental disorders. There were strong associations between a number of these disorders, as measured in the 2007 survey, and either having been in arrears or having used a range of informal means of borrowing in the past year.
7. For example, whilst in the population around eight per cent had been in serious arrears, this was 36 per cent for those with a phobia, 25 per cent for those with a depressive episode, and 20 per cent among the population likely to have significant symptoms of a wide range of mental disorders. Results for the use of informal borrowing were similar in extent.
8. Overall there seem to be quite strong links between a range of mental disorders, and people having found themselves in debt or resorting to informal kinds of borrowing.
9. As before we would caution that these are associations, and the causal direction could run in either (or both) directions. And, there may be other socio-demographic differences that are partly responsible for these associations – such as differences in age, gender and income. Nevertheless the scale of the apparent links is very strong.

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<sup>407</sup> This is the term used in the main official report.

**Table 2: 'Common mental disorders' and borrowing/debt**

<b>Mental disorder</b>	<b>Raw sample size</b>	<b>Per cent of sample</b>	<b>Has been seriously behind in paying bills/credit in last year</b>	<b>Has used informal borrowing in last year</b>
Mixed anxiety/depressive	641	8.4	16.6	16.8
General anxiety	363	4.4	22.5	20.6
Depressive episode	255	3.0	24.6	21.1
Phobia	160	2.0	36.1	31.3
OCD	86	1.1	29.2	24.7
Panic	83	1.1	25.1	29.2
Agoraphobia	95	1.2	33.9	30.5
CIS-R scored 12+ <sup>408</sup>	1,187	15.1	20.3	20.0
All respondents	7,403	100	8.4	8.4

Source: analysis of Adult psychiatric morbidity in England, 2007.

## OVERVIEW

10. This short note has called attention to the very strong associations between mental health and financial difficulties, as measured and collected in a key 2007 survey. This data is not routinely written up, but may comprise an important source of information worthy of further investigation. The 2014 survey will, time, provide the potential for more contemporary results.

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<sup>408</sup> This relates to the Clinical Interview Schedule - Revised (CIS-R). It covers a range of non-psychotic symptoms in the week prior to interview. A score of 12 or more is expected to indicate significant symptoms.

Professor Stephen McKay, University of Lincoln - Written evidence (FEX0029)

Rowlingson, K. and McKay, S. (2016). *Financial Inclusion Annual Monitoring Report 2016*. University of Birmingham: research report for the Friends Provident Foundation.

*14 September 2016*

## **Mencap – Written evidence (FEX0060)**

### **About Mencap**

We support the 1.4 million people with a learning disability in the UK and their families and carers. We fight to change laws and improve services and access to education, employment and leisure facilities, supporting thousands of people with a learning disability to live their lives the way they want. See [www.mencap.org.uk](http://www.mencap.org.uk) for more information.

We are also one of the largest providers of services, information and advice for people with a learning disability across England, Northern Ireland and Wales.

### **About learning disability**

A learning disability is caused by the way the brain develops before, during or shortly after birth. It is always lifelong and affects someone's intellectual and social development. It used to be called mental handicap but this term is outdated and offensive. Learning disability is not a mental illness. The term learning difficulty is often incorrectly used interchangeably with learning disability.

### **About the Royal Mencap Society**

- 1. Mencap is the UK's leading learning disability charity. We support the 1.4 million people with a learning disability in the UK and their families. We fight to change laws and improve health and care services as well as increase access to education and employment. We directly support around 5,400 people with a learning disability to live their lives the way they choose and assist the aspirations people with a learning disability have.*
- 2. We provide high-quality personalised support and advice for people with a learning disability and their families, and together we campaign for an equal society. Our direct support services encompass advocacy, health, education, housing, leisure and employment.*

### **People with a Learning Disability and Financial Exclusion**

- 3. Mencap considers financial exclusion to be defined in terms of barriers to, or a complete lack of, access to finance, banking services and accounts. This can be due to financial products which are not accessible, through lack of provision of accessible information, for example in an easy read format, for people with a learning disability. There is also generally a lack of knowledge among staff in*

financial services on issues affecting people with disabilities like a learning disability and what reasonable adjustments could be made to enable access.

4. These barriers are heightened by the low level of employment among people with a learning disability, something which we believe itself is an example of financial exclusion. Employment can act as a gateway to greater social inclusion and access to additional financial services. Less than two in ten people with a learning disability are in employment<sup>409</sup> meaning that, beyond setting up a basic account with a financial institution, other services are often out of reach.
5. There is also a lack of flexibility and dedicated support for people with a Learning Disability in financial products. Whilst there are anecdotal examples of discrimination when people with a learning disability have tried to access services in the past in general reasonable adjustments that could be made often are not, including flexibility on identification papers and accounts which do not require pin codes which can act as a bar for some people with a learning disability as they can find these difficult to operate or remember.
6. Financial exclusion limits life chances for people with a learning disability. An individual without an account can be excluded from many social activities and taking advantage of technological innovations. For instance, with the proliferation of online only booking someone with a learning disability who wanted to buy tickets for a show may be unable to do so unless they have an account. Financial exclusion does not just exclude people from access to finance, it limits their potential, their social wellbeing and freedom of choice.

### **Right to Accessible Financial Services and Information**

7. Whilst a bank is a commercial business and is not obliged to open an account for anyone, under the Equality Act, a bank cannot refuse to open an account just because a person has a disability.
8. People with a learning disability have the same rights as everyone else to open a bank account or access services and where necessary Mencap believes that financial institutions should make reasonable adjustments to support people with a learning disability to access financial services and allow people with a learning disability greater control over their money and finances.
9. Many people with a learning disability will be able to manage their own bank account, either with or without support. However there is often a lack of availability of accessible information amongst banks, for example in an accessible easy read document suitable for people with a learning disability or difficulty, Easy Read being a document with simplified language and pictorial references.

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<sup>409</sup> These are our estimates. The figure of those in work known to social services is 6.8%

10. There is also often a lack of signposting or information in branch with staff often not being fully knowledgeable about what services are available which can be particularly important to people with a learning disability. Many people with a learning disability do find face to face meetings useful when it comes to making decisions and understanding options and we would call on banks to ensure every branch has staff trained in how to communicate effectively with people with a learning disability as a first point of contact.
11. Mencap has provided advice around how to support people in relation to accessing banking and financial services in the past<sup>410</sup> as have other charitable organisations, however financial institutions do not tend to have easy read information available about their services and certainly not to the same extent as access to information in other accessible formats, such as braille or audio. It should not be up to charity to ensure accessible information is readily available and Mencap would call on the committee to investigate what more can be done to provide accessible information in a format useful to people with a learning disability.

### **Barriers to Financial Inclusion**

12. People with a learning disability face societal and social barriers to inclusion on a daily basis and this is not restricted to financial inclusion. These range from prejudices to a lack of flexibility when it comes to setting up accounts with something as routine as identification.
13. When we asked our services for examples of difficulties in setting up accounts one of our service manager's told us that a lack of photo ID is one of the major stumbling blocks to setting up an account telling us that obtaining a passport, if this form of ID is insisted upon, at a cost of just under £100, can be prohibitive for people with a learning disability, especially those on out of work or incapacity benefits. Additionally obtaining a driving license may be out of the reach of many people with a learning disability.
14. This is worrying as Banks do not have to take a formal photo ID as proof of identification and can accept, for instance, benefit entitlement letters as Barclays sets out<sup>411</sup>. We would urge banks and other financial institutions to train their staff so that they are aware that alternative forms of identification can be made available and can advise people with learning disabilities and other people affected by financial exclusion of this right.
15. There is also a lack of flexibility in provision when it comes to basic accounts which do not rely on PIN numbers or online banking, both of which may be an issue for people with a learning disability. Whilst these accounts do exist signposting is not always clear for customers and we would urge banks to

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<sup>410</sup> Mencap, What you need to know about... Banking

[http://mencap.everycity.co.uk/sites/default/files/documents/cyp\\_policy\\_brief\\_banking.pdf](http://mencap.everycity.co.uk/sites/default/files/documents/cyp_policy_brief_banking.pdf)

<sup>411</sup> <http://www.barclays.co.uk/validid>



Mencap – Written evidence (FEX0060)

consider widening availability of counter only service accounts relying on identification to withdraw money in person.

## **Employment**

16. Access to Employment, too, is an example of financial exclusion. As mentioned earlier Less than two in ten people with a learning disability are in employment, while Mencap estimates that almost eight in ten people with a learning disability could work given the right support. However, that support is often not available, or those giving that support often do not understand learning disability.
17. This is despite the fact that the majority of people with a learning disability can and want to work. The figures are stark if we compare a national employment rate of 76% and an overall disability employment rate just below 50%.
18. Mencap supports the governments drive to place more people with disabilities into employment through their promise to halve the disability employment gap. This is vital to ensure that more people with a learning disability have access to more opportunities and can access financial services which improve their standard of living, like mortgages for homes and credit.
19. Reducing barriers to work means improving access to work, supporting access to Apprenticeships and a radical overhaul of the Work Capability Assessment. The new Work and Health Programme must also be tailored, specialist, and properly funded, with immediate availability to those out of work who are disabled. Currently the Department for Work and Pensions has suggested that it would receive just £130 million in funding per year and be accessible to claimants after two years of unemployment.
20. Without employment the vast majority of people with a learning disability face fewer opportunities to improve their life chances and are barred from the opportunities which ready access to finance affords people who do not face those barriers.

## **Mental Capacity**

21. The Mental Capacity Act further empowers people, with support, to make their own decisions and crucially, that people should be supported to make their own decisions where possible. Mencap believes that for those with a learning disability, the Act helps to ensure they are not discriminated against.
22. In terms of personal finances, the Act helps people with a learning disability to deal with their money either with or without support and sets out a process to consider the issue of capacity. The law only requires that an individual has an understanding of the transaction taking place, not that they have full capacity in all matters however Mencap has a concern that this process is not always followed.
23. There should be very clear information about how people with a learning disability who lack capacity to manage their finances and make decisions about financial services, are able to benefit from financial products. Bank staff need to understand this and there needs to be good information for families and carers.

24. Examples exist of Bank staff deciding an individual lacks capacity because they have a learning disability without the starting point that one should assume capacity. There is also a general failure from frontline banking or financial institution staff to support or provide advice to an individual.<sup>412</sup> Again, it is important that staff guidance and training is improved in this area.

### **Making it easier for others to support people with a learning disability**

25. Consideration might also be given by the committee to recommending simplifying and making more accessible the process of establishing power of attorney or deputies. The reality is that many people with a learning disability can make financial decisions of their own with support and guidance.

26. Improving access to reasonable adjustments, such as ensuring support workers and their families are involved in financial decisions or can provide support, where requested by someone with a learning disability, who has capacity but nonetheless requires support, would help ensure more people with a learning disability are able to be financially included.

27. Banks and other financial institutions must also have clear policies and support in place to make adjustments in branch which can include the importance of working with supporters and not just the account holder where appropriate.

*14 September 2016*

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<sup>412</sup> <https://www.scribd.com/document/247008989/Access-to-Banking-for-People-with-a-Learning-Disability#download> pp15

## **Merton Centre for Independent Living – Written evidence (FEX0003)**

Merton CIL Response To The House of Lords Select Committee on Financial Exclusion. The remit of which is “to consider financial exclusion and access to mainstream financial services”

### Background

Merton CIL are pleased to have the opportunity to respond to this inquiry by The House of Lords Select Committee on Financial Exclusion. We are a user-led Disabled people’s organisation run by Disabled people, for Disabled people, across the full spectrum of disability. We deliver a range of services to disabled people in London Borough of Merton, including advice and advocacy services. Through our case work with local disabled people, we have direct evidence that disabled people do experience financial exclusion in multiple ways.

Disabled people are facing disadvantage across key areas of their lives, and are experiencing health inequalities as a consequence.

In particular, disabled people are disproportionately impacted by the policies of Welfare Reform, with social care users affected 19 times more than non-disabled people by the cumulative impact of Benefit cuts and Social care cuts, resulting in an annual reduction in income of £8,832 per person. Barriers to employment, accessing the community, hardship and homelessness follow.

Disabled people have poorer health and lower life expectancy, and perceived discrimination is associated with increased likelihood of psychological distress.

Laws and regulations already in place to support disabled people, such as the Equality Act 2010, and the UNCRPD, are not being effectively adhered to , , for example, lower pay for disabled people.

Through our casework with disabled people, we can evidence that Disabled people do experience financial exclusion and associated negative consequences. Financial exclusion directly impacts on disabled peoples day to day lives, principally in the realm of having an inadequate income and experiencing poverty, which leads to isolation and a negative impact on health and sense of well-being.

Financial exclusion also results in a very real loss of independence and control over our lives. In particular we have evidence demonstrating that financial exclusion has a real impact on the ability to manage and have control over meeting basic and essential needs. This includes the ability to manage the care

you receive, eating, having and maintaining essential equipment and a dependence on others. The knock on effect of this financial exclusion is being exposed to vulnerability and financial exploitation.

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

From our case work we have experience that disabled people are affected by financial exclusion and at risk of vulnerability and exploitation. This includes the negative impact of Welfare Reform (see response to question 11) and also includes:

- Lack of physical access to banks or post offices
- Lack of accessible methods to access banking
- Issues with appointees
- Poor support with Direct Payments
- Local Authority Financial Assessments
- Targeting of vulnerable people and lack of safeguards

Lack of physical access to banks or post offices

This is not just an issue of ramps to enter premises or lack of lowered counters to make wheelchair users feel welcome, although those are still issues even in well known high street banks locally. In this example, a service user we work with reported that the card machine in their local post office machines would not come off counter. As this person was a wheelchair user with limited reach, they were unable to enter their PIN independently. Post office staff would ask for this person's PIN and enter it for them. Even through the individual trusts post office staff, this is an apparently small thing that has a big impact upon the security of their finances, as anyone in the queue could hear what they say. This is not an isolated incident and obviously not just confined to the post office. Locking card machines to desks is practiced by many businesses due to security concerns.

In another example, we worked with someone who had moved into in a care home. They were not permitted to leave the care home alone, but there were not enough staff to accompany them when going out. The local authority also had not organised adequate support. This person was unable to bank online and had for many years successfully managed their finances by going to the bank. Being unable to access the bank for a period of time meant they were unable to make payments and they got into debt which now they need help sorting out, and which is stressful. That individual also has issues arising from a lack of a regular and trusted individual to support them because even at the bank they need to support to enter their PIN and don't want to have to share that number with a rotating set of care staff.

### Lack of accessible methods to access banking

People with specific impairments can struggle with banking procedures. For example, we know people who are blind or with mobility issues who have cheques returned because their signature can change slightly. We know of deaf people who struggle to use telephone banking because the call centre won't accept the use of an interpreter on the phone. In another case, someone failed the telephone banking security question after being asked how old they would be at their next birthday – they asked the other person in the room for help with the maths, and this wasn't considered acceptable by the call operator.

### Issues with appointees

There was one service user we worked with who suspected that their appointee was holding back some of their benefits. However, it was incredibly difficult for them to resolve the issue because they could not access any information from the DWP because although they were the person receiving the benefits, only the appointee was allowed to get information from DWP.

Issues with appointees is particularly difficult in abuse cases because you have to go through your existing appointee to change to a new appointee. In one example a service user was being abused by their appointee and moved away from them, however, now they can't get their appointee changed without involving the police, which they are reluctant to do.

There was also an individual whose affairs were managed by the local authority. Due to issues with the management, debts were run up and then were left unaddressed, and the individual received court summons. Because the affairs were managed by the local authority, we were unable to intervene, and the person themselves felt that their power had been taken away from them to sort the issue. Their word did not count.

### Poor support with Direct Payments

People using Direct Payments are effectively small employers but locally there is now very little support for people to manage their Direct Payments. There are not enough staff in the Council to help ensure that people have organised employment contracts or insurance, and the value of direct payments does not cover workplace pensions for the carers and personal assistants disabled people are employing – the hourly rate has also been frozen for 6 years so there are no pay rises for dedicated staff. When care packages are cut, there is no transitional support to manage employer obligations, such as consultation with employees or redundancy notice – this leads to people getting into debt trying to cover the transition from their own limited resources.

### Local Authority Financial Assessments

In one case a person was deemed eligible for care, but they were also supposed to make a financial contribution. They didn't understand this and over a period of several years, they built up a huge debt with local authority who were organising the care agency directly. Even though this individual had been assessed as unable to manage their finances, no support was put in place and the debt kept

building up. The Council then took the individual to court, forcing their social worker to testify against them, which led to that relationship breaking down. The person died an unexplained death before they could go to court.

We have also noticed that as people are being reassessed, even if their care package stays the same (and often it reduces), the financial contribution they are asked to make goes up. This is because unless people can evidence the cost of disability related expenses (which can be hard to do), the Council assumes that these are £10 a week, whereas Scope puts this figure at £550 per month.

#### Targeting of vulnerable people and lack of safeguards

For example one family who had learning disabilities used a loan shark to manage day-to-day expenses as they struggled to manage on their benefits and received no Council support either financial or with managing their money. They would ask for left-over food from a local café to help them over the weekend. They had a perception that the loan shark was a friend to the family. As a result they took out multiple loans and paid them back many times over, but were also resistant to getting help because of this perception of friendship. This example highlights vulnerability and risk of exploitation, caused by low income and a lack of support when dealing with financial matters.

In another case we saw someone who had a bank account opened in their name against their wishes as their roommate wanted to control their money, and they did not have the power to stop it.

Response to Question 11. What has been the impact of recent welfare reforms on financial exclusion?

The welfare benefit reforms that the government brought in through the Welfare Reform Act 2012 are having a significant and disproportionate negative impact on Disabled people, which seriously jeopardises Disabled people's standard of living and reduces the level of social protection. The changes contained in the Act include:

- Disability Living Allowance (DLA) abolished, replaced by Personal Independence Payment (PIP)
- Changes to Housing Benefit, including the Spare Room Subsidy removal, (commonly known as 'the bedroom tax')
- Tougher sanctions for JobSeekers and Employment Support Allowance claimants
- Time-limiting and means-testing Employment Support Allowance
- Universal Credit a new benefit that will replace 6 other benefits.
- The over-all benefit Cap

Around 22% of DLA claimants in London are entitled to the lowest care and mobility elements. People in this group are the most likely to lose their entitlement under Personal Independence Payments (PIP). In the migration, about 20% of those entitled to DLA are expected to lose their entitlement to PIP.

Disabled people are particularly vulnerable to welfare reforms, given the high proportion lacking paid work, many will be less able to supplement the lost income by moving into work. In addition DLA is not conditional on lacking work, so those claimants that are able and can find a suitable job are presumably already in work.

Individuals in receipt of DLA are exempt from a number of other welfare changes: the single room rate change, the overall benefit cap and in some boroughs council tax support. If entitlement to DLA is lost, not only will individuals lose their DLA income, but they could also lose income from other benefits as they are no longer exempt.

We have a current case where the individual has received a lower rate of PIP than their previous DLA claim, resulting in the loss of their Motability vehicle. It takes 7 weeks for the vehicle to be removed following the change of benefit, but the benefits appeal process takes much longer so they could lose a vehicle they are entitled to on appeal.

In another case, someone's housing benefit was stopped following loss of ESA. The ESA was reinstated with maximum points after a long appeal process, but, in the meantime the individual had built up rent arrears resulting in eviction and they ended up homeless.

In conclusion

Financial exclusion from our experience has had a very real impact in terms of quality of life, opportunity and life chances for disabled people.

*2 September 2016*



## **Money Advice Service – Written evidence (FEX0062)**

### **About us**

The Money Advice Service (MAS) is a UK-wide, independent service set up by government to improve people's financial well-being. Our free and impartial money advice is available online, and by phone, web-chat or face to face with one of our Money Advisers. We also work with the debt advice sector to improve the quality, consistency and availability of debt advice.

Our core statutory objectives are set out in the Financial Services Act 2010. We are paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.

### **Executive Summary**

Financial Capability and Financial inclusion are complementary and interdependent; financial exclusion is one important part of a wider financial capability problem. To be financially capable, people must have access to appropriate financial products and services, but they also need to have the skills, knowledge, attitudes and motivations to make use of those products and manage money effectively. If all of these aspects of financial capability are in place, we would expect people to exhibit financially capable behaviour, such as managing money well day to day, planning ahead and knowing how to get out of financial difficulties.

The evidence tells us that financial capability remains stubbornly low. Our 2015 Financial Capability Survey found that over 19 million people don't have an approach to budgeting that they feel works; one in five adults cannot correctly read the balance on a bank statement, and one in three is unable to correctly complete a simple interest plus calculation. Furthermore, Go-On UK have found that 23% of adults do not possess basic digital skills. Although products and services need to be more inclusive and accessible, consumers also need to have the skills and motivation to seek them out and get value from them. Making new products designed to meet the needs of excluded people available and raising awareness of them is important– and from this month MAS has a new duty to raise awareness of the new fee free basic bank accounts, but it is not enough.

Many people lack trust in financial services or believe that financial services are 'not for people like me'. Moreover, over half of adults don't feel that there are things they can do that will influence their own financial situation. Eight million people have problems with debt, and, of those, fewer than one in five is seeking help. One in three do not discuss money openly with anyone.

We need to start young in helping people to develop the right approach to managing money, in order to prevent them from becoming financially excluded. We know that children form or learn attitudes to money between ages of 3 and 7, and that schools can play a vitally important role in influencing some financial behaviour. This is why we are working with the Education Endowment Foundation in a "Maths in context" trial; to demonstrate that financial education

improves academic attainment. However, home and peers shape financial attitudes and behaviours even more so, which is why we have jointly funded a world-first parenting pilot.

The key problem is that nobody knows what works to improve financial capability. There is lots of activity, but precious little is based on real evidence of impact, and few interventions are rigorously tested for impact. One challenge is supporting organisations that fund financial capability interventions to evaluate projects to understand what actually works.

Improving financial capability – and therefore financial inclusion – requires a coordinated approach involving organisations across the sectors to achieve collective impact. This requires strategic leadership, which is currently provided by MAS through the Financial Capability Strategy for the UK, which aims to empower everyone to make the most of their money at all stages of life. We believe this role should be continued by the new money guidance body which is expected to replace MAS in 2018.

MAS is already working with organisations across the financial services, research and third sectors to build strong evidence on what really works in driving up financial capability. In 2016 we are investing up to £7m in funding robust evaluation of existing and new activities to find out what works. We will then work with organisations across the financial capability sector to apply that evidence so that the collective impact of interventions can be maximised.

**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?**

A financially inclusive system would be one where everyone can access appropriate financial products that meet their needs. This means that:

- financial services need to offer appropriate products and services,
- financial capability skills of people need to be built in order to choose, manage and understand products and services; and
- people need to have access to, and understand, impartial information and advice about such products and services, (this includes debt advice).

Financial exclusion can occur when the products and services on offer are not appropriate or because people do not have the financial skills they need to navigate financial products and manage their finances

It is clear that there is a significant relationship between financial capability and financial inclusion. Strong financial capability helps people to avoid financial exclusion, or move from exclusion to inclusion. For example, financial exclusion can result from poor understanding of what products and services are available and how to access them, and from low confidence in accessing and using what is available. Exclusion can also result from poor use of credit, resulting in a poor credit score. Poor use of credit can result from low financial capability.

**Question 2: Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

Financial exclusion, much like other forms of social exclusion, affects some groups of people more than others and, on the whole, similar types of people are disproportionately affected by both types of exclusion. These are people living on low incomes; and particularly those who are unemployed, lone parents caring for children full-time, and people who are unable to work through sickness or disability. In addition, our research shows that people who have the above characteristics are also more likely to be affected by debt.<sup>413</sup>

The Financial Capability Strategy for the UK (FinCap Strategy), published in October 2015, recognises that people need support throughout all life stages, from preschool to retirement, and during crucial times throughout their lives when finances are most likely to be impacted by life events. At the same time, the Strategy also aims to help people develop their financial resilience in order to reduce the impact of life events on their financial situation; preventing people's financial situations from escalating and possible disengagement with the financial system. The FinCap Strategy also focuses on people in financial difficulties, in acknowledgement that they are likely to require intensive support from the debt advice sector, and are most vulnerable to being financially excluded in the long term.

The Strategy also looks at age-specific issues such as confidence and internet access. Younger people are more likely to be less confident about choosing financial products and services; levels of confidence, however, increase with age. Internet access, usage and willingness to use the internet for financial tasks are all high among the working-age population, however older adults – particularly those ages 70 and over, are less likely to engage online. Paradoxically, while young adults may lack confidence in making financial decisions, they are likely to have fewer access issues. On the other hand, older people (70+) are not as digitally engaged but are very confident in choosing financial products and services. Furthermore, some groups, such as those on low incomes, often lack both confidence and access.

A key part of the FinCap Strategy is gaining a thorough understanding of the different levels of financial capability in the UK; who are the least and most financially capable groups, and what are their demographic characteristics. We have undertaken substantial research which segments the UK population, illustrating the demographic attributes of people with low financial capability. We are happy to share this research with the Committee.

**Question 3: What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation?**

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<sup>413</sup> MAS, *A picture of over-indebtedness* (2016).

There is a clear relationship between being financially excluded and being in problem debt, with over-indebtedness often a consequence of being financially excluded.<sup>414</sup> It is vital that the debt advice sector is supported in helping as many people as possible in order to lessen the overall impact of financial exclusion.

We target advice to ensure those who are most vulnerable or most in need are reached. Financial difficulties can be experienced at all life stages and may be an ongoing feature of a person's life or only a passing phase. People in financial difficulties are more likely than average to be women, living on lower incomes and have experience of mental health issues.<sup>415</sup> Financial difficulties have direct and indirect effects; evidence suggests that adults that have experienced financial difficulties are more likely to become financially excluded, and children growing up in over-indebted households are more likely to be bullied at school.<sup>416</sup> Over-indebted people also report negative impacts on their relationships and physical health as a result of their debt problems.<sup>417</sup>

People who do not have access to or choose not to use a bank account and payments infrastructure, like people who are digitally excluded, pay a premium for products and services. They are unable to benefit from cheaper utility bills offered to consumers paying by direct debit and they cannot access cheaper deals for products and services offered online. Research commissioned by Lloyds earlier this year analysed consumer trends in digital and financial capability; it found there are potential online savings of £3.7bn if the digitally and financially excluded were able to realise online opportunities.<sup>418</sup>

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

MAS figures show that mental health problems are common among those who approach us and our partners for debt advice. The majority (52%) of the clients our projects saw were diagnosed with a mental health condition of some kind. Of these, most had been diagnosed with depression but many also mentioned other mental health problems.<sup>419</sup>

Those with mental health conditions were significantly more likely to have experienced some of the consequences of debt problems; most notably a court summons (39% vs. 29% of those without a diagnosed mental health condition), having a pre-payment meter imposed (22% vs.14%), having a telephone landline cut off (18% vs. 11%) or having a mobile phone service cut off (18% vs. 13%).

Recognising that debt is not an isolated issue and occurs in the context of broader life events, we include provisions within our grant agreements for advice

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<sup>414</sup> New Philanthropy Capital, *Financial exclusion: A guide for donors and funders* (2008).

<sup>415</sup> MAS, *Indebted Lives* (2013).

<sup>416</sup> StepChange and The Children's Society, *The Debt Trap* (2014).

<sup>417</sup> StepChange, *Statistical Yearbook* (2014).

<sup>418</sup> Lloyds Bank, *Consumer Digital Index* (2016)

<sup>419</sup> MAS, *Debt Advice Review 2013-14* (2014)

providers to develop referral routes to other sources of support to ensure that clients receive holistic support. However, what we have learned from our pilots in Scotland is that where client needs are very extensive and complex, advice providers need to go beyond referrals and form partnerships to tackle the broader issues in a person's life beyond debt.

The relationship between major life events, debt problems and mental health issues is complex; with any one potentially triggering the other. Once established, it appears to be a cycle that can be difficult to break, and can lead to long-term financial exclusion.

The Extra Costs Commission has also highlighted that people with disabilities often experience significant additional extra financial barriers. The Commission identified the importance of driving down costs of disability by focusing empowering consumers to manage money effectively by making prudent financial decisions.<sup>420</sup> As a result, we have worked with Scope to develop their information and resources to ensure that they have a greater focus on the needs of disabled people as consumers.

**Question 5: Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

Childhood and adolescence is a vitally important time to influence the skills, knowledge, mindset, attitudes and behaviours that matter to people's financial capability and the outcomes they achieve in life. Our research has shown that important financial attitudes and knowledge can be developed by age 7.<sup>421</sup>

While the Financial Capability Evidence Hub highlights many examples of well delivered financial education for children and young people (CYP), existing interventions are not operating at sufficient scale to meet need. Financial education is on the secondary school curriculum in England (more broadly in the devolved nations), yet the majority of 15-18 years olds still receive no financial education, despite 97% of them being financially active. Financial education is also not on the primary school curriculum in England.<sup>422</sup>

Funders and commissioners do not yet have all the evidence they need to target funding effectively. International evidence about whether approaches to financial education are working is mixed.<sup>423</sup> However, our research highlights that effective approaches tend to be practical, relevant, and delivered by someone trusted, that 'teachable moments' matter, and 'just-in-time' education works. Mapping of provision suggests there are currently gaps in delivery of interventions involving primary school children, peers, parents, vulnerable CYP (such as young carers, care leavers, those with special educational needs and disabilities) and learning by doing. Teachers and schools need more support to

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<sup>420</sup> The Extra Costs Commission, *Driving down the extra costs disabled people face* (2015).

<sup>421</sup> MAS, *Habit Formation and Learning in Young Children*, (2013).

<sup>422</sup> IFS Learning, *Financial Education and the Young Person's Money Index* (2015).

<sup>423</sup> NEFE, *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviors* (2014).

deliver effective financial education, especially in relation to attitudes and mindset, not just skills and knowledge.

MAS is working to address these gaps through a range of activity, including the What Works Fund and other projects to understand more about 'what works', such as our parenting pilot in Wales and partnership with EEF & Young Enterprise to pilot 'Maths in Context'; as well as a large-scale survey of Financial Capability of children and young people and parents, to better understand need; and tailored evaluation support for providers, including use of our outcomes frameworks.

There are still significant opportunities to improve financial education more broadly, including through ensuring that financial capability is on the primary school curriculum, and strengthening how well it is being delivered at secondary school level, especially as a part of teacher training and professional development, and emphasising the importance of financial education through monitoring bodies and inspectorates. We have highlighted these arguments in our submission to the APPG on Financial Education's recent inquiry into Financial Education in schools, and will be continuing to support the APPG in its future work.<sup>424</sup>

**Question 6: How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

People at all stages of life can benefit from support to improve their financial capability. The Financial Capability Strategy recognises that peoples' money needs, challenges and priorities change through life, and that a range of approaches are therefore needed to drive up financial capability across the population. Evidence tells us that it is crucial to start building financial capability in early childhood. Children start to adopt attitudes about money from as young as age 3 as they observe and copy the language and behaviours of the adults around them with regard to money. Evidence also tells us that many people who have developed good financial capability through their working life may still struggle with the unique money challenges of later life. Therefore, it is important that support is provided to help people confidently and effectively cope with changing money challenges as they move through life. It is particularly important that people are encouraged and supported to think not only about managing their money for their current circumstances, but also to plan ahead for the financial consequences of things that may happen in the future – both planned (e.g. buying a home) and unplanned (e.g. divorce, ill health) life events.

At the same time, the financial services sector must ensure that appropriate and accessible products and services are available for people to use that reflect their changing needs throughout life stages.

Through the Financial Capability Strategy, MAS is leading the coordination of activities - by organisations across sectors and across the UK - to build the financial capability of people at all stages of life; from primary school children to older people in retirement. Through the strategy, and the MAS What Works

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<sup>424</sup> We would be happy to provide the Committee with our submission to the APPG.

Fund, we will work with hundreds of organisations to build strong evidence on what approaches are effective in building and maintaining financial capability through life.

**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? What is the role of the Post Office in providing access to financial services?**

The introduction of fee-free basic bank accounts for people who may otherwise not be eligible for a current account is welcome but many people are likely to remain unbanked (recent developments in welfare policy may bring about an increase in the number of people on benefits using current accounts). In addition to the need to raise awareness of the existence of basic bank accounts, financial services institutions need to actively offer them, while ensuring that the features of those accounts meet the needs of the target group.

Research in 2009 found that 41% of unbanked people did not perceive a need for a bank account. It also found that any people who do have a bank account do not use its features and therefore fail to benefit from the advantages of being banked.<sup>425</sup> In 2010, research found that people chose to manage in cash in order to retain control over their budget and to avoid missed payment and overdraft fees.<sup>426</sup> While new basic bank accounts are fee free, the automated payments infrastructure they use remains inflexible. Consumers of all ages on low incomes are more likely than higher income consumers to manage their money in cash as it allows them to accurately keep track of their finances and flex payments to suit their situation. For financial services to be truly inclusive, products and services need to respond to how consumers manage their money. A lack of trust and negative attitudes towards banks, and lack of basic financial skills, also need to be addressed.

Branch closures and the increasing digitisation of financial services threaten the financial inclusion of people who are digitally excluded, in particular people on low incomes, people over 75 and those living in rural areas. Financial institutions should invest in the financial and digital inclusion of people affected by branch closures, e.g. through provision of support designed to raise awareness of available alternatives, such as the post office, and build digital inclusion/phone banking capabilities. If financial institutions monitored the impact of post office banking solutions and programmes that seek to improve financial and digital capability, we could build and share evidence of what works to keep consumers included in the event of a branch closure.

Changes in people's circumstances can also cause them to become excluded. People suffering from ill-health tend to find ways to continue to access financial services but this can involve taking serious risks. Almost one-fifth of consumers aged 65+ use others to withdraw cash for them and disclosure of pins is

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<sup>425</sup> HMT/Financial Inclusion Taskforce, *Realising Banking Inclusion: A report to the Financial Inclusion Taskforce* (2010).

<sup>426</sup> National Consumer Council, *Basic Banking: get the first step right* (2005)

common. Many are not aware that such behaviour impacts their ability to get a refund if they are the victim of fraud or crime.<sup>427</sup> Financial services need to develop solutions to enable people to continue to have access to financial services safely.

**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 exclusion?**

We have limited our response to part two of this question. Government has a legitimate role in providing leadership in addressing financial exclusion. Government intervention to tackle financial exclusion can be justified on a number of bases: as an enabler of achievement of other government policy priorities; to address market failures which conduct or competition regulation cannot adequately address and which if left unaddressed would inhibit economic efficiency, or as a policy goal in its own right.

With regard to efforts to improve financial capability, intervention by the public sector is justified in part by a significant coordination problem, which inhibits the ability of the disparate range of public, private, and third sector actors with an interest in financial capability from coming together to address such a complex problem.

There has historically been a great deal of activity aimed at assisting consumers with managing their money, planning ahead, and dealing with financial difficulty. The financial services industry especially has been active in funding efforts to educate children and young people on financial matters. However, these activities have tended to be undertaken unilaterally by individual funders and providers which are often in competition with each other. Provision has too rarely been based on sound evidence of impact as robust evaluation of programmes has been inconsistent.

The numerous organisations with an interest in this diverse sector have a range of incentives and pressures, and ultimately have traditionally viewed financial capability through the lens of a range of sometimes competing objectives and analytical frameworks. Effective coordination of these actors has been lacking. As a result, there is a strong argument for government intervention.

The need for such a coordination and leadership role led MAS to develop the FinCap Strategy. However, we believe there will remain a need for ongoing leadership and coordination efforts following MAS's replacement by a new money guidance body. We believe it is important that the new body which replaces MAS should have the ability to undertake activities which provide leadership and coordination of broader sector activity in support of a strategic approach to raising financial capability.

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<sup>427</sup> Age UK, *The way we pay* (2011).



### **Question 11: What has been the impact of recent welfare reforms on financial exclusion?**

Major changes in recent years to the welfare system for working-age adults, in particular the development and rollout of Universal Credit, have provided fresh impetus to efforts to tackle financial exclusion. Claimant households rather than individual claimants in a household now receive single, monthly payments to a nominated, transactional bank account from which they must pay their housing costs directly, for example to a social or private landlord. For most claimant households to date, this transition has been relatively unproblematic in that they have adapted to monthly budgeting without falling into arrears. Yet some claimant households have struggled with this change.

The Government's 2015 agreement with the major personal current account providers to provide basic bank accounts which are more easily available, for which eligibility criteria are more permissive, and which have enhanced standard features compared to those previously available, represents a significant advance in tackling the problem of access to mainstream banking services, and is likely to reduce the chances of negative financial exclusion impacts arising from welfare reforms.

While precise figures are in short supply, anecdotal evidence from landlord groups and others suggests that particular transition issues include a lack of claimant household confidence and ability in paying rent and bills directly and so not falling into arrears; managing money over the course of a month instead of in weekly/fortnightly instalments; opening and using a transactional bank account for receiving payments and paying bills; understanding where to seek advice if financial difficulties loom - in particular to support children, or if there is a threat that one member of a claimant household may commit financial abuse by preventing the other claimant from accessing the monthly payment.

The Department for Work and Pensions has policy levers at its disposal to help claimant households who face particular financial or digital challenges with this transition. These include allowing payments to continue (temporarily) at weekly/fortnightly intervals or continuing to pay landlords directly, instead of expecting the claimant household to do this. The devolved administrations in Northern Ireland and Scotland may choose to make such payment features permanent. DWP has also commissioned face-to-face services delivered by local authorities, housing associations and charities.

As mentioned earlier, MAS has collaborated with DWP to develop an online budgeting support tool aimed at claimant households who have some money-management needs as they move to monthly Universal Credit payments, yet who can self-help because they already have sufficient digital skills and are not in financial crisis. MAS has also produced literature to promote the availability and features of fee-free basic bank accounts in line with the Payment Account Regulations 2015. DWP has used this and other information to communicate to benefits recipients impending changes to welfare payments of UC and other benefits from non-transactional Post Office card accounts to transactional accounts.

**Question 14: Does 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?**

Government has a legitimate role in setting the policy and legislative framework for the development of financial technologies in general. And in line with its broader role in driving financial inclusion and capability, it is legitimate for Government to seek to ensure that such developments serve the interests of those consumers who are, or are at risk of being, financially excluded.

FinTech has the potential to make a significant contribution to addressing financial exclusion, both by widening access to appropriate financial products and services, and by contributing to improving financial capability more generally. Government has so far played a significant role in influencing the development of FinTech to drive competition and innovation in retail banking, especially through driving development of an Open Banking and API standard. The Government's approach reflects the belief that a vibrant market responding to commercial incentives and consumer demand is most likely to deliver long-term benefits to consumers. We agree that the market is the most likely source of valuable services which meet consumer needs, and there is a strong emerging market in the provision of FinTech applications that assist consumers to manage their money. However, there may also be a case for investment in applications which stand to assist those consumers who may not be a focus for commercial providers, such as vulnerable consumers or those on low incomes or with problem debts.

A key risk is that the commercial application of FinTech will tend to favour those consumers who are already highly financially and digitally capable, and who represent an attractive commercial proposition for product providers, potentially at the direct expense of less capable consumers. On the other hand, if products are developed that encourage easier spending or access to credit, those with lower levels of financial capability may be at greater risk of falling into financial difficulties. Consumers may also be at further risk of data theft and scams – which MAS has conducted a considerable amount of research on, 428 should appropriate safeguards not be put in place. Government – and regulators – have a legitimate role to play in managing such risks, both in terms of addressing market failures through its policy and legislative framework and in ensuring that all consumers are able to access innovations in financial technology safely and securely.

*14 September 2016*

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<sup>428</sup>MAS, *Eight 'scam calls' now take place every second* (2016), <https://www.moneyadviceservice.org.uk/en/corporate/eight-scam-calls-now-take-place-every-second>.

## **Money Advice Service – Supplementary written evidence (FEX0093)**

### ***The impact of credit scores on the cost of accessing credit***

A poor credit score, whether a result of poor money management, debt, or a lack of a credit history in the UK, can limit a person's access to mainstream and affordable forms of credit. As well as access to financial products such as overdrafts, credit cards and loans, this can also limit access to some broadband, mobile phone and utility tariffs.

In 2014, we conducted research with young people and found that they are unaware of the importance of building a good credit score.<sup>429</sup> We found this widespread lack of understanding caused knock-on problems for many young adults, for example a fifth (20%) of young people said that their credit rating has caused them financial problems. The research also found that:

- half in this group (51%) reported trouble getting access to credit;
- almost a third (30%) said they had problems getting a phone contract;
- 18% reported that they had trouble getting a job; and
- 22% said they had trouble getting a mortgage.

Overall:

- **22%** of respondents said they had previously been rejected for credit.
- Over a quarter in this group (**26%**) said they instead turned to unauthorised overdrafts when denied credit.
- One in six in this group (**17%**) said they used a credit card with a higher interest rate.
- **19%** said they borrowed from friends or family.
- **12%** in the group borrowed from a payday lender.

Opportunities to broaden sources of credit bureau data, to build scores among excluded consumers, should be explored. Recognising categories of credit, for example when household bills are continually paid on time, would also improve the model.

It is also important to seize opportunities to build people's financial capability in this area – challenging ingrained mind-sets that 'there is nothing I can do that will alter my financial situation' and improving awareness and understanding of what can damage their credit rating and the implications of this and steps they can take to improve it.

We would welcome improvements to the information that is provided when an individual is declined credit. This should be an opportune moment to provide timely guidance to empower individuals to take control of their finances by:

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<sup>429</sup> Money Advice Service, *Young people's knowledge gap on credit ratings causing financial problems* (March, 2014). <https://mascdn.azureedge.net/cms/credit-ratings-yp-final.pdf>

- helping people to understand if they may be eligible to access credit from another provider;
- raising awareness of emerging services that allow you to check the likelihood that your application for credit will be approved, such as those offered by MoneySavingExpert.com;
- making them aware of the potential impact on their credit rating of making multiple credit applications or accessing high-cost short-term credit; or
- prompting them to consider whether they need to access debt advice.

*2 November 2016*

## **Money Advice Service and StepChange Debt Charity – Oral evidence (QQ 90-101)**

Evidence Session No. 9

Heard in Public

Questions 90 - 101

Tuesday 18 October 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); Viscount Brookeborough; Lord Empey; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Lord Shinkwin.

## Examination of witnesses

Francis McGee, Director of External Affairs, StepChange Debt Charity, and Caroline Rookes CBE, Chief Executive, Money Advice Service.

**Q90 The Chairman:** A very warm welcome to our witnesses today. I will ask them to introduce themselves in a minute. This is our ninth oral evidence-taking session. Welcome to this session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. As you know, the meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website. Of course, you will have the opportunity to make corrections to that transcript, where necessary. Could you both briefly introduce yourselves?

**Caroline Rookes:** I am Caroline Rookes, chief executive of the Money Advice Service. For those of you who do not know us, the Money Advice Service exists broadly to help people to manage their money better. We do that in three ways. First, we provide day-to-day money guidance, primarily through a website, around events such as buying a house, having a baby and budgeting, to help people to make better financial decisions. Secondly, we are the biggest single funder of free debt advice, which we fund to the tune of about £40 million a year. We co-ordinate the free debt advice sector and try to raise standards there. Thirdly, we lead a long-term financial capability strategy. Last October, we published a 10-year strategy that brings together all sectors to try to raise financial capability across the UK, which remains dismally low.

**Francis McGee:** I am Francis McGee, director of external affairs at StepChange Debt Charity. We are the largest free provider of debt advice and debt solutions operating across the UK.

**Q91 The Chairman:** Thank you very much for coming and giving the Committee your time. We very much appreciate it. I will kick off with the first question. In your view, is it possible to differentiate prevention and response in debt and money advice work? How much of your work is preventive in nature and how much is responsive? Do you think that balance is correct? What have proved to be the most effective of your preventive activities?

**Francis McGee:** The overwhelming share of the charity's work is responsive. In each of the last two years, we helped more than half a million people with problem debt. We forecast that it will be more than 600,000 this year.

We do aspects of preventive work. We do quite a lot of online and social media communication around things like money tips and awareness of financial difficulties, how to spot them and how to respond to them. We also work very closely with creditors, which is very important preventive activity. About half the people who come to us are referred to us by creditors. The earlier and more effective that referral mechanism is, the more likely you are to avoid at least some of the harm and to secure a permanent recovery from debt problems. The other thing that we do, which is the role of my area of the charity, is try to intervene in public policy, to encourage a concerted public policy response to problem debt.

You asked what is effective. We know that working well with creditors can make a real difference. When creditors communicate successfully with their

customers and refer well to us, it can have a real impact on the speed and effectiveness with which people deal with problem debt. We also know that a concerted effort on the public policy side can make a real difference. We might talk a bit later about the measures taken to cap payday lenders, for example, which have made a real difference to problem debt. All that I would say for now is that there are many more occasions when public policy has not yet taken such decisive action, and perhaps it should.

**The Chairman:** I am sure that we will come back to the public policy issue later in the session.

**Caroline Rookes:** The Money Advice Service provides both preventive and responsive help. There is clearly a need for both. We know that there are around 8 million people in this country with problem debt. The number stays stubbornly around 8 million, so there are a lot of people who need responsive debt help. I will give you an example of one of the things we have been working on at the Money Advice Service. As well as funding responsive debt advice, we have been working on an initiative called the single financial statement, which is a single income and expenditure statement to be used by all creditors and debt advice agencies in the context of debt advice work. It will come in next year. One of the things included in that is a small savings element, so that we are helping, in a small way, to get people to build some financial resilience against future shocks to stop them falling back into debt. The other thing that I would mention is that, in the £40 million that we spend on debt advice, we ask providers to ensure that there is some holistic support for the wider issues that people who are in debt have.

I will say a bit about the other side of the money advice work. We hope that the money guidance day to day is preventive, because it helps people to make good financial decisions, but we also have a financial capability strategy. That is trying to get us from a position where one in five people cannot read a bank statement and 16 million people have less than £100 in savings. We are working with all organisations, across all sectors—government, regulators and banks—and bringing them together. The Money Advice Service's role has been both to bring the organisations together and provide leadership, and to develop a whole suite of evaluation tools.

You asked whether the balance between preventive and responsive is right. We cannot answer that question, because there is so little hard information about what works. One of the things we did this year was to launch a "what works" fund. We asked organisations to bid to set up new initiatives, to fund evaluation of existing initiatives or to test scaling-up initiatives, all around financial capability, so that we can gather evidence of what works and what does not. We can then make sure that that is shared across the piece and, importantly, passed on to the new organisation when it comes into being.

**Lord Haskel:** I am very interested in what you said about your work with creditors. Do you find that the majority of creditors are co-operative? Do you find that the private sector takes one view and the public sector another?

**Francis McGee:** Among the creditors we work with, there is a variety of practices and effectiveness. Over the years, the financial services sector has come to work with us very well. We have very efficient and effective mechanisms to refer people. The sector's forbearance and collection practices are improving—often pushed by regulation; let us make no bones about it—

and have improved a lot. On many measures, they score better; maybe we can talk a bit further about that. When we ask our clients which of their creditors have treated them fairly and which have treated them unfairly, relatively few people—something like one in five—say that a high street bank has treated them downright unfairly, whereas getting on for half of people say that a local authority has treated them unfairly. Utility companies, payday lenders and others may be somewhere in between.

**Caroline Rookes:** I mentioned our work on the single financial statement. At least three of the high street banks are working with us on that and are prepared to use the statement next year, so there is willingness. There is no doubt that there are different drivers in the public and private sectors, but there is willingness to work with us.

**The Chairman:** Caroline, you talked about the “what works” fund that you are setting up. What is the timescale for that being in place, operating and getting out some good practice?

**Caroline Rookes:** That is interesting. Until two weeks ago, we thought that the Money Advice Service would no longer exist post March 2018, so we are funding our first set of initiatives up to the end of the 2017-18 financial year. At the moment, we are in the process of working with 62 organisations to work up their bids, so we hope to get the initiatives up and running. Some of them are already running. We are just putting in place an evaluation before Christmas, so that we start to get results before the end of March 2018. Now it looks as though we have a longer breathing space. Although we have worked with the first 62 organisations, there are another 28 bids that we want to take forward. We will start to get information over the next year or so. Then in the future, we can continue to develop much more evidence about what works.

Q92 **Lord Northbrook:** Do the Government have a leadership role to play in addressing financial exclusion? How do you think such leadership should be delivered, and by whom? What impact do you believe stronger national leadership and co-ordination would have on organisations providing debt and money advice?

**Caroline Rookes:** Do the Government have a leadership role? The short answer is yes. There is a lot that the Government can do. There is clearly a role for the Government when there are market failures. They have stepped up to do things around basic bank accounts and the open banking standard. The same applies to the FCA and other regulators, who are also leading some work on ageing society.

It is about more than that. At the Money Advice Service, we are co-ordinating the financial capability strategy, which we see as an underpin of financial inclusion. I think Chris Pond described it at his session with you as the foundation of the pillars. It is an important element. Yes, we are bringing all organisations together, but there is no doubt that, with more visible and more expressed support from the Government, we could do more. They can help in a number of ways: for example, by giving out strong messages about the importance of financial resilience and of all sectors working together, and through initiatives like Help to Save, facilitating savings.



One area where they really need to be more active is in financial education. At the moment, the Department for Education is absent from all the work we do on financial education, yet last week the OECD published a report that showed that on financial numeracy the UK was 23rd of 30 countries. It is absolutely dismal. The Government need to get behind issues like that.

Lastly, it is important to get the new guidance body right and to make sure that it has a wide enough remit to continue to deliver longer-term strategies around financial capability and co-ordinating financial education, as well as short-term day-to-day help.

**Francis McGee:** I strongly agree. The answer is yes, the Government have a leadership role. For me, there are three aspects. First, the Government have the tools and levers to create frameworks within which policy and practice are made. Secondly, that extends to setting the powers and duties of other bodies. Caroline mentioned the new money guidance body, but it goes to the remit of financial regulators, education bodies, local authorities et cetera. The third area, of course, is the Government's own practice, which we were discussing a moment ago. From the perspective of problem debt, not only are the Government an extremely important creditor—who, the evidence suggests, have something to learn about their own practices as a creditor—but they are a safety net. They are a provider of support and services that will sustain or restore financial inclusion and mitigate financial exclusion. I would argue that in some areas those safety nets are being eroded. In those three aspects, the Government absolutely have a leadership role to play.

Q93 **Lord Haskel:** I want to pursue the role of the Government a bit further. Recently, they revised their plans for the delivery of public financial guidance. They are going to put the pensions and financial advice services together in a single body, to be created, incorporating money guidance and pensions advice. You hinted at the possible timeline. What do you think should be required to realise this? How will it be made into a success?

**Caroline Rookes:** There is quite a lot of work to do. We believe that a single body is the right approach, as we advocated in our response to the original consultation, because people's issues do not fall into neat categories. Even when it comes to retirement, people need to think about paying down mortgages and debt, as well as what they are going to do with their fund. For me, a single organisation to which everybody can turn in the first instance is absolutely the right approach.

In considering the aims of the organisation, it is important to think about getting the balance right, as I alluded to earlier. There will be some areas where the new organisation provides in-depth guidance directly—for example, on pensions—and others where guidance already exists outside, to which people could be handed off. The warmer the hand-off is—the closer the person can be taken to the new service—the better. The organisation needs a balance between providing direct services and commissioning services, and between the day-to-day guidance that it provides and retaining its leadership role around financial capability and financial education. For me, the overriding objective, however it is framed, should be to build financial resilience in the UK. It should do that by providing money and debt advice, directly or indirectly, by continuing to provide strategic leadership in financial capability and by co-ordinating financial education. When you look around the world,

you see that that is the model most countries are moving to. It is the model that seems to be most successful in countries such as New Zealand.

**Francis McGee:** I agree with a lot of that. The real meat is in what the body is asked to do. As a debt advice provider, I hope that you will excuse me for saying that one of the attractions of version 1 of the proposal was having a body charged specifically with ensuring the provision of debt advice, with fewer competing considerations. On the other hand, the chief drawback that I always saw with that was the loss of the strategic leadership function. Having one body focused on commissioning, rather than two, will not in itself solve that. You need a remit that creates the space for that strategic leadership function.

**Lord Haskel:** You said that the longer-term strategies require things like the involvement of the Department for Education, financial regulation and other parts of government. Do you think that the sort of organisation that is foreseen will be able to straddle all those different bits of government?

**Caroline Rookes:** Yes. We are doing that at the moment. We have quite a powerful financial capability board. You will know some of the names on it, such as Sherard Cowper-Coles, Hector Sants and Otto Thoresen. We also have Steve Webb. We have all sectors represented, including government and the regulator. The Government could perhaps take a more active role there. The organisation is unlikely to be able to persuade the Department for Education to get heavily involved; we need the Government for that. An organisation such as this body can make progress. Indeed, we are starting to develop credibility in the work that we are doing on financial capability, because of the robustness of the evidence, the evaluation and the thinking that we are producing.

**The Chairman:** I have a quick follow-up. Francis, what sort of relationship would you like organisations such as yours to have with the new body?

**Francis McGee:** One governed by openness and transparency, from the point of view of commissioning services. The sector would be entitled to be involved in creating the plan for which services are required—creating the gap analysis, if you like. That would go a long way. There is an onus on the sector itself to collaborate beyond institutional boundaries to create the most innovative and best-fit services. There is a role for the new body around sufficiency and adequacy. There is long-standing underprovision of free debt advice in the country, if you compare measures of need with the amount of free debt advice provided. A partnership that is able to increase the resource available is definitely part of that relationship. Those are the kinds of things that I would like to see.

**Lord Kirkwood of Kirkhope:** You are describing something that supports the evidence we have already had on getting a push from government, but a wide waterfront of political issues has to be addressed, from local government onwards. Where would you suggest that we recommend the Government place the Minister at the centre of this? Does it have to be a Treasury Minister? Could it be someone else? What would your advice be on that?

**Caroline Rookes:** That is an interesting question. It is one departments are wrestling with around this new body, because there is a question about which department owns it. If the new body has an overriding objective to raise financial capability or resilience—call it what you will—that is where the

responsibility will rest. It does not necessarily matter, as long as there is a department that owns the issues and strategies and is prepared to champion them. It could be the Treasury or the DWP. I would not see the lead being the Department for Education, but I would want it brought into the fold, so to speak.

**The Chairman:** Francis, your final point about sufficiency and adequacy was very important. In your view, is the underprovision of free debt advice at the moment a result of a funding gap, or are there other causes?

**Francis McGee:** It is exacerbated by a funding gap, for certain. In many parts of the UK, direct public provision of advice and guidance has been withdrawn at a great rate of knots. Local authorities no longer provide the direct debt advice or money advice to local people that they used to provide. The cuts to the legal aid budget have reduced another swathe.

As regards the kind of debt advice that we offer, there is a slightly wider point, which goes to some of the roles and responsibilities of the new body. We have to think about how the body will be funded. If the idea is to continue to fund it, as Caroline is currently funded, through a levy on the financial services industry, there must be some regard to the sorts of things that it is proper for that industry to fund. I happen to think that funding debt advice is a due responsibility of the creditors who contribute to the debt in the first place. Many creditors step up to that admirably, either through the levy or by funding StepChange directly, with great generosity. Other creditors just do not. I am afraid that the Government and the public sector are foremost among those that do not step up to their responsibilities to fund debt advice. You must have regard to how this stuff will be funded when you set the powers and duties of the body, otherwise you create instability and ask the body to get into things where its funders can reasonably say, "Why am I paying for that? Why is the general taxpayer not paying for it?"

**Caroline Rookes:** What Francis says is absolutely right, and it is getting worse all the time. We have just heard that in the last few weeks 13 local authorities have withdrawn all funding from debt advice, which is terrible.

There is another issue, which is the demand for debt advice. Our data tells us that around 8 million people are in debt, but only 17% of them are seeking help. It is not as though the gap is manifesting itself in queues and queues of people. I am quite sure that there are queues somewhere, but for a number of reasons people are not demanding debt advice. That is a problem that we also need to crack. It is about a whole range of things, such as people putting their heads in the sand or being embarrassed about it. As well as increasing supply, we have to do work on the demand side.

Q94 **Lord McKenzie of Luton:** That leads nicely to my broader question. We have heard plenty of evidence that the welfare advice sector has contracted, at a time, of course, when changes in welfare have been extremely intricate and profound. Given the relationship between welfare and financial exclusion, is there benefit in the new money guidance service having some responsibility for providing advice on welfare and social security issues and, if so, how? If not, who should do that?

**Caroline Rookes:** It is a good question. At the moment, we provide some guidance, but not in any depth. We take the same approach on social security

benefits as we take on tax, which is that they are very complicated and others are better placed to explain them, although we have guidance about benefits.

As Francis said, we are funded by the financial services sector. I do not know how the Government will choose to fund the new body. Assuming that it is through a levy on the financial services sector, there is a question about whether the sector would think that it should provide guidance on welfare benefits. You are right; there is a very close link. It is an important part of money and debt advice that people maximise their income and understand the benefits they are entitled to, but there is a question about whether financial services would see that as their role.

We are working closely with the benefits system. At the Money Advice Service, we have developed a budgeting tool to help universal credit claimants budget effectively. We would certainly see the new body collaborating in that way, but I am not sure that it should be the place to go for welfare advice.

**Francis McGee:** Can I give a slightly different angle on that? I absolutely agree that the relationship between welfare advice, money advice and financial exclusion is a critical point, but as welfare entitlements and welfare eligibility tighten, we are seeing evidence that people increasingly turn to consumer credit to do the same job for them. According to our research, 26% of our clients claimed benefits in the first month after suffering some form of income shock, 33% used their credit cards, 40% used their overdrafts and 7% used a payday loan. The consequences of that and the interaction between welfare advice, debt advice, expectations of creditors, and their products and conduct, and financial regulation are becoming increasingly intertwined. I know that the FCA is trying to kick off a debate about responsibilities in the area, and I warmly welcome that. It is a debate that needs more airing.

**Lord McKenzie of Luton:** Is there an argument in favour of a wider, separate, national body to address this? A lot of local authorities and organisations within local authority areas give advice on an ad hoc basis, but it is never comprehensive or across the piece.

**Caroline Rookes:** CABs are probably the most active. We tend to refer people to them or, in the case of older people, to Age UK. There are specialist providers such as Macmillan, but the main one is the CAB. There used to be a provider; it was called the Department of Social Security. That was in the old days.

**Francis McGee:** I have one further observation on that. One of the new complexities that we are confronting, as a national debt advice provider that gives advice on the phone and online, is localisation of welfare. Running an efficient national line, trying to give advice to people about what provision may be available in their postcode, is really hard. We are relying increasingly on calculators and tools when there is a simple answer, regardless of where you live, and referral when there is not.

**Lord McKenzie of Luton:** Can I ask a slightly different question? How can the Money Advice Service work to ensure that the learning that it has acquired to date is not lost in the new body?

**Caroline Rookes:** We are trying to be absolutely at the centre of the programme to build the new body. The original plans were to get rid of the

website, which, despite criticism over the years, is now functioning extremely well. We get around 25 million contacts a year, and the cost of acquisition is pence. We have to make sure, both from a customer point of view and from an efficiency, value-for-money point of view, that the whole range of tools and services—the sophisticated web infrastructure that we have—is passed on to the new body. We also want to make sure that all our evidence about consumer needs is passed on. We have quite an extensive segmentation of consumer need, which a lot of organisations are now using. We have strong partnerships with the BBC, with government, with the NHS and the DWP, with organisations like Mumsnet and with the banks. All that needs to be passed on.

I am trying to ensure that we are at the centre of the discussions as the new organisation is shaped. Under the original proposals, there was a project structure that included us, the FCA, the Treasury and DWP. That has been disbanded because of the change of plans, but I am pressing hard to set up something very similar, and I think they will respond. Because the Money Advice Service has all the processes, systems and structures of a complete body, which the rest of what will come into it does not, I am happy to second people to ensure that we make the most of all the learning and all the resources we have that can make a difference going forward.

**Q95** **Viscount Brookeborough:** Can I take you back to people's early years and schooling? We have read your evidence, and have heard from others, that the figures for children and teaching in schools are fairly dismal, especially in England, perhaps less so in the regions; I come from Northern Ireland. What new initiatives do you believe are required to improve the delivery of financial education in primary and secondary schools? What is required to ensure that activities are targeted, co-ordinated and adequately funded? How will you measure that?

**Caroline Rookes:** First, schools are very important, although perhaps not as important as parents. The important thing is to get to children when they are very young. At the moment, we are piloting financial content in existing parenting interventions in Wales to test that out.

Turning to schools, the report that the APPG on Financial Education for Young People produced set out a number of recommendations which we would support. For me, the key is primary schools. We know that habits and attitudes are formed before the age of seven. We also know that a lot of learning takes place before the age of 12, so it is critical that financial education is taught, and taught well, in primary schools. One big problem is the fact that teachers do not feel confident to teach it. There are a number of reasons for that. One is very closely linked to numeracy. Some teachers are afraid of maths in the way that a lot of adults are afraid of maths, particularly in primary schools, where it is not necessarily seen as a skill that teachers need. Most teachers do not have training in financial education; I think one teacher in five has had it. So there is something about training teachers; there is something about the resources that teachers need.

The other area that I would say is a priority is young adults—the 17 or 18 year-olds who are making the transition to independent living, whether to college or to work, away from home. When they reach 18, they are prey to offers of credit and so forth. Like all of us, they make daft decisions that then

come back to haunt them, because they do not understand credit ratings. There is an awful lot that can be done around 17 or 18 year-olds.

An argument that is often put forward is that financial education does not work. There is some evidence that it does. A parent and student study in Brazil showed impact on the financial behaviour of both. There has been some evaluation in the three US states where financial education is mandatory. Again, it shows positive results, but we need to do an awful lot more to evaluate what works, and that is where the Money Advice Service comes in.

**Viscount Brookeborough:** Is not one of the issues that it is not mandatory and, therefore, simply does not happen? We have been given evidence that, as you said, all too often teachers do not have confidence. In one case, the person giving the evidence said, "They do not have the confidence to teach them about pensions and things like that". You are not teaching primary school pupils about pensions; you are teaching them how to play a game with money—about saving or whatever. To me, there seems to be a bit of an attitude of, "We are not going to do it, and we will find excuses for not doing it".

**Caroline Rookes:** I agree that it should absolutely be on the curriculum in primary schools. There is so much scope to teach it in all sorts of different ways—experiential ways.

**Viscount Brookeborough:** If the children find it fun, the parents will find it fun.

**Caroline Rookes:** Absolutely. I totally agree. That is what needs to happen. It is on the curriculum for secondary schools, but half the schools do not need to follow the curriculum. It is not tested in any serious way by Ofsted, which is another thing we need to look at. If it is not tested, not surprisingly, schools will focus on results that make a difference.

**Viscount Brookeborough:** I have one more question, which has a yes or no answer. Given that school is the one time when every single person goes through an institution, if it was mandatory, would it not provide a base from which to work to solve all the other problems in the future?

**Caroline Rookes:** I do not know that it would solve all problems, but it would provide a very good base—

**Viscount Brookeborough:** It would provide a base on which to work.

**Caroline Rookes:** Totally.

**Francis McGee:** I agree with all of that. This is an area where the "what works" approach Caroline talked about can make a real difference. We have to get smarter at working out how to reach different subject areas of the curriculum, how to support teachers and how to deal with different learning styles, different needs and so on. It has to be a much more structured and broad-based approach.

To pick up the last point, I take the view that financial education will not solve all problems. It is potentially necessary, but it is certainly not sufficient. You cannot educate people out of every vulnerability. You can help them to take decisions that may build their resilience, and you can teach them things that may help their decision-making when they encounter difficulties. However,

when you look at the vulnerabilities that drive exclusion and problem debt, I do not think that education will ever be the sole answer in dealing with them.

**The Chairman:** Lord Holmes, do you want to come in at this point?

**Lord Holmes of Richmond:** No. I was nodding in agreement.

Q96 **Lord Harrison:** How effective is government policy such as the proposed Help to Save scheme in building financial resilience? Are further policy interventions required? Are employers, banks and other organisations doing enough to help those on the lowest incomes to save and to build financial resilience? Francis, in answering that, would you link it to the very interesting statement in your written evidence that “both debt and financial exclusion” should be tackled together?

**Francis McGee:** I will try to answer those questions in sequence. We strongly welcome the Help to Save initiative. We have research showing that, if every household had £1,000 put aside for a rainy day, it would keep half a million households out of debt. That is not a bad aspiration to have. There is a long-standing gap in government savings policy, where the existing interventions do not reach those on the lowest incomes. This initiative will start to make inroads there.

The legislation currently before Parliament can be improved in two or three very specific ways. It could be made to fit better with the reality of the circumstances of the people it is trying to help. They are people who often have very uneven incomes and are in very unstable situations. For that reason, having a hard and fast cap at £50 a month of savings does not fit those circumstances terribly well. A £50 average over time might work better, because people might be able to do more one month and rather less the next.

If it is to act as a buffer against financial difficulties and problem debt, it would be altogether better if the government bonus—generous as it is—were available every six months and people did not have to wait for two years. When we spoke to our clients about this scheme, something like half of them said that they experience some sort of income shock every six months or so, so putting money to one side for a two-year period will not provide them with the accessible rainy-day buffer that they need. If they wanted to use it in that way, they would lose the bonus. The third area is that we need to find a way, if we can, of protecting the accumulating savings pot from creditor and insolvency interventions, so that if somebody hits the buffers while they have an account they do not lose the money to insolvency actions and so on. That is on the Help to Save point.

You asked what more could be done. If I understand the Government correctly, it is interesting that they are saying that up to 3.5 million people could potentially benefit from the Help to Save scheme, but their impact assessments talk about only a fraction of that as the number of accounts that they expect to be opened. There is obviously a wider problem around access to savings for low-income people. We have done quite a lot of work considering whether and how an adaptation to the pensions automatic enrolment system could be used, and how you might be able to attach a rainy-day savings buffer there. That picks up your specific question about employers. The workplace, changing as it is, is still potentially a very useful and economical route to giving people access across a wide range of financial

circumstances. Your final point was about how to tie that to exclusion and debt.

**Lord Harrison:** Yes. You made that point in your written evidence.

**Francis McGee:** It goes back to Caroline's point about resilience. The vulnerabilities that create financial exclusion and the vulnerabilities that give rise to problem debt are very often the same. They are things like not having a stable and predictable income and not having a set of safety nets when you hit hard times. Savings are one kind of safety net. They provide a buffer, so that when the boiler explodes or the car breaks down you do not need to resort to credit to get by. We know that, if you resort to credit, you risk putting yourself into a spiral of dependency that could end in very chronic exclusion and very chronic problem debt. Does that help?

**Lord Harrison:** That is very helpful. Caroline, could you tackle the same questions? Could you also tackle Francis's point that the two-year gap before you can access the £1,200 is a test on the recipient, and his analysis that the help that is available is not always appropriate? For instance, when I read that the ISA limit was increased to £20,000 or, indeed, that a lifetime ISA was being introduced in March this year, I thought, "This isn't of any interest to people we are talking about".

**Caroline Rookes:** The Help to Save initiative probably is. Our research shows that probably about half of those eligible for it have no savings, so it should make a difference to them. It is absolutely critical, as Francis said; if we are going to build resilience, people need that rainy-day savings pot.

It is too easy to dismiss people on low incomes as not able to save. We did a very small-scale piece of research in 2014, where we challenged 24 people on low to moderate incomes to save £100 a month. More than 20 of them did it, some on incomes as low as £15,000 a year. They kept video diaries. When you see the confidence—how empowered people feel—you realise how important it is. For one lady, the important thing was that she had been able to afford to take the dog to the vet. It is so powerful. It is vital that we create a culture of rainy-day savings, but I do not underestimate the problem. We are talking about a major cultural shift—moving away from spending today and worrying about tomorrow when it comes—so there has to be a multi-sectoral approach to saving.

As Francis said, the workplace is important. One of the areas we are looking at in the context of the financial capability strategy is how we can use the workplace, in two ways, to help people to save—to build rainy-day savings. One is to use payroll, building on the idea of automatic enrolment, although it is too soon to put anything on the back of auto-enrolment, not least because it does not finish rolling out until 2019. The other is to get employers onside, not just to provide the saving schemes but to ensure that people have guidance in the workplace. One of the work streams of the FCA Financial Advice Market Review is looking at what employers can do to help their employees. Automatic enrolment has brought money issues back into the workplace. People tend to trust their employer, so there is some fertile ground to build on there.

**Lord Harrison:** The other point that I made was about the ISA—the provision that was made in March.



**Caroline Rookes:** The lifetime ISA.

**Lord Harrison:** This is not to do with the people we are concerned with, is it?

**Caroline Rookes:** I would not have thought so. There is a question about how the lifetime ISA fits with automatic enrolment. For me, the important thing is to get people saving for their pension. Automatic enrolment will do that job. Giving people a choice, effectively, by saying, "You are automatically enrolled in a pension. There is now this lifetime ISA alongside it", is complicating things for people. The people we are talking about are people who should accept being auto-enrolled in their workplace pension.

**Lord Harrison:** Francis, do you want to tackle the ISA point?

**Francis McGee:** I have made the point, really. The statistic that I happen to have in front of me is that, if you are in a household that earns less than £26,000, you are half as likely to have an ISA as you are if you are in a household that earns over £50,000. It is a question of reach. That goes to the incentives and targeting of financial services companies and so on. There is a gap among people for whom saving every pound is a hard thing to do. They do not yet have access to the kinds of rewards that are available to people for whom it is less hard.

Q97 **Lord Empey:** In the collection of debts such as council tax, are the Government and local authorities getting the right balance between, on the one hand, ensuring that public moneys are collected and, on the other, helping those who are struggling to manage their debt? How might those practices be improved?

**Caroline Rookes:** You are looking at me, so I will take it first, but I suspect that Francis will have a lot to say on this. I do not think that the balance is right. There are pretty variable practices around, but it appears that local authorities, in particular, can be very heavy-handed when dealing with council tax arrears. It is important that they look at the balance between recovering public moneys and helping people to get out of debt. I am sure that Francis will mention research that StepChange has done about the cost to society of people being in debt—lost productivity, health issues and so on—so it has to be important to help people to put their affairs in order, rather than sending the bailiffs around to bang on the door.

There are three things that we would suggest. One is that the Government work more closely with the debt advice sector, so that people are referred to debt advice more quickly and more seamlessly. The second is that they introduce processes that are more aligned with those used in other parts of the debt advice sector and with creditors. The third is that there is an approach to forbearance, which may well come up when we talk later about the Scottish system. I am sure that Francis will have a lot to say.

**Francis McGee:** I talked earlier about our premier league table, which we included in our written evidence. Local authorities were up there in second place, with 42% of our clients saying that, as a creditor, they had treated them unfairly. The only group above local authorities in that league table were bailiffs. When you consider that over half of bailiff cases are in relation to council tax debts, you start to build a picture of the important role that local authorities play in problem debt and the harm that it causes. In 2015, 30% of

our clients came to us with council tax arrears among their debts. Only four years earlier, it was half that, so it is an accelerating problem.

I completely take Caroline's point, which I support, about signs of heavy-handedness. The first thing that we encourage people to do is to engage with their creditors. Some 86% of our clients said that they engaged with their council; 65% of those said that, by return of post, they got a threat of enforcement or court action, or a demand for the whole year's outstanding liability. The puzzling thing is that there is very little evidence that it works.

The Money Advice Trust is another debt charity, which runs the National Debtline—I think you saw Joanna. It did some absolutely first-class work. It made freedom of information requests about local authorities the length and breadth of the country. When it looked at bailiff use, it found that the top 10 councils for frequency of bailiff use collected 22% of their debts, but the bottom 10 councils for frequency of bailiff use collected 31% of their debts. There is evidence to suggest that it does not work.

What can you do? We need better joining-up between the appropriate bits of central government and local councils. There are bits of guidance about what good practice means, but they are non-statutory. There are competing incentives on councils: to abide by principles of good collection and put affordable repayment front and centre, on the one hand, versus cash collection in-year, on the other. There is plenty more that can be done.

**Lord Empey:** We all understand that a local authority has to do what it can, in fairness to everybody in the area, to collect the money that it is owed. That is common ground. Some debtors may say, "It is a local authority. It is off a broad back. I'll worry about something else, rather than them". People may tend to put them at the bottom of the pile. The other thing is that in Northern Ireland, where I come from, we do not have council tax; we have property-based rates. Of course, a property is physically there, so we have a very high collection rate. I wonder whether the system itself is at fault.

**Francis McGee:** It is very difficult to analyse whether people put the council at the bottom of the pile and to provide evidence for that. We can talk more about this when we discuss forbearance and so on in general, but we know that, typically, our clients present with five or six consumer credit debts, plus a couple of priority arrears—a council tax liability, a water bill or whatever. It takes only one of those creditors to break the spirit of good collection for the person to be sent into a "robbing Peter to pay Paul" scenario.

Taking your point about broad backs, I would start on the basis that there is a responsibility on government, central and local, to provide leadership by example in these areas. The only other thing I would say about perverse outcomes is that there is evidence that, even when a council is successful in collecting its council tax, its collection of rent from social housing often falls off, so it is even robbing itself. I do not know whether that works in the rates scenario.

**The Chairman:** We need to press on a little now. Francis, would you be able to provide the Committee with a note on that very interesting point? You talked about the evidence for different approaches by different local authorities and the different results they have had. It was almost as if you had some sort of league table.

**Francis McGee:** I do not have a league table, but I can find the National Debtline stuff for you. I have two or three really good examples of where good practice seems to be working.

**The Chairman:** That would be excellent.

Q98 **Lord Holmes of Richmond:** What has been the impact of the recent regulation of payday loans? Should other forms of high-cost, short-term finance be subject to similar regulation?

**Francis McGee:** In 2013, one in four of our clients presented with at least one payday loan debt. Since the introduction of the price cap, that has fallen to one in six. There is no doubt in my mind that regulatory intervention has made a real difference in the market.

Next week, we will publish some new work that points to some continuing issues in that market, which suggests that it is by no means job done. A lot of the pricing that we are now seeing is clustered very close to the cap. The products have changed. There are now fewer classic 30-day payday loans; there are more instalment products over several months. Arguably, the price cap is not right for those products. It was not set with those new designs in mind. There are still problems with people having multiple loans of this kind. Where our clients have a payday loan, over a third of them have three or more. That suggests that there are still issues with affordability assessments and responsible lending. There are still issues in the payday market.

On other forms of high-cost credit, the FCA has made some very welcome moves to start to take action around guarantor loans. People often ask me, "Where are you watching next?" You watch the things that are rising at a fast rate. Guarantor loans are still low in absolute terms, but they are rising quickly. We are also starting to see the guarantors, as well as the original borrowers, coming to us for debt advice. The FCA is starting to take steps in that market, so let us see how it goes. It is also intervening on rent to own. There are still some quite difficult practices in that market. We want to see it go further. A lot of bundling goes on. You have to take out very expensive warranty products alongside the actual goods, and some of the collection and repossession practices in those markets still need straightening out.

There is room for intervention in a variety of different high-cost credit markets. Whether a price cap of the payday loan style is the right intervention in each one I will leave to the regulators, but we are certainly anxious for action to protect vulnerable people.

**Caroline Rookes:** I do not have anything to add to Francis's comments.

Q99 **Lord Holmes of Richmond:** Let me ask you another one, then. Do you think that adequate protection exists around more traditional products such as overdrafts and credit cards to stop people getting into difficulties with those products?

**Francis McGee:** Would it astonish you if I said no? In the work that we will publish next week, we asked people who have been declined a payday loan what they are using instead. The single biggest category is a different payday loan, but the next ones are doorstep loans, credit cards and overdrafts. Credit cards and overdrafts can both lead to persistent problem debt.

With credit cards, there are the serial minimum payers—the people who pay the contractual minimum, month in, month out. In 5.1 million accounts, it will take more than 10 years to clear the balance. People have multiple cards. A third of the people who present to us with credit cards have three or more. People have their credit limits increased without asking. We think that people should have control over how much credit they have access to.

There is room for regulatory interventions on credit cards. Companies could do things to increase the minimum payment. We did some sums. You could get the repayment period down from 18 years to three years if the minimum payment went up by £10 a month on some products. That is at least a trade-off that is worth debating. We think that unsolicited credit limit increases should just stop.

On overdrafts, the Competition and Markets Authority has recommended that the banks set themselves a monthly cap on unarranged overdraft charges. We think the regulator should set that cap for them. Many of the main banks already have self-imposed caps, yet we still see people who are chronically excluded and in chronic financial difficulty picking up £45 a month charges in five or six months out of 12. A lot of problem debt is caused by mainstream credit products.

**The Chairman:** Thank you very much. Is your question quick, Lord McKenzie?

**Lord McKenzie of Luton:** Hopefully. If it is not, perhaps the witnesses could write to us on the issue. You intimated that issues around credit scoring are too lax, in a way, because they allow proliferation of debt. Is there something at the other end of the spectrum, where lack of transparency on how it all works makes it more expensive for people to borrow?

**Francis McGee:** I think Caroline has talked about credit scores.

**Caroline Rookes:** There are a lot of issues around credit scores. Can we write to you on that?

**The Chairman:** If you could write to us, it would be very helpful.

Q100 **Lord Kirkwood of Kirkhope:** Time is against us. I want to put a narrow point to Francis about forbearance, but could I ask two contextual questions before that? The first is a bit of a leading, lawyer's question. In relation to the trends in the problems associated with financial exclusion and inclusion, would you both agree that the problem is actually accelerating—I think Francis used that phrase—and that things are now getting qualitatively different? Is there a way of characterising that? Is it just getting steadily worse, or is it getting dramatically worse? What is your sense? The evidence that we have is that it is getting worse, and quite badly so. You both have very interesting perspectives on this. I would be interested in your quick assessment of how bad is bad.

**Caroline Rookes:** It is not getting dramatically worse. It is certainly not getting any better, but indicators such as levels of financial education tell us that in the future things could get dramatically worse. With uncertainty coming down the line from Brexit, the potential is for a dramatic decline in people's circumstances, because they do not have the resilience to cope with the shocks that may well come down the line.

**Lord Kirkwood of Kirkhope:** That is the point I was driving at.

**Francis McGee:** I completely agree with that. I would distinguish two groups that are vulnerable. One is a group that has persistently low incomes and, therefore, vulnerability to not being able to make ends meet, month in and month out. It is not clear to me that that group is getting decidedly bigger or smaller. It has been persistent over years, if not decades. There is another group that is facing increasing vulnerability. It is a group that is often in work. Only a third of our clients are out of work; this is a working problem. It is to do with the nature of work—with work not providing a steady, predictable income for everybody in the way it used to. That is related to zero-hours contracts, rising self-employment and different forms of work. It is creating a group whose numbers are rising, I believe. It is the group that Caroline characterised as increasingly at risk from future economic uncertainties—a Brexit-related slowdown, higher inflation and so on.

**Lord Kirkwood of Kirkhope:** That is extremely useful. Caroline, can I turn to you and talk about a contextual question that the Committee is facing? We are considering this subject in the middle of the gestation of the transition to the new body. I would be very interested to know how you think we might be able to assist with that. You said that you had put in some evidence to the Government. I do not know whether we have seen that; if we have not, maybe we could see it.

**Caroline Rookes:** Yes.

**Lord Kirkwood of Kirkhope:** While you are answering that, I have a slightly cheekier question. Some of the evidence suggests that, since 2011, the momentum has faded from this whole subject. The Money Advice Service has been through some uncertain times as part of that. Your evidence is very strong this morning, but are you able to assure us that the learning points have been made, the future is clearer and the difficulties in the past are now behind you, in the work that you are doing to put the organisation back on track?

**The Chairman:** Can I intervene at this point? They are very important questions, but time is very much against us. Could I ask for some very succinct answers, please?

**Caroline Rookes:** Okay. Very succinctly, yes, we have put a lot behind us. A lot of the issues that have been around about the Money Advice Service are based on out-of-date information. Last year, we worked with a whole range of external stakeholders to produce a corporate strategy, which had unanimous agreement among those stakeholders. The important change was that we accepted the need to move more towards commissioning, to have less duplication and to look more at filling gaps. It will not be entirely commissioning—there will be areas where we continue to provide a service—but we will move away totally from duplicating other areas. We have also developed a lot more insights around financial capability and around customers. We have done a lot of work that has increased our credibility.

On the issue of helping us, for me, the important point is to raise the question of very low financial resilience. That is a fact. It is a fact that, in the short to medium term, people may face a lot of uncertainty and turmoil around Brexit. Longer term, people are saving into pensions that will be much smaller than they were in the past et cetera. It is about getting the Government to accept

the importance of financial resilience, and its ever-growing importance in the context in which we are all operating.

**Lord Kirkwood of Kirkhope:** That is very useful. I have a single-sentence question for Francis. Why should the Committee not recommend that we put in statute across the United Kingdom the debt arrangement scheme that applies in Scotland?

**Francis McGee:** Why you should not? I cannot think of a good reason.

**Lord Kirkwood of Kirkhope:** It was a bit of a leading question.

**Francis McGee:** The debt arrangement scheme is not perfect, but I can offer many suggestions on how to improve it to something that would work brilliantly well across the UK.

**Lord Kirkwood of Kirkhope:** If you could do that, it would be very helpful.

**The Chairman:** That would be excellent.

Q101 **Lord Shinkwin:** Mindful of time, I have two questions. One is for answer now, if you would, and the second is for written answer after today. Both of you touched briefly on good practice. I was particularly interested in your “what works” fund, Caroline. Could you each give us just one example—your top example—of good practice in local, regional or devolved government that you would highlight for possible wider rollout? The question for written answer is this. Francis, you mentioned that one of the new complexities that we are facing is the localisation of welfare. Given the localism agenda, how can a co-ordinated approach to tackling financial exclusion be achieved? Perhaps I could hear your top example of good practice.

**Caroline Rookes:** I would instance some pilots that we have been running in Scotland helping vulnerable people to see that they need help and then supporting them to get that help. A group of volunteers is working with people who are probably too fearful to approach agencies, getting them to the agencies and really transforming their lives. The trouble is, as you say, that it is very localised. It is one to one and very expensive. One of the things we want to do in the “what works” arena is to see the extent to which you can scale up some of these initiatives. There are a lot of them, particularly in the devolved Administrations, because we are operating in a much smaller area and it is easier to test initiatives. We want to look at whether there is any scope for scaling up some of those.

**Francis McGee:** I can think of two local authorities in England that have set up partnerships with local credit unions or social lenders and with white goods providers. They have a very good mechanism, with very quick referral, decision and intervention, to get people stuff they need, whether a loan, goods or whatever. That kind of multipartite partnership seems to work very effectively.

**The Chairman:** We look forward to your written answer to the other question. We are coming to the end of the session. I apologise for the fact that we have gone over by five minutes or so. Could I ask you to finish with a one-sentence response to a question that I always ask at the end of these sessions? Looking at the subject of financial exclusion overall, where do you

think the Committee should focus its attentions most? What is the top area for us to focus on?

**Francis McGee:** If I am allowed one sentence with some semicolons in it—

**The Chairman:** That is fine.

**Francis McGee:** The key vulnerabilities driving financial exclusion are around the erosion of the income safety net; what is happening when people are in work, when they are out of work and when they move from being in work to being out of work. That is the first area. The second is better forms of credit, which is the social lending point, and alternatives to credit, which are things like saving. The third is things that will help recovery, so that financial exclusion does not become chronic and does not give rise to long-term scarring. That is about access to debt advice and other forms of advice and things like the protection offered by the debt arrangement scheme.

**Caroline Rookes:** For me, it is, first, pushing hard for the new money guidance body to have the right remit, powers and resources, so that it can continue to work to improve financial capability, financial resilience and financial inclusion; and secondly, really pushing hard to get financial education properly taught at younger ages.

**The Chairman:** Thank you very much. It has been a very good session. We are very grateful to you. We have got a lot out of it, so thank you for your time.

## **Money Advice Trust – Written evidence (FEX0047)**

### **1. Introduction**

- 1.1. The Money Advice Trust welcomes this opportunity to provide written evidence to the House of Lords Financial Exclusion Committee's call for evidence. This follows the oral evidence provided by the Trust's chief executive, Joanna Elson OBE, to the Committee's evidence session held on 5<sup>th</sup> July 2016.
- 1.2. Please note that we consent to public disclosure of this response.

### **2. About the Money Advice Trust**

- 2.1. The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence. The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.
- 2.2. Over 1.35 million people were supported by the Trust in 2015, both directly through our advice services or indirectly through training advisers in charities across the UK. This includes almost 400,000 individuals assisted through National Debtline, over 50,000 small businesses through Business Debtline and over 900,000 through our adviser training. We support advisers by providing training through Wiseradviser, innovation and infrastructure grants.
- 2.3. We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

### **3. Summary of evidence**

- 3.1. We believe that that financial exclusion is a significant social problem, the scale of which necessitates a co-ordinated, whole-society strategy in response. Improving financial inclusion in the UK will require a partnership between government, financial services, the education system, the money and debt advice sector and wider civil society.
- 3.2. There is a need for the Government to take a greater leadership role in tackling financial exclusion, and we support the Financial Inclusion



Commission's recommendation<sup>430</sup> for a senior government lead and the appointment of Ministerial champions to drive this agenda forward. Given the localism agenda, this should include an emphasis on a joined-up approach between central, local, regional and devolved Government.

- 3.3. Problem debt is both a cause and consequence of financial exclusion – and this close relationship means that reducing the former must be a crucial component of action to tackle the latter. This should include ensuring the adequate provision of free debt advice, and that this provision reaches the large majority of over-indebted people in the UK who are not currently seeking advice.

#### **4. Definitions and causes of financial exclusion**

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

- 4.1. In our view, viewing financial exclusion as the 'inverse' of financial inclusion risks presenting the two as binary states, whereas financial inclusion is better conceptualised as a continuum – with different groups of consumers experiencing different levels of engagement with financial services (and at different times and in different ways). This better captures the complexity of this significant social problem, the scale of which demands multi-faceted and whole-society solution.
- 4.2. Causes of financial exclusion include low financial capability, financial products and services that do not always meet customer needs, a lack of trust in financial services, new barriers from technology, vulnerable circumstances and, significantly, problem debt.
- 4.3. The persistence of a low level of financial capability in the UK has been well documented, and is a problem that the new UK Financial Capability Strategy<sup>431</sup> seeks to address. Low financial capability acts as a barrier to engagement with financial products and services, and is one of the most significant causes of financial exclusion.

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<sup>430</sup> Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, <http://www.financialinclusioncommission.org.uk/report>

<sup>431</sup> Money Advice Service (2015), The UK Financial Capability Strategy, [https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5\\_uk+financial+capability+strategy.pdf](https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf)

- 4.4. It is also the case that financial products and services do not always meet the needs of low-income consumers – for example, a lack of access to affordable credit which results in some turning to high cost borrowing, and a lack of affordable home insurance products that can leave some consumers unprotected and at greater risk of financial difficulty.
- 4.5. A lack of trust in financial services is also a cause of financial exclusion, acting as a barrier to engagement. The issue of trust in financial services has been particularly apparent over the last decade in the wake of the financial crisis, and remains a significant factor.
- 4.6. Financial exclusion can also be reinforced by barriers arising from new technology. While technology offers many opportunities to improve products and services for consumers (for example more channels, greater convenience), it can also present risks to financial exclusion – for example with services shifting online to the potential detriment of those who are digitally excluded.
- 4.7. A further cause of financial exclusion is issues around vulnerability – and there is now a greater awareness of how vulnerable circumstances (for example, mental health, terminal illness, disability or bereavement) change the way in which customers engage with financial services. While progress is being made in this area, including following the work of the British Bankers' Association's Financial Services Vulnerability Taskforce<sup>432</sup>, this remains a significant issue that the industry and stakeholders must address.
- 4.8. Problem debt can be both a cause of financial exclusion – for example, through its impact on your credit rating – and a consequence of it – for example, through a lack of access to mainstream credit and the impact of the 'poverty premium' (see 4.11 to 4.14)

**Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

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<sup>432</sup> British Bankers Association (2015), Improving outcomes for customers in vulnerable circumstances, <https://www.bba.org.uk/news/press-releases/financial-services-establishes-new-gold-standard-for-customers-in-vulnerable-circumstances/#.V9cOkrlTEy8>

- 4.9. Financial exclusion affects a wide range of groups, but we would highlight people on low incomes, people in vulnerable circumstances and increasingly, those who are digitally excluded as three groups in society who are particularly at risk. There is a significant overlap between these groups.
- 4.10. There has been a significant shift in the demographics of financial difficulty in the UK in recent years. Analysis of people contacting National Debtline for help with problem debt shows significantly more people who rent (60 percent of clients now, compared to 47 percent in 2010), more people who are single (37 percent now, compared to 30 percent in 2007) and fewer in full-time employment (32 percent now, compared to 44 percent in 2007).
- 4.11. The UK landscape has also undergone significant shift since the financial crisis, and these trends must be understood to fully understand the challenge of financial exclusion. In 2014 the Money Advice Trust's Changing Household Budgets research<sup>433</sup> showed that more people are now falling into debt because they cannot afford essentials such as utility bills and council tax, with an accompanying decline in problems due to traditional credit products. In 2007, 69 percent of callers to National Debtline had problems with loans, overdrafts or credit cards – by 2014 that had fallen to 42 percent. In the same period, the service saw a 140 percent rise in calls about household debts such as rent arrears, energy and water bills, telephone bills and council tax.
- 4.12. Given the significance of problem debt as a factor in the financial exclusion, we believe that this shift in the debt landscape towards household bills necessitates a cross-sector approach to improving financial inclusion in the UK, encompassing non-financial creditors such as energy companies and local authorities.
- 4.13. A further group at risk of financial exclusion that is often overlooked in this debate is those who are self-employed, with self-employment now accounting for more than 14 percent of the UK workforce. The Money Advice Trust's Cost of Doing Business research in 2015 demonstrated some of the challenges self-employed people face, including a lack of

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<sup>433</sup> Money Advice Trust (2014), Changing Household Budgets, <https://www.nationaldebtline.org/EW/Documents/Changing%20household%20budgets.pdf>

access to business banking facilities and difficulties obtaining a mortgage because of fluctuating income<sup>434</sup>.

**What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

- 4.14. Financial exclusion is undoubtedly a cause of social exclusion – and we would highlight the close relationship between financial, social and digital exclusion in particular. The Office of National Statistics' latest Internet Access Survey<sup>435</sup> shows that 11% of households do not have access to the internet – including nearly half of single pensioners. As services are increasingly shifted online, the needs of the minority without internet access must still be taken into account.
- 4.15. Problem debt is both a cause and consequence of financial exclusion, and understanding this complex relationship is crucial to understanding both issues.
- 4.16. The effects of struggling with unmanageable debt can create new barriers to financial inclusion in the future. For example, finding yourself unable to keep up with credit commitments has a negative impact on your credit rating, which makes it harder to obtain credit in the future, and bankruptcy can make it difficult to open a bank account.
- 4.17. Conversely, financial exclusion can lead directly to financial difficulty and debt problems. For example, the poverty premium that many low income households pay increases costs and pressure on already stretched budgets, a lack of access to affordable borrowing can lead to people turning to high cost credit or even illegal lenders and a lack of savings leaves consumers without a cushion to protect them from future income shocks.
- 4.18. This close relationship between problem debt and financial exclusion means that reducing the former should be a priority in addressing the latter. This must include ensuring the adequate provision of free debt advice, and ensuring that this provision reaches the 83 percent of over-

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<sup>434</sup> Money Advice Trust (2015), The Cost of Doing Business, [http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/MAT\\_BD\\_L\\_COST\\_OF\\_BUS.pdf](http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/MAT_BD_L_COST_OF_BUS.pdf)

<sup>435</sup> ONS (2016), Internet Access Survey 2016, <http://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2016>

indebted people that the Money Advice Service found are not currently seeking advice<sup>436</sup>.

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

- 4.19. Vulnerable circumstances (including disability, mental health problems, terminal illness, bereavement and a wide range of other factors) can fundamentally change the way that consumers engage with financial services products and services. The work of the British Bankers' Association's Financial Services Vulnerability Taskforce<sup>437</sup> highlighted that significant improvements are needed to ensure that customers in vulnerable circumstances receive the best experience and outcomes.
- 4.20. While the industry is responding well to this agenda – including through the more comprehensive inclusion of vulnerability in the new Standards of Lending Practice<sup>438</sup>, bringing the achievement of improved outcomes within the Lending Standards Boards' monitoring regime – there remains significant work ahead.

5. Financial education and capability

**Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

- 5.1. As the Financial Inclusion Commission identified in its report<sup>439</sup>, the UK's persistent low level of financial capability is one of the most significant drivers of financial exclusion.
- 5.2. A lack of financial capability acts as a barrier to engagement with often complex and jargon-filled financial products and services, can lead to consumers not shopping around to get the best rates or prices, can add additional costs (for example through overdraft charges and missed

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<sup>436</sup> Money Advice Service (2013), *Indebted Lives*, <https://mascdn.azureedge.net/cms/indebted-lives-the-complexities-of-life-in-debt-november-2013-v3.pdf>

<sup>437</sup> British Bankers Association (2015), *Improving outcomes for customers in vulnerable circumstances*, <https://www.bba.org.uk/news/press-releases/financial-services-establishes-new-gold-standard-for-customers-in-vulnerable-circumstances/#.V9cOkrlTEy8>

<sup>438</sup> British Bankers' Association and the UK Cards Association (2016), *The Standards of Lending Practice*, <https://www.lendingstandardsboard.org.uk/wp-content/uploads/2016/07/Standards-of-Lending-Practice-July-16.pdf>

<sup>439</sup> Financial Inclusion Commission (2015), *Financial Inclusion: Improving the financial health of the nation*, <http://www.financialinclusioncommission.org.uk/report>

payment fees) and can act as a barrier to building up a savings buffer to protect against future income shocks.

- 5.3. While there is a broad consensus that a holistic approach to improving the UK's financial capability is needed – now guided by the UK's Financial Capability Strategy<sup>440</sup> – **financial education** in schools remains a key element to this.
- 5.4. The introduction of financial education into secondary schools through the National Curriculum in 2014 was significant, but only a first step. However, with research showing that our financial habits in adulthood can be established as early as seven years old<sup>441</sup>, financial education must begin much earlier, in primary school. In addition, with nearly two thirds of secondary schools now academies, able to set their own curricula, a more consistent and co-ordinated approach is needed.
- 5.5. We believe the Government should consider the recommendations of the APPG on Financial Education for Young People in its recent report reviewing the 2014 curriculum changes<sup>442</sup>. In particular, more work is needed to encourage all types of school – including Academies and free schools – to integrate financial education into their own curricula.
- 5.6. The APPG on Financial Education for Young People also found that provision in those schools that do deliver financial education should be strengthened by focus on real-live contexts, and that a significant gap exists in teacher confidence and skills, with just 17% having received training.<sup>443</sup>
- 5.7. Turning more directly to the question of **debt and money advice provision**, the government has proposed significant changes in the provision of public finance guidance, with the aim of ensuring that “all consumers can access the help they need to make effective financial decisions throughout their lives”. We are broadly supportive of these proposals – in particular we support plans to focus public financial

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<sup>440</sup> Money Advice Service (2015), The UK Financial Capability Strategy, [https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5\\_uk+financial+capability+strategy.pdf](https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf)

<sup>441</sup> Whitebread, D and Bingham, S (2013), Habit Formation and Learning in Young Children, Money Advice Service, <https://mascdn.azureedge.net/cms/the-money-advice-service-habit-formation-and-learning-in-young-children-may2013.pdf>

<sup>442</sup> APPG on Financial Education for Young People (2016), <https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf>

<sup>443</sup> Ibid.

guidance in the debt area on filling gaps in existing provision. Debt advice needs to be commissioned across all channels that clients use – including phone and online, thus preserving more expensive face to face channels for those who really need it.

- 5.8. Ultimately, funding of debt advice will need to increase to meet increasing demand – and to ensure that provision reaches more of the people who need it, but who are not currently seeking advice.

### **How can financial literacy and capability be maintained and developed over the course of a person’s lifetime?**

- 5.9. The UK’s Financial Capability Strategy<sup>444</sup> has rightly focused attention on the importance of understanding life events in financial capability. Research from the Money Advice Service<sup>445</sup> identified these as positive (such as getting married, entering work, owning a home) and negative (such as a partner dying, divorce or separation, ill health or losing employment).
- 5.10. Delivering timely interventions to improve financial capability at these key life events is crucial, and financial services firms should consider how behavioural insights can be used to design these. To take one example, in the Money Advice Trust’s recent report on young people, credit and debt, Borrowed Years<sup>446</sup>, we proposed that the act of seeking credit for the first time could represent a golden opportunity to offer timely support to help young first-time borrowers to better understand credit and debt.
- 5.11. We would also highlight the role of debt advice in improving financial capability at key moments. In particular, National Debtline’s self-help model is designed to help clients both resolve the immediate problem, and also improve capability to prevent future financial difficulty – with 87 percent of National Debtline callers reporting that they are less likely to find themselves in a similar situation in the future.

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<sup>444</sup> Money Advice Service (2015), The UK Financial Capability Strategy, [https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5\\_uk+financial+capability+strategy.pdf](https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf)

<sup>445</sup> Money Advice Service (2015), Milestones and Millstones, [https://masassets.blob.core.windows.net/cms/files/000/000/208/original/Milestones\\_Millstones\\_booklet.pdf](https://masassets.blob.core.windows.net/cms/files/000/000/208/original/Milestones_Millstones_booklet.pdf)

<sup>446</sup> Money Advice Trust (2016), Borrowed Years: A spotlight briefing on young people, credit and debt, <http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/Borrowed%20Years,%20Young%20people%20credit%20and%20debt,%20Aug%202016.pdf>

- 5.12. To ensure that progress in addressing the UK's low financial capability is maintained – and that the present focus on 'life events' continues – we believe that the money guidance successor body to the Money Advice Service from 2018 should continue to play a statutory co-ordinating role. This is an area in which it could add significant value.

## **6. Addressing financial exclusion**

**What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charity sector and business play in tackling financial exclusion?**

- 6.1. When considering the response to any social problem, a balance must be struck between personal responsibility and the responsibility of organisations and the state towards individuals. However, we do not believe that the issue of personal responsibility is of particular relevance to debate around financial exclusion. As with our experience of helping people in financial difficulty, the circumstances of the vast majority of those who are financial excluded are due to factors outside of their control – and so the emphasis must instead be on reducing these factors and providing support for people who need it.
- 6.2. We believe a whole-society approach is needed to tackle financial exclusion, which requires a partnership between government, financial services, the education system, the money and debt advice sector and wider civil society.
- 6.3. At the same time, there is a need for the Government to take a greater leadership role on this issue, and we support the Financial Inclusion Commission's recommendation<sup>447</sup> for a senior government lead and the appointment of Ministerial champions to drive this agenda forward.

**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? What is the role of the Post Office in**

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<sup>447</sup> Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, <http://www.financialinclusioncommission.org.uk/report>



## **providing access to financial services for such customers, and how might that role develop?**

- 6.4. Progress on the issue of unbanked consumers has been made through the Treasury-brokered industry agreement on Basic Bank Accounts<sup>448</sup>, which led to nine major banks launching fee-free Basic Bank Accounts at the beginning of 2016<sup>449</sup>.
- 6.5. However, it remains the case that banking products and services do not always meet the needs of low income consumers. One example is the issue of unauthorised overdraft charges, currently totalling around £1.2 billion a year, with this cost largely borne by those who can least afford it. Following its recent retail banking review<sup>450</sup>, the Competition and Market Authority's announcement of bank-set monthly charge caps is welcome, but unlikely to be enough to resolve this issue and that an industry-wide cap could be required.
- 6.6. As the work of the Financial Services Vulnerability Taskforce highlighted<sup>451</sup>, there is also a need for greater consideration to be given to the needs of customers in vulnerable circumstances when designing products and services.
- 6.7. Beyond banking, the provision of appropriate in the wider financial services industry must also be considered. For example, the Financial Inclusion Commission's report highlighted that 50 percent of households in the bottom half of the income distribution do not have home contents insurance<sup>452</sup> - potentially leaving them at greater risk of financial difficulty.
- 6.8. The Post Office plays an important role in providing access to financial services to financial excluded people through the Post Office Card Account, and the use of the Post Office branch network has been particularly important given trends in branch closures. The Post Office

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<sup>448</sup> HM Treasury (2014), Revised basic bank account agreement, <https://www.gov.uk/government/publications/revised-basic-bank-account-agreement>

<sup>449</sup> HM Treasury (2015), Fee-free bank accounts launched, <https://www.gov.uk/government/news/fee-free-bank-accounts-launched>

<sup>450</sup> Competition and Markets Authority (2016), Retail banking market investigation, <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

<sup>451</sup> British Bankers Association (2015), Improving outcomes for customers in vulnerable circumstances, <https://www.bba.org.uk/news/press-releases/financial-services-establishes-new-gold-standard-for-customers-in-vulnerable-circumstances/#.V9cOkrlTEy8>

<sup>452</sup> Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, <http://www.financialinclusioncommission.org.uk/report>

should continue to play an important role, but should only be seen as one part of the solution to the problem of financial exclusion.

## **7. Accessing affordable credit**

### **What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans – on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

- 7.1. We welcome the FCA's high cost credit cap and have seen a significant impact at National Debtline as a result of this intervention in the market. In 2007 National Debtline took just 465 calls for help with payday loans and by 2013 that figure had risen to a peak of more than 23,000. By last year (2015) the number of calls relating to this kind of borrowing had dropped to around 13,000 as the volume of payday lending has declined significantly in the wake of the cap.
- 7.2. Unlike supply, however, demand for high cost credit cannot be regulated away and it remains too early to assess the longer-term impact of these changes on financial exclusion. The FCA should regularly review the impact of the high cost credit cap and in particular, remain vigilant over the emergence of an illegal online money lending market in the UK, which Policis research based on the experience of increased regulation in the United States has pointed to as a risk<sup>453</sup>.
- 7.3. We believe that building a more sustainable and modernised credit union sector is an important part of ensuring affordable credit and tackling financial exclusion, and that increased support – over and above the Department for Work and Pension's Credit Union Expansion Project – should be a central component of the Government's efforts in this area.
- 7.4. Another significant change that should be considered is the impact of the FCA's authorisation process on fee-charging debt management companies, and support for those customers of firms that exit the market. As this process is ongoing the impact is yet to be seen.
- 7.5. In addressing the lack of affordable credit, the Government and others stakeholders should also look to examples of policy outside the UK. In

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<sup>453</sup> Policis (2014), The future of Illegal Lending, [https://policis.com/images/iml2014\\_2/5/illegal\\_lending\\_presentation\\_171214.pdf](https://policis.com/images/iml2014_2/5/illegal_lending_presentation_171214.pdf)

Australia the Good Shepherd scheme sees the National Australia Bank partner with the Australian Government to offer a range of shop-front community finance products such as Good Money and the No Interest Loan Scheme, as well as a StepUP scheme to provide low-interest loans to low-income households.

- 7.6. Similarly, the Irish Government has partnered with the Republic of Ireland's strong credit union sector and the wider third sector to establish 'It Makes Sense', a microcredit scheme to reduce dependence on high cost credit. The scheme offers low interest loans of up to 12 percent APR to social welfare recipients, with repayments deducted directly from welfare payments.

## **8. Government policy and regulation**

### **How effective has Government policy been in reducing and preventing financial exclusion? Does the Government have leadership role to play in addressing exclusion?**

- 8.1. The Financial Inclusion Taskforce, chaired by Sir Brian Pomeroy, made significant progress in tackling financial exclusion between 2002 and 2011. Progress since the Taskforce was disbanded has continued in other ways, including through the introduction of financial education in the National Curriculum, a Treasury-brokered agreement on Basic Bank Accounts and pensions auto-enrolment.
- 8.2. The government's recently-announced Help To Save scheme for people on low-incomes is a further encouraging example of a Government policy that we believe will play a role in tackling financial exclusion, helping many of the people who need support the most to build up a savings buffer.
- 8.3. However, these piecemeal examples of progress on financial exclusion have not been the product of an overarching strategy, and since the end of the Financial Inclusion Taskforce, the impact of this lack of a co-ordinated approach to financial inclusion has been apparent.
- 8.4. There is therefore a need for the Government to take a greater leadership role on this issue to regain momentum. We broadly support the Financial

Inclusion Commission's recommendation<sup>454</sup> for a senior government lead and the appointment of Ministerial champions to drive this agenda forward – as part of a whole-society approach.

**How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities and the devolved administrations?**

8.5. Given the localism agenda and continued devolution of power away from Westminster, this more co-ordinated approach to financial inclusion should include a greater emphasis on ensuring a joined-up approach between central, local, regional and devolved government. This must include considering the particular financial exclusion challenges facing Scotland, Wales and Northern Ireland and particular regions (including urban centres in England gaining devolved powers through Metro Mayors in 2017).

**What has been the impact of recent welfare reforms on financial exclusion?**

8.6. We have previously raised concerns over the impact of several elements of recent welfare reforms on people in financial difficulty. For example, we are concerned that the payment of the housing element of Universal Credit to the claimant rather than the landlord could lead to increased rent arrears as tenants use this money to pay other creditors. As it stands, payment to landlords can be considered under Alternative Payment Arrangements in some cases where the tenant is already in arrears, but we believe this option should be a right as a matter of course.

8.7. A further fundamental issue with Universal Credit that risks exacerbating financial exclusion is the significant delays between applying for Universal Credit and receiving your first payment. This is typically six weeks. While budgeting loans are available, this first delay presents a significant challenge to many recipients at the worst possible time, and is undermines the aim of Universal Credit in supporting people back into work.

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<sup>454</sup> Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, <http://www.financialinclusioncommission.org.uk/report>

- 8.8. The fact that Universal Credit requires a bank account makes it even more urgent that greater action is taken to tackle the problem of the 'unbanked' and those who are not able to fully access banking services. We support the Financial Inclusion Commission's view that the Government should do more to encourage financial services firms to develop products with Universal Credit recipients in mind<sup>455</sup>.
- 8.9. At the same time, Universal Credit presents an opportunity to ensure that debt advice provision reaches more of the people who need advice, but who do not currently seek it. We believe there is an opportunity for debt advice to be better integrated into Universal Support, and for phone and online channels to play more of a role, in conjunction with local face-to-face agencies for those who need it.

**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? What balance should be struck between regulations and incentives for financial institutions?**

- 8.10. The Financial Conduct Authority's intervention in the high cost credit market through its cap on interest charges is an example of where regulation has contributed to tackling financial exclusion, although the regulator should keep the impact of this under close review.
- 8.11. The Competition and Market Authority's announcement of a bank-set monthly unauthorised overdraft charge caps is also a welcome regulatory intervention, although this is unlikely on its own to have sufficient effect in reducing charges for customers. We are of the view that the FCA should be prepared to step in with an industry-wide cap if significant reductions in charges paid do not materialise.
- 8.12. There are also a wide range of additional regulatory interventions that we believe would help to address exclusion, including direct regulation of lead generation companies that operate in the debt sector, prohibiting unsolicited real-time financial promotions and providing a system of redress for customers who lose money when a debt management company is refused authorised or collapses.

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<sup>455</sup> Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, <http://www.financialinclusioncommission.org.uk/report>

- 8.13. We agree with the Financial Inclusion Commission's recommendation for the FCA to be given a statutory remit to promote financial inclusion<sup>456</sup>, which would provide a greater focus to its regulatory work on financially excluded groups.
- 8.14. In addition, the present patchwork system of debt and insolvency options risks leaving some people in financial difficulty without an option appropriate to their situation. There remains a need for a full review of the options available to people struggling with debt, to ensure that an appropriate option exists for people in all circumstances. This should include the proposed Breathing Space scheme currently under review by HM Treasury.

## **9. Financial technology (Fintech)**

### **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?**

- 9.1. New technology presents significant opportunities in addressing financial exclusion, and we believe the Government has a role to play in encouraging financial services and other firms to focus on financial excluded groups in their innovation agendas. This must include new providers and market entrants.
- 9.2. To give one example, we believe that work is needed to explore what opportunities exist for new smartphone-based payment systems, such as Apple Pay and Samsung Pay, to be used to detect early signs of financial difficulty, and deliver timely interventions as needed.
- 9.3. The current drive towards Open Banking, given a welcome recent boost by the recommendations of the Competition and Market Authority's retail banking review, presents hope that FinTech companies will be able to develop innovative technology-based solutions to many aspects of the financial exclusion challenge.
- 9.4. At the same time, while new technologies present opportunities, they also present potential new barriers to financial inclusion, including those linked to digital exclusion. This is particularly true of certain groups at high risk

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<sup>456</sup> Ibid.

of financial exclusion, such as people in vulnerable circumstances and older people.

*14 September 2016*

## **Money Advice Trust – Oral evidence (QQ 1-12)**

Evidence Session No. 1

Heard in Public

Questions 1 – 12

Tuesday 5 July 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (Chairman); Viscount Brookeborough; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin



## Examination of Witness

Ms Joanna Elson OBE, Chief Executive, Money Advice Trust

**Q1 The Chairman:** A very warm welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. This meeting is being broadcast live via the parliamentary website. A transcript will be taken and published on the Committee website, and you will have the opportunity to make any necessary corrections to it. You are the Committee's first witness. I have a couple of things to say first. Most unusually, we have a debate in the Lords on the EU at 11.30 am. A couple of members of the Committee will need to leave well before then, because in order to speak in that debate you have to be present for the opening speeches. Also, because this is our first public session, a number of members who have declared relevant interests will need to put them on the record by making an oral declaration before they ask their first question. I therefore declare an interest as chair of the Make Every Adult Matter coalition of charities helping people with complex needs.

I will kick off with the first question. From your experience, what do you feel are the causes of financial exclusion are and who is most affected by it?

**Joanna Elson:** There are, of course, a range of causes that are linked to low income, many of them interrelated. We could talk about vulnerability of various kinds, which you will know well from your work on charities, and technology as a barrier. We could also talk about low financial capability, and perhaps we will. Debt is both a cause and a consequence of financial exclusion. One example of a cause is a poor credit rating caused by arrears on mainstream loans, which will make access to that kind of mainstream credit difficult or impossible. Some people then turn to high-cost short-term lenders or, worse, illegal lenders. That can be a cause of debt but it can also be a consequence, because if you have no savings to cushion income shocks, that can lead to problem debt.

There are three factors worth highlighting that I think militate against engaging with financial services, which is what people need to do. The first is products and whether they are available to meet the needs of low-income consumers. They are not, in many cases. The Financial Inclusion Commission found that home contents insurance, for example, is seen by many as unaffordable or irrelevant. The commission's statistic was that the bottom 50% of income distribution had home contents insurance compared to four out of five at the top of income distribution.

We have already talked about the lack of affordable credit. The first factor—products not meeting the needs of low-income consumers—can be compounded by a lack of trust in financial services, so even where products meet people's needs they may not want to use them. We had a breakthrough recently in access to bank accounts. The Treasury has worked with the trade associations for banks to ensure that people on low incomes can access fee-free basic bank accounts from nine banks. Perhaps ironically, in view of the fact that there will be an EU debate in the House of Lords, that was pre-empted by a piece of EU legislation. That has been a breakthrough, so people will now be able to have a bank account and not be caught out by charges for

it. However, the evidence shows that, even though they can do that, half of the 1 million to 2 million people who do not have a bank account do not want one, either because they are worried about past experiences or because they simply do not trust that the services will work for them.

The third factor that militates against this population using financial services is that access to them can be difficult. Sometimes that is a question of unintended consequences. The legislation and regulation on anti-money laundering, for example, makes it difficult for people to open bank accounts. Many of you will know that to open a bank account you have to provide certain documentation. At a policy level, the major banks will give you a big list of documents that you can use to open a bank account, but when you go into a branch you may well find that bank staff are, perhaps understandably, wary of anything that looks non-standard. Professor Paul Jones of Liverpool University told the Financial Inclusion Commission that he had talked to people in Liverpool who told him, "You have to have a letter from God to open an account round here". That gives you a flavour of how difficult it is. That may be enough for now about the causes.

I can answer the question on who is most affected pretty quickly. It is about people on low incomes and in vulnerable circumstances, often because of a life shock, such as lone parents, people who are new to the country, people with mental health problems and people with disabilities.

**The Chairman:** Thank you. Because this has come up in previous conversations that we have had, are you aware of any gender dimension to this?

**Joanna Elson:** Not that I am aware of, no.

**Q2 Lord Haskel:** Obviously financial capability plays a big role in this. How do you define financial capability, and what role does it play in financial exclusion?

**Joanna Elson:** I define financial capability as the ability to manage your money well both daily and when you are experiencing financial shocks such as financial difficulty or a job loss—the kinds of things that people experience. Of course, this is about not just skills and knowledge but attitudes and behaviours. At a time when people are bombarded with marketing messages to spend and to borrow, it is crucial that they have the skills to pick through those and understand what will be best for them.

On the definition of financial capability, at a time when public policy means that people have to be in control of their own money—pension freedoms mean that people have very big decisions to take, and universal credit means that people have to manage lump sums that they never had to manage before—these sorts of skills are vital.

The final part of your question was: what role does financial capability play in financial exclusion? Having low financial capability can act as a barrier to engagement with financial services; if you do not speak the language and do not understand the jargon you are unlikely to want to engage. It can prevent people getting the best deal. They are not going to know how to shop around. They are unlikely to be able to avoid unnecessary costs such as missed-payment fees or overdraft charges. Clearly, it can lead to financial difficulty and problem debt.

There are two other points to make. First, many people on low incomes budget very effectively. I do not want to give the impression that people are not doing the right thing. Evidence from Professor Elaine Kempson and others shows that many people manage very well on very tight margins, but circumstances often militate against them. You will know about the poverty premium: if you do not have access to a bank account, you pay more for services—to put it very generally.

Finally, financial capability is only one side of the equation. If we are going to ensure that people have the skills to deal with financial services, we have to make sure that financial services and the regulation surrounding them make it as easy as possible. They must not be full of jargon and must be presented clearly. Those two things need to meet in the middle, in my view.

**Lord Haskel:** Some people may be budgeting well, but how can we increase the number?

**Joanna Elson:** It is about ensuring that people have the right financial skills right from learning at primary school to when they are planning for retirement. There must be a proper, planned strategy to increase the skills of this country.

**Q3 Lord Shinkwin:** My question is in two parts. First, I would be very interested to hear what you consider to be the main barriers to improving financial capability. Secondly, how effective do you think interventions by government, organisations such as the Money Advice Service, the third sector and business have been in overcoming those barriers?

**Joanna Elson:** One of the barriers is reaching people right at the start of when they are likely to engage with finances. We know from research that some financial behaviours are already established by age seven, so starting at primary school is important. Reaching people is a barrier, as is engaging people. The jargon is about “teachable moments”—it is finding times in people’s lives when they will engage. We all know that people are busy, and in those precious few hours of leisure time how many of us are going to think, “Right, I really must learn more about how to manage my money”? So you have to capture them either at a positive moment in their life, when they are looking for help—that might be when they are getting their first job, setting up a home, planning for retirement or having a child—or at a negative moment in their life. At the Money Advice Trust we run services for people in debt, the National Debtline and the Business Debtline, and we find that the whole process of engaging people in what is a very difficult circumstance for them—working out what their income and expenditure really are, how they can maximise their income, whether they are getting all the tax credits and benefits they are entitled to, how can they reduce their expenditure, whether they are on the best deal for utilities—equips people to better deal with their financial lives going forward. When we survey them, that is what they say: the vast majority feel better equipped. Catching people in both the positive periods of their lives and the negative ones and making sure that they learn is absolutely vital. Knowing what works is really important. If we are going to have a strategy, we have to focus on knowing what works.

I will talk in a minute, as you asked me to, about the interventions that have already been made. One issue is that no one has looked right across them and said, “There is some really good stuff there. How can we scale that up?”

or, “Actually, that didn’t work. Let’s not bother with that”. Therefore, it is about reaching people, knowing what works and persuading government and others to invest at scale in making this work.

On the question of existing practice, there has been some really good practice with banks, other financial services and charities. There have been programmes in schools and quite significant scales of investment from banks and others. Some of those have been effective and successful but too much of it is in silos, is patchily funded, is not integrated and there is no way of measuring how successful the totality is. I cannot stress enough the importance of knowing what works and then putting it into practice in a planned and sustainable way.

**Baroness Primarolo:** Joanna, you talked about measuring. You identified what you thought were the causes of financial exclusion. You went on to talk about improving capacity. I am interested in what you measure it against—the baseline—and the point you have just made about making sure that it works and it improves. Can you say something about the assessments of where the baseline is so that we can get a sense of measuring outcomes and their success?

**Joanna Elson:** For financial capability?

**Baroness Primarolo:** Yes.

**Joanna Elson:** Clearly, we need an outcomes-based evaluation for financial capability. We need to understand whether ultimately, the decisions people make are better because they have had the advice. That is not an easy thing to achieve because with many of these decisions you will not actually know whether it is the right decision—that is the thing about financial decisions, isn’t it? If it is a mortgage or a pension, it will be a long time before you know. So we will need a mixture of qualitative and quantitative approaches to get at this. There are some straightforward things that you could measure—for example, there is a statistic that only 22% of people can pick out the balance on a bank statement. You could easily measure things like that. Part of that goes back to what I said about it being not only about skilling people up to be able to understand things, but about financial services and the regulations surrounding them making that as straightforward as possible. There is a lot of work to do, both qualitative and quantitative.

**Q4 Lord Northbrook:** The Government have proposed significant changes in the provision of public financial guidance, with the aim of ensuring that all consumers can access the help they need to make effective financial decisions throughout their lives. I have three questions on this. First, what is your view of the proposals? Secondly, is the aim correct? Thirdly, is it likely to be realised by these proposals?

**Joanna Elson:** I think the aim is correct, which is to get people quickly to the help that they need, whatever that is. The Treasury’s document is a good start. Whether or not it is successful will depend on a number of factors. Partly that is about the balance between the strands of help we are talking about. You have crisis advice for people in difficulty and then you have money guidance throughout life, including pensions, and then somewhere over here you have financial capability, because that is not currently included in the

Government's plan. Those things need to be thought through. We need to focus on need.

In the area that I know best—debt advice—the demand is increasing. The existing agencies struggle to deal with it and many of the fee-charging agencies which provide debt advice are—rightly, in my view—shutting up shop because of more stringent regulation on them. With consumer credit rising, with uncertainty from the Brexit decision and elsewhere, there will be a significant shakeout of that market. More resources are likely to be available for the crisis end of the market. So a factor in how well these proposals will work will be how well the body that implements them is able to juggle what is needed at any one time—crisis advice or this broad approach of skilling people up and giving them guidance across their working and other lives.

A second factor is careful commissioning. The Government's document talks about commissioning advice, and that is right. The Government are right to focus resource on the front line, which is what is suggested. The front line is stretched already, as many of you will know, and the advice charities increasingly work together to make the best use of their resources and to ensure that the help available is offered as seamlessly as possible to people who need it. Commissioning needs to encourage collaboration. I worry that a pure commissioning environment will lead to a kind of arms race whereby the various charities are building up their procurement and tendering arms, rather than getting out there and helping the people in need. A careful approach to commissioning that encourages collaboration will be important.

A final factor in what the Government have proposed is the proposal to slim down from three bodies to two. In my view, that is clearly preferable to the current position of having three. But if we are going to have two, co-ordination between them must be key. We have issues where things fall between the cracks. For example, if we think about debt advice and pensions advice, if you are of a certain age—middle-aged and above, let us say—and seeking debt advice, your pension is going to be a significant part of that and yet the regulation that governs debt advice means that you cannot stray into pensions advice, and vice versa. We need to make sure that those sorts of things do not get in the way of people getting the help they need. Those are the factors I would draw attention to in terms of how successful the policy is likely to be.

**Lord Haskel:** You have put a lot of emphasis on advice. If that advice requires money, do you advise people where to get it from—charities, the Government or wherever?

**Joanna Elson:** Yes, indeed. I talked about income and expenditure—people boosting their income and reducing their expenditure as much as they can when they are in crisis. Part of boosting income would be looking at things such as energy companies that have trust funds to help people pay their bills if they get into difficulty. There is a really good charity called Turn2us, which advises people about, for example, Armed Forces charities which offer support for people in particular circumstances. So yes, boosting people's income would be important.

**Lord Harrison:** Can you say a little more about the slimming down from three to two? Normally, alarm bells ring with me when I see the Government trying to slim things down but you are quite favourable to this.

**Joanna Elson:** I am favourable to slimming down. There are three bodies at the moment: the Money Advice Service, Pension Wise and the Pensions Advisory Service. There will be a successor body to the Money Advice Service, which will look after the money end of things—money guidance and debt—and then there will be a pensions body, which looks after pensions.

**Lord Harrison:** Have resources been reduced to make this happen?

**Joanna Elson:** Certainly with regard to the money guidance part of it, we have been assured that in the debt area—where we are worried, as you can tell, about facing what is to come and ensuring that people have the help they need—the resources will pretty much stay as they are, at least for the foreseeable future.

**Q5 Viscount Brookeborough:** I understand that the Money Advice Service is separate from you, the Money Advice Trust. The service published the *Financial Capability Strategy for the UK* in October 2015. What value does having a national strategy add? Should there continue to be a national strategy? If so, what format should it take?

**Joanna Elson:** I think I have said already that we need to be able to deliver financial skills training right from primary school through to planning for retirement at teachable moments and at key life stages in people's lives. If we are to do that, despite the many excellent initiatives out there, we need a strategy and a plan to join all those initiatives together. Without one, we have a piecemeal and uneven approach: lots of good practice but practice that does not reach everybody who needs it, patchy funding and no definitive sense of what really works. The UK financial capability strategy is a good start. It has a solid framework; it has a test and learn approach, which seems sensible; and it has an impressive board made up of experts and people who know what they are talking about. It will collect data over the next 10 years to determine what works. What is missing from it is some measurable objectives. If it is to achieve what it needs to achieve, it definitely needs those. Having determined what works, it will need an agreement on who takes the lead. Somebody has to sit above that and say how it will work and how it will be measured. Then, of course, it will need funding, which has to be co-ordinated and sustained funding if we are to reach the end of this journey.

**Viscount Brookeborough:** Your trust is primarily involved with people who are in debt.

**Joanna Elson:** That is right.

**Viscount Brookeborough:** So obviously, you will have a view on it. There seem to be two clear and different sides to this, two different groups of people. One group is the people we want to give financial management skills to at a young age. The other is people who are in debt. From what we have read so far, there seems to be a lot more emphasis on those who are in debt. I agree that they are a crucial part, because the population is ageing and there will be a problem. However, I am not sure from what we have seen that there is a clear way of teaching young people in such a way that they pick it up. If we are going to do that, surely that is the one quantifiable thing: that no child should leave school without some idea of how to manage their finances, even if they only practise saving £1 a week in school. As time goes on, every person should have that ability. Therefore, the problems with debt

will always be there, but you will not be dealing to the same extent with people who are in debt and who have simply never had a bank account and never saved a penny. Is there enough emphasis on that?

**Joanna Elson:** I absolutely agree. The difficulty is how you achieve that. We have had financial education on the national curriculum in England since September 2014. It was already on the curriculum in Scotland, Northern Ireland and Wales.

**Viscount Brookeborough:** But I think I read that there were no exams on it. It is just a lesson on a subject, during which they can all go to sleep.

**Joanna Elson:** That is the issue. It is on the curriculum but only in secondary schools, not primary schools. It is only in maintained schools, so if you are in an academy, a free school or a private school it is not there for you. It is patchily delivered; surveys showed that children had been six and 200 hours on this part of the curriculum. In addition, two findings from the all-party parliamentary group's report—I think you are hearing from the authors of that report later, so I will not steal their thunder—were that there is a big gap in teacher confidence and skills; only 17% of teachers had had any training on it. It really needs to focus more on real-life contexts. I cannot stress that enough. We need to engage children. It might be about how you choose your mobile phone tariff. It has to be something that applies to them and they can use their brain to engage with it. Simply talking about maths will not deliver it, in my view.

**Viscount Brookeborough:** I should have declared an interest, in that I am in business in Northern Ireland in farming and tourism. Of course, I have an account and I have trouble getting loans.

**The Chairman:** We are going to pursue this area in a little more depth in a few minutes.

**Q6 Lord Harrison:** How should the nation's financial capability be monitored? In a sense, you have partly addressed that question. Can I invoke the proposed new money guidance body which the Government are thinking about? How might it monitor the impact of interventions?

**Joanna Elson:** There is a question still about who will do the monitoring. In a sense, I do not mind who does it as long as somebody does. Certainly there is a bit of a gap in the Treasury's guidance document entitled *Public Finance Guidance* when it comes to financial capability. There needs to be a decision on who will do it, whether that is the new money guidance body or somebody else.

We talked before about how the monitoring happens. Ultimately it is about how people's financial decisions are made. Are they making better decisions now? We know that the consequences of the decisions that people make now are pretty enormous. Now that they have these pension freedoms, if they make the wrong choice they could be in penury in their old age. Universal credit is a huge new issue in people's lives. It could be a force for good; most people think that the idea of bringing benefits together and paying them in a way that is more like work could help people. If it is properly embedded and delivered, it could be a force for good. Equally, however, it could exclude people if they do not have the financial skills to make it work. The monitoring

has to be about how people make better decisions and whether they have done.

**Lord Harrison:** Could you give us an example of monitoring that then suggests a very good idea, and how that idea is taken up and spread to the relevant institutions? I would love to have a practical example of somebody's good idea that you nicked, that was then put into the system and then actually helped.

**Joanna Elson:** You are talking about financial capability.

**Lord Harrison:** Yes.

**Joanna Elson:** Some of the really good ideas that have been discussed in schools by financial services companies, charities and a combination of them have used real-life situations. If you go into a primary school and see a financial capability lesson, it will be about how children choose to use their pocket money, what they choose to spend it on. If they save it for a little while, could they buy something later? It is those very practical things that people need to learn early that we can share.

**Lord Harrison:** What is the route to throw that up further so that it is absorbed by other schools, for instance?

**Joanna Elson:** It is about having leadership so that it is shared more widely. The New Zealand Ministry of Education has the responsibility for ensuring that financial education is delivered effectively through the curriculum. At the moment we have a lot of good interventions but nobody sitting over them saying, "That works there. Let's spread that", exactly as you say.

**Lord Haskel:** Surely monitoring also means measuring, so how would you measure it? Would you measure it by the number of people getting into debt or the number of people going bankrupt?

**Joanna Elson:** You could measure it in a number of ways. First, do people understand the material that is put in front of them? When they are old enough to open a bank account, do they understand how to do that and how to choose one? If they are thinking about credit, do they understand the decisions that they have to take? There is some quite worrying evidence, which you might hear about in the next session, that when young people reach 16 to 24 and are thinking about borrowing, they are more likely to go for high-cost credit than the mainstream alternatives, because the marketing is very slick, it is all done online and it looks very attractive. How do we ensure that people make good decisions? You can measure people's understanding, but, as I say, part of the difficulty is measuring the impact of their decisions when many of them are long term. If you have a mixture of the quantitative and qualitative, you will probably get the best result.

**Q7 Lord Kirkwood of Kirkhope:** I declare an interest as a governor of the Pensions Policy Institute and a continuing member of the Financial Inclusion Commission.

I want to ask you about the core role that you think government should play in an ideal world, but I preface that question by inviting you to try to extract some lessons from our experience in this important policy area since 2010, because it has been two steps forwards and three steps back some of the



time, particularly in relation to the work of the Money Advice Service. Can we draw anything from that about how in future we can avoid some of the missed opportunities? We went into the loop of the Farnish report and all that, which did not help because it paralysed some of the excellent work that was being developed. Is there anything that we can recommend as a future-proof against getting into these kinds of binds in the future? My question is about being able, in an ideal world, to dictate the role that central government should play, bearing in mind that this is a United Kingdom policy area. Coming from where I come from, you might expect me to say that. It would be really helpful if you could help us with that thought.

**Joanna Elson:** The Government have to take leadership here. Part of the issue is that this policy area has been left to the Money Advice Service, which had an uncertain status. Whereas various government departments have been involved in one way and another—we have talked about universal credit and how important that is; the Department for Communities and Local Government has an impact on how local government collects debt and what impact that has on people's finances; and, of course, the Treasury has an impact in lots of different ways—nobody is pulling that together and saying, "We are all facing in the same direction, trying to include everybody in society and raise their financial skills so that we have a more inclusive society and everybody is better off as a result". That is the short answer.

If you want me to reflect on the Money Advice Service, I have one thing to say about that. As you say, it has had a troubled and difficult past, which is not worth delving into too much, but one thing that I think everybody probably agrees did not work was that for one reason or another, the Money Advice Service focused on marketing itself as being the solution and where people should come, rather than getting resources to the front line, where people need to go. I think the Government have got that message because it is pretty clear in the PFG review that they want the resources to go to the front line, but that is a clear message.

**Lord Kirkwood of Kirkhope:** That is very important and a helpful answer. Flowing from that, do you think that there should be a Minister—presumably you would say that they have to be from the Treasury—who needs to be slightly higher up the ministerial food chain, who gets up every morning thinking about this policy? I think that Andrea Leadsom, a Minister of whom you may have heard, has recently had a responsibility for this. Should the person in that role have a higher ranking in the Treasury?

**Joanna Elson:** That would be a good step forward. They could then draw on champions in a range of other departments to ensure that everybody was focused on this. They could also liaise with the regulators of financial services because they have a clear role to play in ensuring that financial services are meeting people half way. They could be liaising with the outside world, too. There is a lot of experience in this area but it has not been at the forefront of the Government's mind. In 2010, when the Financial Inclusion Taskforce came to an end, we had had a real focus, including monitoring of the numbers, so we knew how many had bank accounts and what the trends were and so on. That work still happens and I declare an interest as a trustee of the Friends Provident Foundation; we have commissioned work by Birmingham University to keep focusing on that. It is all very well having a university focusing on it but that is not the same as having the Government, with all the things they

see, bringing together all the different departments and facing in the same way. So, yes, absolutely, a Minister would be good.

**Lord Kirkwood of Kirkhope:** Finally from me, do you have any evidence of a cost-benefit analysis? We were talking earlier about monitoring outcomes. Obviously, this Government will have to be focused, as all Governments are, on the effectiveness of spending. Is there any best-practice international experience that you could point us to in the course of our work?

**Joanna Elson:** Some of it is about looking at whether interventions that are already happening could be more effective and provide more value—maybe some of them are already. I talked about the fact that, at negative points in a person's life, they might be going through debt advice and that can provide financial capability. If you could bolster that so that that was a point at which you said, "That's the point we really need to focus on. We are already funding it. We need to add on a bit", that might be the way to go. We have an innovation grants programme at the Money Advice Trust, which is funded by the Esmée Fairbairn Foundation. We did some work in Bristol with a local debt advice agency, which found that by adding on some simple money skills to the debt advice that it offered, it reduced repeat visits by over 40%. So that would be a good example.

**The Chairman:** Please could you let the Committee have a brief note on that?

**Joanna Elson: Yes, of course.**

**Q8 Lord Fellowes:** First, I declare an interest in that I was vice-chairman and then chairman of Barclays Private Banking, starting in 1999 and finishing in 2009. My question leads on rather well from the previous question. I wonder how whole-hearted the banks' input into this process has been. They are absolutely key players. There is always a danger that the banks find it difficult to work up enthusiasm for something that is not necessarily immediately rewarding. In other words, do they get the point?

**Joanna Elson:** I think they do. The regulator has helped. The Financial Conduct Authority has had some really focused interventions here. It produced an occasional paper on vulnerability just over a year ago, and a recent one on access to financial services. The vulnerability part is now embedded in its supervision, so when a supervisor goes out to a bank, they say, "How are you helping vulnerable customers?". The other day I heard from somebody at Nationwide—which has done a lot of good work in this area, actually, with Macmillan Cancer Support—that when they initially gave the answer, "Well, you know, we have this policy and that policy", the supervisor said, "No, we need to see exactly how you are delivering", and that caused Nationwide to have a much fuller and broader look at the issue. There is good practice. There is always the danger of distraction, and recent events are giving us cause for concern. Of course, there will be change at the top of the FCA shortly. The Committee might be interested in trying to ensure that the new incumbent is as focused on this area as others have been. That seems vital to me.

**Lord Fellowes:** Finally, you mentioned primary schools. You are really getting stuck into primary schools. That is the time when this stuff takes root

and there are not too many distractions. Also, trial and error is probably cheaper at primary school level.

**Joanna Elson:** I agree. It is a bit like languages; if you leave learning a language until you are at secondary school it is too late—you have missed the window.

**Q9 Lord Holmes of Richmond:** A declaration first: I am vice-chair of the All-Party Group on FinTech and a non-executive director of the Equality and Human Rights Commission. We have touched on this a little but I would like to go into a bit more detail. What has been the impact of the inclusion of personal finance education in the national curriculum, and how should the teaching of personal finance be developed?

**Joanna Elson:** As you say, we touched on this before. The issue is how you ensure that it is well taught across all schools. That can be only by having a national focus. If you have a Minister for financial health, they would have an impact. Clearly, the Department for Education would have an input. Currently, because the national curriculum does not apply to a variety of different schools, as we have said—it is only in maintained schools, not academies, free schools or independent schools—it has a limited impact. For those reasons, we need a greater focus on it.

**Lord Holmes of Richmond:** Do you think there is a role for a revised guidance body in this area and, if so, what?

**Joanna Elson:** I think we would have to try a number of different ways. As we have said, it does not get to schools that have been academised so somebody needs to make sure that the academy chains, the multi-academy trusts and so on are focused on this. Perhaps it could be done through Ofsted—as it is thinking about its reviews, this could be part of it. My husband is a head teacher so I know that schools are very focused on what Ofsted is going to come in and look at. So there would be a range of ways of doing it but having a top-level national focus will be key.

**Q10 Lord McKenzie of Luton:** I start by declaring my interest as a trustee of NOAH Enterprise, a social enterprise charity assisting disadvantaged people in Luton and the surrounding area. Joanna, you have referred to universal credit in a couple of your answers today. Obviously, that is increasingly being rolled out, although there is still a very long way to go. The payments under that are designed to mirror the world of work: basically, monthly in arrears. It has been estimated that 2.5 million people will require assistance with money management because of that. To what extent are the arrangements for delivering universal support locally equipped to meet this demand?

**Joanna Elson:** We have said already that there is reasonably widespread support for the principle, as you say, of paying as if being paid in work—getting people into those sorts of habits. But we know that the transition is going to be really difficult for people. A recent Citizens Advice survey found that 73% of those surveyed needed help managing the monthly payments. As you say, the DWP's own figure is 2.5 million people needing help with the transition. It is the combination of the change from the weekly and fortnightly benefits that people are used to, to being paid a month in arrears, and also a wait for the first payment, so people can be waiting up to 42 days for their first payment.

There are two key things the Government need to focus on. The first one, as you say, is how well the local support functions. It is a good idea that support is delivered locally but the early evidence is that simply signposting—telling people, “There’s the help if you need it”—is not doing enough. I heard from the DWP yesterday that less than a quarter of people who are given that signposting actually take it up.

If I were the Government I would do a couple of things. I would ensure that a range of channels is offered so that however people are best able to gain the help—on the phone, online or sitting down with someone—that is available to them. I would use nudge and what we call “warm handover”, so that you are not just saying to people, “There’s the help, go and find it”; you are saying, “Can I make you an appointment for you to see such and such? It will be next Tuesday”, or, “I can put you through straightaway to someone who will be able to help you save money on the kinds of things you are talking about”. There is a lot for the DWP to do here and if it does not do it, it risks something that could be improving financial inclusion actually excluding people.

The second area is that the DWP really must cut down on the wait for the first payment. You will know, I am sure, that there are real horror stories of people ending up going to food banks or borrowing high-cost credit because they are waiting so long for their first payment. A recent survey by social landlords of 3,000 households on universal credit found that 79% of those were in arrears, and half of them were not in arrears before they went on to universal credit. The overwhelming cause, they said, was the wait for the first payment. Before the Government roll out universal credit any more widely, if I were them, I would say, “We have to do something about getting the first payment made more quickly”.

**Lord McKenzie of Luton:** What do you think has happened to the concept of jam-jar accounts to help these payment arrangements?

**Joanna Elson:** I am not sure, to be honest. There has been a lot of talk about it. I am not sure what the outcome of that is. It is clearly a mechanism that works for people, which people use in other areas of their lives, but I have not heard the latest on where that is.

**Lord Kirkwood of Kirkhope:** Do you think that universal credit delivered locally should be tied formally into the wider context of the policy area? You mentioned the “warm handover”—absolutely, that is important and when it works it makes a huge difference; when it does not, it is a failure. Would you go as far as to make a recommendation that would formally put a duty on someone within the DWP to take on the responsibility of that warm handover? Would that be practically sensible?

**Joanna Elson:** We have been to see Lord Freud and others who are involved in this area. He and the team are very keen to ensure that people get the support they need but clearly there is a gap between them needing it and getting it. I do not know whether it is putting a duty on them or simply showing them best practice and ensuring that that is used. But it is not happening enough now and, as I say, it risks turning something that could include more people into something that actually makes people worse off.

**Q11 Lord Northbrook:** This question also incorporates housing benefit, which I now understand is being paid directly to the tenant rather than the landlord.

What is in place to help tenants cope with this sort of change? Are any further measures required?

**Joanna Elson:** I think they are. We have raised concerns about this. There is this very significant change we have talked about that people are taking on. Part of that is about perhaps the biggest area of spending that they have—housing. So suddenly they have this big lump sum coming in monthly in arrears, where previously they have had up to six single payments. It seems to me that if people would prefer, at least temporarily, to have that money paid directly to their landlord, they should be allowed to do that. Currently they have to wait until they are the equivalent of two months in arrears. By then, people are in very grave difficulty. They have possibly gone to high-cost credit and their problems have worsened. It seems obvious to me that the Government should say, "Let's give people a little bit of slack here and we will look after that bit for them for now. Hopefully we will be able to bring that in later on but let's ensure that this works as well as possible by looking after the biggest area of their payment, with that going straight to the landlord".

**Lord Kirkwood of Kirkhope:** The experience in other jurisdictions is also instructive. Scotland does it already.

**The Chairman:** A point I think we will want to pursue in future Committee sessions.

**Lord Kirkwood of Kirkhope:** I think Northern Ireland does as well. There is best practice. The scale is different but it is being done in other areas in a different way.

**Baroness Primarolo:** Of the people moving to universal credit, the figures that you gave, do we have any idea how many of them were struggling with their payments before the additional direct payment of their rent? That is, there would have been a sensible "warm handover" where work was done with them before. Has any work been done on that?

**Joanna Elson:** I do not have that at my fingertips. I can certainly see if we can access any figure like that. Honestly, I do not know.

**Baroness Primarolo:** People are already juggling before they get their rent how to pay all their bills and manage their money, and then their rent is given to them and that goes into the mix—you do not pay your rent in order to pay your electricity or whatever.

**Joanna Elson:** I suspect that that will have been taken into account in the 2.5 million figure that the DWP is using. That is a good figure. We just need to reach those 2.5 million people.

**Baroness Primarolo:** Who might already be struggling—

**Joanna Elson:** Some of whom might already be struggling.

**Baroness Primarolo:** —before we give them their rent.

**Joanna Elson:** Yes, and with all their other payments. For some of them it will be the change in the frequency rather than the fact that they were possibly in financial difficulty already that is causing the problem.

**Viscount Brookeborough:** Do you have an analysis of the profile of the younger people who come to you for help—were they school leavers at the earliest age or were they further educated? It would appear that logically it is

going to be a greater problem for a greater number of people who left school at 16.

**Joanna Elson:** I do not have that at my fingertips, I am afraid.

**Viscount Brookeborough:** Is it too early, since it has been in the curriculum for only a couple of years?

**Joanna Elson:** I think it is too early, to be honest. We will not know the outcomes of the decisions people are making for some time.

**Viscount Brookeborough:** But it would be logical to think that.

**Joanna Elson:** It would be logical. My colleagues who are coming later wrote the APPG report on this so may well have more knowledge in this area.

**Q12 The Chairman:** Thank you. The Committee is at the very start of its deliberations. As you are aware, financial exclusion is a very broad topic. We have to be quite focused in what we do. Can you give us your thoughts and advice? If we wanted to focus our attention on a small number of critical issues, what do you think they should be?

**Joanna Elson:** Yes, we have talked about many of these already. Having a clear focus nationally for how we move from here to there—I think we are agreed what that is—is absolutely critical and I commend the recommendations of the Financial Inclusion Commission. We have talked about leadership. That was going to be one of my suggestions: it is absolutely vital, within both the Government and the regulator.

There are two more areas, if I may. One is a lack of visibility. We run the Business Debtline as well as the National Debtline. That is for small trading businesses in financial difficulty. It is a little-known fact that many self-employed people are vulnerable people who struggle in this area. We are not talking about small businesses that are going to become the tech stars of the future; we are talking about your plumber or your hairdresser. Sometimes they are people who have gone into it because they have lost their job. They are taking very little money out of their business. Their personal and business finances are completely intertwined. Yet if they try to claim universal credit, for instance, they have great difficulties because universal credit assumes that 12 months after you started being self-employed you are on the minimum wage, which many people are not. That is an area it might be worth delving into.

One final one, if I may, is about technology. Technology could be a real enabler here. One of your colleagues is closely connected with the fintech work. In the UK we are a leader in that, which is fabulous, but I do not believe it is really serving this population. If you cannot afford the kind of smartwatch that you can pay for your coffee with, I am not sure that fintech is really working for you. The Committee might be interested in talking to one of the companies at the forefront of this and asking, "What are the things you could do?". For example, if you are using a payment card, that cannot warn you that you are close to your limit, but if you are paying on a mobile phone, it could; it could be flashing, saying, "You are almost at your limit". How can we use technology to help enable better systems for this kind of population? That is a second area I would focus on.

**Lord Holmes of Richmond:** I think we will have some witnesses later in our deliberations exactly on this area. I agree with everything you say. There are tremendous solutions to be had from fintech to benefit everybody, wherever they happen to be on the financial strata.

**The Chairman:** Thank you very much indeed for your evidence. It has been extremely helpful. You have got us off to a very good start. Thank you for your time.

## The Money Charity – Written evidence (FEX0061)

1. The Money Charity welcomes The House of Lords Select Committee's creation. Accessing financial services is a right for everybody, and a necessary part of full involvement in society. Exclusion, by contrast, places huge hardships on people and limits what it is possible to achieve in life.
2. As a financial capability charity, our central contention is that the issue of exclusion must not be seen narrowly as simply ensuring that people have theoretical access to products that would be useful to them. Instead the scope of concern for calls for evidence such as this should be much wider, including all the reasons why consumers do not access financial services that they would benefit from - financial capability: means, skills and knowledge.

- The Money Charity is the UK's leading financial capability charity.
- We believe that being on top of your money means you are more in control of your life, your finances and your debts, and that this, reduces stress and hardship, increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.
- Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.
- We believe financially capable people are on top of and make the most of their money in five key areas:
  - Planning (including budgeting)
  - Saving
  - Debt
  - Financial services products
  - Everyday money (including wages, cash, bank accounts)



## **Definitions and causes of financial exclusion**

3. Anecdotally, conversations about financial exclusion with policy makers and lay-persons tend to be relatively narrow in their view of what constitutes exclusion. Examples that come up tend to be around “access” and the degree to which financial products are formally available to people.
4. For those involved in educating consumers in how finance works, it is abundantly clear that it is not simply the existence or the theoretical availability of financial products that allows people to be included. It is a much wider set of skills and knowledge that allows people to interact fully with financial services.
5. In short, financial inclusion is built on the bedrock of financial capability. Certainly work needs to be done to ensure that consumers who do try to engage with firms are not denied access to services they would benefit from unfairly. But there is a much wider issue of people not having the skills, knowledge or confidence to ever approach providers in the first place.
6. Studies find that most people do not understand the basics of personal finance, and are not generally engaged in good money management. Confidence and skills are often very low, across age and income groups .
7. And on top of that, it is not difficult to find examples of people take clearly detrimental financial decisions when far better alternatives are available. For instance, recent research from the Financial Inclusion Centre found over 400,000 households relying on the rent to own sector – many paying far more than they would were they to use other forms of credit. In many of these cases, credit unions or traditional lenders would offer credit far more affordably, and consumers would be able shop around for more competitively priced products. But consumers are in a sense denied access because they lack the skills and knowledge to take these alternative routes .
8. For these reasons too, we do not want to foster access without capability. Not every financial product is good for every consumer, and the important thing is to ensure that people are able to both access and understand the products that are available.
9. Taking reasons like these into account, the Financial Inclusion Commission lists financial capability as one of its key challenges . We recommend that the Select Committee should take a similar view.
10. Viewed in a holistic way, the proportion of people who are affected by some form of financial exclusion is high and cuts across age, income and other groups.
11. There are particular issues with certain groups who face their own, often very difficult, challenges, such as certain types of disabilities and mental health problems. These need to be discussed and addressed in partnership with individuals and organisations who have specialist knowledge. But the discussion around financial capability should never be confined to only these groups.

## Financial Education and Capability

12. Successive governments have pursued policies such as pension freedoms and Universal Credit that rely on greater individual financial responsibility. Work has become far more flexible, and technology has opened up far more choice to consumers than has ever been available in the past. For these reasons there has never been a time when personal finances have been as complicated as today. So increased financial capability through life-long money guidance services and education ought to be something government is putting significant leadership and resources into.

### Capability and literacy services

13. The Money Advice Service (MAS), the body set up to deliver financial capability, literacy and advisory services is commonly perceived not to have met its objectives in entirety. Though good digital tools have been created and recent progress on the Financial Capability Strategy and commissioning has been welcome, the sector as a whole has not taken the leap forward that was hoped for as it was being set up six years ago.

14. In recognition of this, The Treasury and DWP have recently completed consultations on a new model of delivery to replace MAS. While elements of this such as the commissioning model are welcome, we have grave concerns that the new proposals are learning the wrong lessons from the MAS experience.

15. The new model, based on commissioning the provision of debt advice, money guidance and financial capability services to fill 'gaps in the market' has many strengths and will harness the existing expertise of organisations working in these areas.

16. However, we fear that the laudable intent behind the DWP and Treasury's recent review of public financial guidance will be undermined by the structure, aims and priorities of the new proposed services:

- a. **The split between money guidance and pensions guidance is purely artificial, and increasingly meaningless from a consumer's point of view.** Discussions about retirement income provision are inseparable from debt, housing costs, savings – general money advice. Having one body dedicated to providing pensions guidance and another coordinating separate money guidance and financial capability services creates a divide that simply does not exist in people's lives. This will inevitably lead to difficult hand-offs or duplication as the services evolve.
- b. The aim of '*filling gaps in the market*' makes sense on paper – government does not want to replicate provision, particularly that of popular online private providers such as comparison websites or Money Saving Expert. However, while provision for specific money related needs exists somewhere (where do I find the best insurance, best credit card for air miles?...) if you have access to the internet, a huge 'gap in the market' is a **single place to go for holistic**

**money advice and information**, not just specific missing content. To use an analogy there is a high street full of shops with guidance on specific financial issues - if you are already capable and know exactly what you need, but no supermarket where a person with ill-defined needs for financial guidance can go.

- c. Ring fencing debt, and delivering pensions advice separately means that **financial education and capability will always be secondary concerns**. Ring fencing these areas while not doing the same for others is a clear signal of prioritisation from the government. Inevitably, more than just money will be focused on debt and pensions, leadership and human resources will go in that direction in the belief that the success or failure of the new bodies will be measured on these areas, even at the expense of financial capability and education.
- d. In a trend that seems only to be exacerbated by the upcoming changes to debt advice and money guidance, there is disproportionate resource going to deal with financial crisis once it has happened and not enough to preventative work. It is always easier to evidence crisis services such as debt advice, but this should not justify the disproportionate resourcing it receives over more preventative services such as general money guidance or financial education – even if those have more diffuse benefits that are more difficult to measure.

17. Our full response to the public financial guidance review can be read on our website . It calls for a single money guidance body with a public facing brand and a mixed model of delivery where it both commissions and provides some services directly.

18. Overall, if policymakers want there to be organisations capable of delivering good capability and literacy services, they need to refocus attention on financial capability, creating governmental leadership, and directing resources into the sector.

### **Education services**

19. Financial education, having received significant political attention in 2014 when it was included on the secondary curriculum, has not made the advances many in the sector had hoped. Just 28% of teachers believe that their school is putting more emphasis on financial education than before the curriculum change . For all the importance accorded it by policymakers and teachers who believe that financial education is key to a successful life, not much has changed beyond a few lines in a national curriculum ever fewer schools are bound to follow anyway.

20. An upcoming report from The Money Charity also shows how little has changed on the ground in schools. Mirroring some of the results found in a poll conducted for the APPG on Financial Education for Young People earlier this year, our survey of 126 UK teachers found:

- a. Financial education is not as effective as it should be. Almost two thirds of teachers tell us financial education in the UK is somewhat or very ineffective.
- b. The introduction of financial education to the curriculum achieved little on the ground. Nearly three quarters of teachers we surveyed saw little or no change.
- c. Even though the vast majority of teachers see it as an important responsibility, schools face huge barriers in delivering financial education. Not least the lack of financial skills on the part of teachers.
- d. In order to be worth more than the paper it's written on, a curriculum change has to be matched with serious resources and incentives for schools to deliver financial education.

21. It is good that, after a collective "job done" attitude in the wake of the 2014 curriculum change, financial education in schools is back on the political agenda. As policy influencers in the field of financial inclusion, the practical improvement of education provision should be an inextricable part of your vision.

### **Accessing affordable credit**

22. The recent regulation of the high cost short term credit (HCSTC) has led to significant and so far poorly understood changes in people's access to credit. We support the efforts being made to expand the credit union model to fill the gap. But credit unions cannot and will not be a panacea. In addition, policymakers should support other schemes that give people access to affordable credit such as employer based services .

23. As we have similarly argued elsewhere, access to affordable credit is inextricably linked to financial capability. For example, some of the HCSTC market was fueled by consumers who had seen advertising and were drawn to the ease and speed of payday loans. Many of those consumers could access credit more cheaply elsewhere if they know how to, but are excluded because of their lower financial capability.

### **Government policy and regulation**

24. Government policy has not been adequately led since at least the winding up of the Financial Inclusion Taskforce five years ago. The Treasury's lead role in financial access and capability has also been removed, leaving policies in these areas rudderless and piecemeal.

25. For this reason we echo the Financial Inclusion Commission's recommendations for government leadership in financial inclusion – including having a 'Minister for Financial Health' and ministerial champions within each relevant governmental department .

26. In order for a whole host of ongoing government reforms, improved financial inclusion and capability are necessary: pension choice, Help to Save, Universal Credit, Lifetime ISAs, to name a few. And several government departments have interest in inclusion and capability as it pertains to their particular policy aims. But what this has tended to lead to is an atomized, under-led and under-coordinated disparate set of services.

27. The most glaring example of this is with the Treasury and DWP where, as discussed above, the former is in charge of setting up money guidance services and the latter responsible for pension guidance - and Universal Support for Universal Credit. All these services could and should be provided by a single body that can utilize economies of scale and apply expertise and resources to specific challenges, that is clearly led and accountable to a named minister.

28. The desire of these departments to engage in turf wars to maintain oversight of 'their' specific financial inclusion and capability services leaves consumers without the holistic money guidance and financial capability service which would be best placed to serve their complex needs.

29. It also means that, although MAS and its successor may undertake excellent thought leadership work, there is nobody to champion this at the top of government and coordinate action across relevant departments.

30. From a regulatory standpoint, the FCA produces important thought leadership work. For example earlier this year with their Occasional Paper on Access to Financial Services . However, financial inclusion is not is not written into the FCA's objectives and work in this area is overly dependent on a few key individuals working within it. We would recommend that the statutory objectives of the FCA include this area as a key aspect of financial regulation.

## **Conclusion**

31. Financial inclusion is a topic which requires serious thought and political attention. Like many of our greatest social challenges, it evades simple definitions and simple solutions. If this Select Committee can create new insights and stir new impetus, it will be thoroughly worthwhile.

*14 September 2016*

## **Money and Mental Health Policy Institute – Written evidence (FEX0071)**

### **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.<sup>457,458</sup>

### **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

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<sup>457</sup> Jenkins R, Bhugra D, Bebbington P, et al. (2008), *Debt, income and mental disorder in the general population*, *Psychological Medicine*; 38: 1485-1494

<sup>458</sup> MoneySavingExpert.com, (2016) *Mental Health and Debt*

their finances, boosting 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.<sup>459</sup> 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.<sup>460</sup>
6. In March 2016, Money and Mental Health conducted a survey of 5,500 service users with mental health problems on their financial experiences.<sup>461</sup> 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.<sup>462</sup>
  - 6.1 86% of respondents said their financial situation had made their mental health problems worse.

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<sup>459</sup> Sharon Collard, Martin Coppack, Jonquil Lowe and Simon Sarkar (2016), *Access to Financial Services in the UK*, Financial Conduct Authority Occasional paper 17

<sup>460</sup> Money and Mental Health Policy Institute (2016), *In Control: A consultation on regulating spending during periods of poor mental health*

<sup>461</sup> Money and Mental Health Policy Institute (2016), *Money on your Mind*

<sup>462</sup> 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,<sup>463</sup> 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.

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<sup>463</sup> For further details see mapping in Money and Mental Health Policy Institute (2016), *Money on your Mind*, p15.

- 8.2 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.
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.<sup>464</sup> 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

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<sup>464</sup> 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.

place which would protect them during periods of poor mental health - for example, limits on daily spending or on access to credit.

**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<sup>465</sup> and Think Money<sup>466</sup> already offer jam-jarring services; pre-pay cards designed for children (e.g. Osper<sup>467</sup> and Go Henry<sup>468</sup>) 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 in case."*

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

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<sup>465</sup> <https://squirrel.me/>

<sup>466</sup> <https://www.thinkmoney.co.uk/>

<sup>467</sup> <https://osper.com>

<sup>468</sup> [www.gohenry.co.uk](http://www.gohenry.co.uk)

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 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.<sup>469</sup> 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

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<sup>469</sup> 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.

or overdraft use - financial services providers should explore whether these could be shared with a trusted third party.



## **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 customer outcomes to be expected of firms,<sup>470</sup> 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.<sup>471</sup> 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 help them to control their finances

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<sup>470</sup> Martin Coppack, Yasmin Raza, Simon Sarkar and Kate Scribbins (2015), *Consumer Vulnerability*, Financial Conduct Authority Occasional Paper No. 8.

<sup>471</sup> Martin Coppack, Yasmin Raza, Simon Sarkar and Kate Scribbins (2015), *Consumer Vulnerability*, Financial Conduct Authority Occasional Paper No. 8.

effectively, in line with the Prime Minister's stated desire to support families who are 'just managing'.<sup>472</sup>

33. We believe the best way for the Government to achieve this is to create a new ground-breaking 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 be at risk and design

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<sup>472</sup> <https://www.gov.uk/government/speeches/statement-from-the-new-prime-minister-theresa-may>

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.

*Submission prepared by Polly Mackenzie and Katie Evans*

*14 September 2016*

**Money and Mental Health Policy Institute –  
Supplementary written evidence (FEX0091)**

Dear Baroness Tyler and members of the Committee,

Many thanks for inviting us to give evidence to the House of Lords Committee on Financial Exclusion last week. We were grateful for the opportunity and hope the Committee members found our contribution valuable.

You asked us to send you a short note setting out the potential “high control” options from which consumers might benefit if they were available in the financial services and retail environments.

This is set out below; please do not hesitate to come back to us with any questions or queries.

All the best,

Polly Mackenzie

Money and Mental Health Policy Institute

## **High control product options**

As we set out, it is important to understand that most 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. Our objective therefore is to identify policy solutions which:

- can be put in place during a period of good mental health by the person themselves, either alone or with the support of a carer, trusted friend or advocate
- prevent or reduce the incidence of financially harmful behaviour during a period of poor mental health.
- support people to reinforce their own 'normal' or 'healthy' preferences, deterring divergence during periods of poor mental health without imposing a moral view about how and where people should spend.

### **1. Credit freeze: full or partial**

Some people have told us they would like to be able to exclude themselves from credit, or from particular credit products they know are damaging but they have - in the past - used when unwell.

People can already put a notice of correction on their credit file notifying lenders that they suffer from a mental health condition and requesting that they not be lent to. However, this can be removed by the person and has no legal force; in other words, there is no requirement not to lend to a person with such a note on their credit file. Many home credit providers, pawnbrokers and some other lenders do not use the Credit Reference Agencies, so would not see these notices at all.

In addition to suggesting they ought to be able to self-exclude from credit, people with mental health problems have also requested the ability to bring a third party or trusted friend into credit application decisions, by:

- a. notifying a nominated trusted friend of credit applications and/or changes in credit referencing score
- b. requiring authorisation of a trusted friend for credit applications

### **2. Payments and current accounts**

Many people have told us they would like firmer "tramlines" and restrictions to keep themselves from routinely deviating from "good" financial management. Examples that have been requested by our respondents include:

- "Jam-jarring" in which a person's money is allocated to pre-determined pots for a specific purpose, e.g. bills, rent and savings
- Nudge-type notifications of deviations from regular patterns of behaviour
- Restrictions from spending at certain merchant categories

- 24 hour (or other) delay before processing large transactions.<sup>473</sup>
- Bank accounts and/or pre-pay cards with third party:
  - Joint control
  - Partial joint control (eg authorisation of large transactions and/or particular merchant category code types)
  - View-only privileges
  - Notification of specific behaviours only (such as gambling or large transactions)

Some of these product features are already available in one form or another in the marketplace. Pre-pay cards including those designed for children (e.g. Osper and Go Henry) and for vulnerable individuals (e.g. Source cards) restrict the card holder from spending in certain categories of merchant, notably gambling. Companies like Squirrel and Think Money provide products which help people to budget by “jam-jarring” their money. Credit cards provided for company staff often allow the company to restrict users from withdrawing cash or spending in some merchant categories. Dual signatory accounts, including those which require a different sign-off procedure for large transactions, are available for businesses, charities and other organisations.

The challenge is therefore not, in large part, a technical one. However, many of these products are considered premium services and consumers can be reluctant, or unable, to switch from free banking to a paid-for service.

If a person is protected under the Equality Act a service provider may be under a duty to make reasonable adjustments where that person is at a major disadvantage compared to other people who do not have a mental health problem.<sup>474</sup> If a consumer is unable to set up a direct debit, remember to pay bills, or stick with a budget due to their disability, they are at a major disadvantage compared with other consumers. It is therefore worth exploring the implications of these EqA protections in the context of financial services, to see whether restricted accounts could be considered “reasonable adjustments” and therefore made available without cost to customers in need.

### 3. Retail restrictions

Many consumers have told us they would like retailers to help them manage or restrict their spending, as well as payment providers.

Examples cited of settings consumers would like retailers to make available that were identified in our research include:

- Delayed processing of transactions made during the night, pending confirmation in the morning
- Third party authorisation of large transactions
- Monthly or weekly spending limits

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<sup>473</sup> A time-delay on large transactions has also recently been suggested as a scam-prevention tool for vulnerable and elderly consumers by the Trading Standards Institute

<sup>474</sup> S20 Equality Act 2010

#### 4. Making it “sticky”

A key consideration will be how “sticky” any framework is. There must be some barriers to the removal of restrictions a person has put on themselves so that they cannot be removed in the heat of the moment, when someone is unwell. We have developed a hierarchy of the different processes that could be required for removing any restrictions on a user; so long as the process is agreed directly with the consumer at the point of setting up the restrictions, we believe these are all legally viable. Different consumers would choose different options depending on their needs.

1. Double-confirmation by the user required to remove restrictions (eg an “are you sure” message, via a different communications channel)
2. Alerts to a third party when restrictions removed
3. Mandatory cooling off period before restrictions removed
4. Cognitive/mental capacity assessment before restrictions removed
5. Third party sign-off before restrictions removed

*17 November 2016*



Money and Mental Health Policy Institute and MoneySavingExpert.com – Oral evidence (QQ 142-149)

## **Money and Mental Health Policy Institute and MoneySavingExpert.com – Oral evidence (QQ 142-149)**

Evidence Session No. 14

Heard in Public

Questions 142 - 149

Tuesday 8 November 2016

[Watch the meeting](#)

Members present: Baroness Tyler of Enfield (Chairman); Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Martin Lewis OBE, Founder and Chair, MoneySavingExpert.com; Polly Mackenzie, Chief Executive, Money and Mental Health Policy Institute.

Q142 **The Chairman:** Thank you very much indeed for coming along to this evidence-giving session. We very much appreciate your being here. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website, and you will be given the opportunity to make any corrections to it that you feel are necessary.

The focus of this session is on mental health in particular, but we may go broader. Given that focus, I declare that I have the role of the lead Liberal Democrat spokesperson in the Lords on mental health. Would you like to start by introducing yourselves, saying who you are and what you do for the record, please?

**Martin Lewis:** I am Martin Lewis, founder and executive chair of MoneySavingExpert.com and founder of the Money and Mental Health Policy Institute.

**Polly Mackenzie:** I am Polly Mackenzie and I am director of the Money and Mental Health Policy Institute.

Q143 **The Chairman:** Thank you. I will kick off with the first question. We have had a lot of evidence so far about the effectiveness or otherwise of the Government's role in leading and co-ordinating on financial exclusion in the UK, so I would welcome your views on how effectively you think that role is currently being undertaken, and indeed how leadership and co-ordination could be improved. In particular, what in your view is the role for government in addressing the link between financial exclusion and mental health?

**Martin Lewis:** From my perspective, we are still recovering from the damage done by the wasted money of the original Money Advice Service. While financial capability was its broader remit, financial exclusion is an obvious subset. What is truly needed, and what is perhaps the most important government role in all this, is simple: assessing the financial capability of the nation and assessing where there are inclusion problems. Before we even get to the point of trying to fix that, we need to know what the problems are. That is one of the most important things that we should focus on early on. While the original Money Advice Service had the ability and the potential to do a lot of good, frankly it focused on rent-seeking and low-hanging fruit to try to be successful with its own remit, replicating services that were already out there where there was no lack of inclusion and no gap in provision.

For me, part of the big picture of what the Government need to do on financial capability—you will forgive me for flicking from one to the other, but it is because the two are so innately interlinked—is, first, to assess financial capability and where those needs are being addressed; and, where the needs are not being addressed, to plug the gaps. There has been general confusion in the Money Advice Service and more widely that the Government should be meeting the financial capability needs of the nation as opposed to the

Government making sure, as I think is the case, that the financial capability needs of the nation are met. I think that was the overall confusion in the policy. It is too big a subject for the Government. They will not put the necessary funds in. We are still desperately short of funds and financial education.

There was a pyrrhic victory. I campaigned to get this on the national curriculum; it is an important part of inclusion. It was a long campaign. We got the box ticked that financial education was on the national curriculum. We have since seen no resources put into teaching it, and no resources put into training teachers how to teach it. I hear things such as that banks and financial services companies should be footing the bill. We do not ask GlaxoSmithKline to pay for chemistry. This is on the national curriculum. Why are we asking banks to pay for it? It should be taught.

We have a real problem too with the academisation of schools, because, of course, they do not have to follow the national curriculum, so now we have a secondary battle. We once persuaded government to put it on the national curriculum. Now, frankly, that is a trivial issue. We need to go around and persuade each head teacher that they need to resource it. Financial education is one of the keys to financial inclusion.

**The Chairman:** That makes sense, but could I just stop you at that point? We will return later specifically to financial education and the role of schools. For the same setting, how do you think the work of the Treasury, the DWP, the DfE and other departments such as the Home Office and Health could be better co-ordinated?

**Martin Lewis:** I do not need to tell any of you that the problem with all government is lack of co-ordination. You meet one Minister who tells you one thing. The next will say, "I can't do that, because half of the subject you're discussing with me is under the control of somebody else who has a different priority at the moment". Certainly co-ordination right across the system would be very welcome. You will forgive me for being somewhat sceptical that that is actually possible.

I think the bigger picture—this is very important, so let me mention a positive—is that attitudes are changing. If nothing else, changing attitudes are always a precursor to delivery changing and starting to consider financial inclusion. I think we feel this more in the mental health world, and Polly will talk more about that in a moment. The doors are open. I do not think that much is being done yet to great success, and we need to be honest about the fact that some public policies such as benefits sanctioning are themselves detrimental to financial inclusion, and quite substantially so.

We can look at the drivers of the lack of financial inclusion. Education is one, of course; the operations of corporate Britain are another; and the behaviour of government is a third. It is difficult. On one hand, we want government to fix it. On the other, government is one of the causes of the problems. I campaign for breathing space for when someone is in terrible debt. That is an issue of financial inclusion, yet the worst practices of debt behaviour all tend to be in the public sector. That is probably why breathing space has not come in.

I am somewhat concerned about government, as a big picture, being the one that looks after all this when it is a contributor to the problem in some ways.

You have a declaration of interests in front of you, and I think we have a declaration of interests problem for government when it comes to financial inclusion.

**The Chairman:** Thanks very much. Polly, would you like to say anything, particularly about the role of government in addressing the link between financial exclusion and mental health?

**Polly Mackenzie:** I think one of the problems is that the focus has been on financial capability across the board, which means that the people whose financial capability is most limited, and also therefore most difficult to address—those who are financially excluded—get slightly left behind in favour of helping people like me understand my pension 5% better and other such interventions. What we see in people with mental health problems, who very often have huge barriers to interacting with the complicated consumer markets that we have, is that the products and services that are available simply do not fit their needs. That is why they often find themselves financially excluded.

The drive for basic bank accounts is very interesting. It is a positive intervention because it recognises that there is a product gap and a reason for people's financial exclusion and that it is not just about giving them lots of lists and explanations of, for example, what an APR is. It is that the market is somehow flawed—it does not have the right kind of product for a group of people. Building on the understanding that a product intervention, not mandated by the Government but encouraged by the Government through universal credit and by leaning very heavily on the BBA, will help with financial inclusion.

People with mental health problems are much more likely to struggle with budgeting and shopping around, often because of impaired memory. They may struggle with impulse control or have reduced planning capacity. All those impairments can be addressed with things such as product innovation, which the Government can encourage and support and that the market will not necessarily deliver. In my view, that is likely to be more effective than across-the-board information campaigns.

**Martin Lewis:** The issue of the basic bank account is totemic of some of the major problems and things that are wrong with the system. I am not sure it is deliberate, but there are two problems for people getting bank accounts. Number one has existed for years, although it is improving. People go in and ask for a basic bank account but are given the current account application form and rejected from that. They are then told that they have been rejected. I say that at the point of rejection bank staff should be mandated to say that there is a basic bank account that may be suitable. I wish they did not give them the form in the first place that credit scores them and puts another mark on their credit file. That is one of the problems, and it is purely a systemic organisational problem.

The other problem, which happens all the time, is that there is friction between two policies. We have real problems with ID. One of the big problems with basic bank accounts is not lack of availability but the need for identification with which to open them. It is a side issue, but we have a real ID problem across the market, in that we are all encouraged to be paperless these days but all our banks want paper statements. I have ID problems for

that reason alone, and generally I do not. We have a lack of joined-up thinking: we want people to open bank accounts, but if they do not have ID they cannot, and money-laundering regulations impose that. There is friction between the two different policies.

**The Chairman:** We are going to come back and explore both basic bank accounts and ID later on.

**Martin Lewis:** I keep jumping ahead. I am sorry.

**The Chairman:** As you say, these are very important points.

**Viscount Brookeborough:** I want to ask one question about ID cards. I come from Northern Ireland and we have always have the equivalent because we have had photographs on our driving licences since 40 years ago, as Lord Empey will know. Great Britain has always been very anti ID cards. Are you saying that if ID cards were the norm, that would help overall with a colossal problem, never mind the fact that when you find somebody dying in the street you will know who they are? Would that solve the problem with bank accounts?

**Martin Lewis:** You suggest having driving licences as photographic ID, but that is part of the problem—the people we are talking about do not have driving licences and they do not have passports. That is where we are starting from.

**Viscount Brookeborough:** But what if everybody had an ID card, which is an issue that has come up several times?

**Martin Lewis:** I recognise the need for people to have the ability to gain an ID card, as opposed to mandating that everybody have an ID card, but that is a thorny area that I do not want to involve myself in. In general, I recognise the need for everyone who is a citizen or resident of this country to be able to have a standard form of ID that does nothing other than give you ID, and at a very cheap price. But we have to think again, because the problem is: what ID do you need to get your ID? I do not like the phrase “lowest level”, but people who are dealing with those right at the bottom of society, who are struggling to put anything together, will tell you that just getting them ID is a difficult challenge.

Q144 **Lord Fellowes:** My question is for Polly in the first instance. Between you, you have given us an idea of the obstacles that people with poor mental health have in accessing financial services. Would you like to expand a little on the policies and practices that financial institutions should put in place to mitigate the exclusion?

**Polly Mackenzie:** Often people with mental health problems fit into the group of people who are self-excluded from financial services. Rather than not being able to get ID, they have been in the system before but it has gone wrong—they may have incurred a lot of fees and charges and thought, “This is not for me”. We know that people with mental health problems are very likely to be on low incomes. If you have a severe and enduring mental health problem, you have only a 10% chance of being employed. There are also common mental health disorders such as anxiety and depression that are associated often with an income shock such as a loss of earnings or a

relationship breakdown. People can go through a very difficult financial period where they struggle to maintain their financial position.

In our research with consumers with mental health problems, we found that people would like support with budgeting, such as the jam-jar accounts that the Government were looking at. These accounts make sure that money goes through tramlines into people's rent and bills so that they can be paid easily without people having to focus on them. Often people will go through a period of depression whereby the simple administrative tasks of keeping up with their financial commitments are far too much. If you go through a three-month period of depression and do not pay any of your bills, that will have a huge impact on your credit rating. You will have salted the earth for your future financial position because you cannot even refinance. Supporting people to complete those administrative tasks, help with budgeting and more flexible direct debits are important. Often people with fluctuating incomes, such as somebody with a mental health problem, do not use direct debits because they are afraid of fees and charges. That means that if they are suddenly in hospital, their bills do not get paid.

The final group of issues that we are looking at, which are quite complicated, is where a third party—a trusted friend, a carer or a family member—can be included on somebody's account. Sometimes that will be simply to provide oversight and notice of when people are doing things; and sometimes it will be to take over and pay the bills when the person is unable to do so themselves. We have examples of somebody phoning an energy company to try to pay a bill but because they were not a known person on the account, they could not even find out how much the bill was and had to guess and hope that it would be enough. That is not to anybody's benefit. People with bipolar disorder talk about wanting to nominate a trusted friend to be able to block their account and close things down to limit their financial behaviour during a period of extreme poor mental health. Sometimes people will take out tens of thousands of pounds worth of loans, crash their life savings, sell the house or give all their money to charity—there is a variety of quite extreme behaviours that, once their health is recovered, they wish they had been prevented from doing by a carer or, sometimes, by the courts.

**Martin Lewis:** We have thought about the way to brand that, which is very important. Obviously you do not want to call it a "mental health option"; that would be the worst thing in the world. The branding has bigger ramifications than just for those with clinical conditions, and that is for control options. What level of control do you want put in place on your account? You can have a strong control option that would give you a cut-off at certain levels of expenditure or allow somebody else to come in. I do not think that the financial services institutions are yet in a position to be able to do that under the regulations that we have. This is one thing that the policy institute is there to do: to look at what regulatory and legislative change we need to enable people to protect themselves from themselves.

**Lord Fellowes:** Do you think that the Government should regulate this?

**Martin Lewis:** I am sure you all know that the FCA has an innovation fund under which it allows innovative products to come in. It would be good if we could expand that innovative system to allow products to be altered in such a way that people can have a control on them to see whether it operates

without the company being liable and then being sued later for disfranchising someone from their credit when they select one of these options. For the past eight months Polly has been doing a brilliant job looking at this through the policy institute, but we are still very new. Some of these things will require substantive change, both legislative and regulatory, because even if people want to do them, they cannot.

**Q145 Lord Northbrook:** The Money and Mental Health Policy Institute wrote recently about a predatory retail environment in which the online gambling and shopping industries seem to target especially vulnerable customers. Can you expand on this, and do you think the same can be said of other parts of the financial services sector in their relationship to vulnerable people and those in poor mental health? What can be done to tackle such practices?

**Martin Lewis:** I will let Polly talk about predatory behaviour, if you will forgive me, because that is in her report.

Across the financial services industry as a whole—I do not normally do this, but I want to speak up here for banks and lenders in general—over the past decade we have seen much better processes on the curative side for dealing with people with mental health issues. When someone calls up and says, “I have bad debts and I have a mental health problem”, certainly the big institutions, which have specialised teams, are far better at dealing with that than they were a decade ago. However, there are still systemic problems with the way they operate, and not enough work is done on prevention, which was the aim of setting up the institution in the first place. You are five times more likely to be in debt crisis if you have a mental health problem. That is a horrendous statistic, and we need to prevent that rather than just treat sympathetically those who get into that position.

I certainly think that we have issues at the bottom end of the market, with door-step lending and payday loans. Once we start getting into that type of market, I think it is predatory. When you have a product that most people would not get because it is really expensive, it tends to be vulnerable consumers and less well-educated people with fewer options who get it. So, by definition, that end of the financial services market is predatory and preys on vulnerable people.

I will leave retail to Polly.

**Polly Mackenzie:** This observation came out of some research that we did back in April. In a survey of 5,500 consumers with mental health problems, when we asked them what kind of self-harming behaviour they had had financially during periods of poor mental health, 93% said that they spent more, 59% had taken out a loan that they would not have taken out during a period of good mental health, and 74% had put off paying bills. Those numbers are incredibly high.

On the question of why people are spending more, a surprisingly small element of that relates to the extra costs, which we know are an issue for those with physical disabilities, associated with being at home and having the heating on. Actually, psychologically motivated overspending seems to be incredibly prevalent.

In a series of focus groups, we homed in on the question of night-time advertising. This did not come out of the survey or out of our own policy

institute but from consumers themselves saying that they were targeted by emails from Amazon, eBay, Matalan and lastminute.com, which seem to email repeatedly during the small hours between midnight and 5 am when most people are asleep. My phone is turned off, so it is not going to bother me—I get an email from Amazon every night at 1 am, slightly bizarrely—but if you are suffering from insomnia or are struggling from impulse control, you are totally alone at that time because everyone else is asleep. You may be captivated by anxiety or depression, which might make you feel that only buying something will make you feel better. Sometimes, people just want to see the delivery driver, because they will see nobody otherwise. We had an example of someone who buys every day just to see a delivery driver, which breaks my heart.

We limit what is shown before the watershed to protect children, but if you look at the Ofcom regulations and the way that the gambling industry operates, you can see that people are often targeted in the middle of the night. If you turn on your TV at 3 am, pretty much all that you will find is gaming. Ofcom takes the view that hardly anybody is watching between midnight and 6 am, so even the public sector broadcasters are allowed to broadcast gaming. But who is watching between midnight and 6 am? Of course, there will be some shift workers, but there will also be people suffering from insomnia, people who are drunk, people who are alone—actually, quite a vulnerable consumer group. We need to think carefully, I think, about how we might restrict TV shopping and gaming that is targeted specifically at people who are at their most vulnerable.

Q146 **Lord Empey:** We are all, I am sure, familiar with the term “poverty premium”, but could you elaborate—this question is initially directed to Polly—on the “precarity premium”, which you have written about and explain what that is? What initiatives could be pursued to mitigate that? How might new financial technology help to address this premium?

**Polly Mackenzie:** Again, something that has come out of our research is that the simple administrative burden of managing personal finances is incredibly challenging for people with mental health problems, who are often at the lower end of the labour market.

We know that structurally a lot is changing in the labour market, with the huge growth in self-employment, zero-hours contracts and the rise of the so-called “gig economy”. That means that an increasing number of people have fluctuating incomes. We all know the Micawber principle, that your outgoings should not be higher than your incomings, but if your incomings change every month and your outgoings do not, trying to keep on top of that and juggle your finances is intellectually challenging. Some research suggests that that has a cognitive impact on your ability to manage other things, but it also appears to have costs associated with it.

I have already mentioned direct debits, which people with fluctuating incomes choose not to use, which means that they are excluded from the available discounts. If you have a very variable income, you may choose to be on a pre-pay meter, which we all know comes with a cost that is often referred to as the poverty premium.

The poorest people often do not access high-cost, short-term credit because they cannot secure even that kind of credit—



**Lord Empey:** Do you mean payday loans?

**Polly Mackenzie:** Yes, the FCA calls them high-cost, short-term credit, because it sounds more technical, I presume.

The market for those is often people with fluctuating incomes, because they have this challenge of trying to smooth their income and expenditure. Therefore, the costs of that—these 1,200% loans—fall on that group of people. If you have a bad week or a bad month, you will often incur fees and charges, which then subsidise the financial services of everyone else—people like Martin and me, who are lucky enough to have a stable income. Through our consumer research, we have identified that as an area on which we want to do more work to put some numbers on those concerns.

As this group of people with fluctuating incomes grows—we know that universal credit, because it is based on your last month's earnings, will be pro-cyclical for the people with the most variable incomes—the financial services industry needs to start to provide products that can help people to smooth their income. We know of a few: Wollit helps you to shift your pay packet, if you are on a zero-hours contract, from this month to that month, although it obviously comes with a cost; Squirrel helps you to break up your monthly pay cheque into weekly amounts to help you to budget over the course of time; and, in the US, Plum and Chip help you to smooth your income.

**Lord Empey:** Do the banks have the technology to work around the direct debit issue? We know that missing a payment provokes charges, and we get that. Is there sufficient technology to find a mechanism for smoothing that aspect?

**Polly Mackenzie:** There are two issues. One is the payment cycle where, if you are paid fortnightly or four-weekly and you have a monthly direct debit, you can often find that it goes in and out of sync over the course of the year and causes you trouble. They could change that to make it more flexible to allow people to choose their own direct debit payment cycle, but that requires a lot of technology build and investment, which would need to be pushed through by the payment services authority.

There is also the question of more flexible direct debits, where people could choose the minimum amount—with smart meters this ought to be possible in the energy market—which would allow them to have the direct debit discount while still paying only for what they use. From a policy perspective, it is worth looking at whether those kinds of innovations could be copied across other sectors.

**The Chairman:** Before I invite Martin to add his comments, I want to ask about the three types of mechanisms that you mentioned. A couple of the Members, myself included, did not quite catch the third. I think you mentioned Wollit, Squirrel and another one.

**Polly Mackenzie:** Plum—I cannot say anything for their branding. I do not why it is called Plum. There is also another called Chip.

**The Chairman:** Is Squirrel a form of jam-jarring, or is that different?

**Polly Mackenzie:** It is a form of jam-jarring, but it is more acorn storing.

**Martin Lewis:** I have always called it piggy-banking, which has been my technique for 12 years.

There is a very simple problem with these budgeting apps. First, while they are good fintech solutions, they are fintech solutions, and that does not suit everybody—it certainly does not suit certain groups of the older generation. Secondly, they cost.

I had someone pitch to me as a social enterprise recently a really rather good scheme, but between us—I will not say which one it is—it had a £5 a month cost. When most people bank, their banking is free—we all understand that that is a cross-subsidy from people who are overdrawn; everybody in the room gets that. So when we start to say that the most vulnerable consumers out there who need help with budgeting are going to have to pay £5 a month for a bank account that is suitable for them, we have a problem. That problem is perfectly understandable from a cost basis. It costs more because these people do not have the ability to go overdrawn; there will be no cross-subsidy, so it will be ring-fenced. However, as a society, we really have to think about that.

As for the move to universal credit, if I am honest I think that the idea of paying monthly people who struggle to manage their own money is potentially disastrous and a terrible move for financial inclusion. It is a ticking time bomb. One solution would have been piggy-banking or jam-jar accounts, and in that case probably the Government should be paying for them. If they want people to budget well and to learn to manage their own money, they need to start funding this. Otherwise, there will be a real breach in the nation's budgeting hole with the advent of universal payment monthly payments and no way to budget for it. I have said this before and I suspect that many people in the room agree with me. I do not see that any change will happen.

Q147 **Viscount Brookeborough:** You have already started to answer my question about children and schooling. What I do not understand is that children are not introduced to money as a game in primary school and the issue is just not taken on. Schooling is the one forum where you can get to everybody at some stage in their lives. Therefore, you could have a base to work from. I am horrified because, although we have not had teachers in here, we have been told on a number of occasions that teachers do not feel confident answering children's questions. To me, and this is a trade union answer, that is simply because it is not in the curriculum and they do not have to do it. In some of the devolved areas, of which Northern Ireland is one, it appears to be slightly better. I wonder whether you have any new initiatives that could work to improve the delivery of financial education in the school system. What is required to ensure that activities are targeted, co-ordinated and adequately funded? I realise that it is easy enough to say, "Put it on the curriculum", but sadly we know that, because of the diversity of the schools, they find that impossible.

**Martin Lewis:** Putting it on the curriculum does help because it provides an easier argument for teachers in non-curriculum schools, if I can phrase it that way, to say that it is on the curriculum and therefore should be taught. It is not on the primary curriculum; it is only on the secondary curriculum. Frankly, its implementation on the secondary curriculum has been very poor.

It seems to me self-evident that when you launch a new area on a curriculum, existing teachers need to be trained and it needs to be added to new teacher training. That is pretty obvious, but that has not been done. We also need to have budgets and paid-for materials. A charity that I am heavily involved with, the Personal Finance Education Group, which is part of Young Enterprise, does that, and I am funding my Money Week for the next three years in schools because we want to try to get the message out there. But it does get a little annoying that I am doing it. There has to be a point when we ask: why is this not being done properly by the Government?

Putting it on the primary curriculum would help. Many schools and teachers are doing a good job—there are a hundred centres of excellence in financial education. However, ultimately what this comes down to when you talk to head teachers—and I suspect that the unions are singing from the same song sheet—is that have stuff they have to do and they have limited budgets. They have to deliver what they have to do and they have to use their budgets to do that—anything else, they cannot do it. That is pretty much where we are stuck.

We have to properly prioritise this. The all-party parliamentary group has been very good and very successful, and is still lobbying for change on this. I slightly regret in some ways the pyrrhic victory we had of getting it on the national curriculum, which made everyone feel that we were done. That was only the start. There is a long way to go and we know what we need to do.

**Viscount Brookeborough:** They talk about the points of contact at which we should be able to pick things up and too many of them start when you leave school. It is a bit late then, given that we had them all in the classroom. How highly do you rate the importance of all the things that could make a big difference?

**Martin Lewis:** People often say that parents should teach this, which is nonsense because many parents have problems themselves. We are trying to break the cycle, not perpetuate it, which is why it works the other way. Understanding the basic language of money in primary schools is important. What are notes and coins? What are cards and how do they work? What is a bank? What is the job of a shop? A shop's job is to make money from you. There is nothing wrong with that, but your job is to know that it is not necessary to listen to the adverts. The only education that kids under the age of 10 get is three minutes during breaks in TV programmes. That is the wrong education and not what we want.

How big a priority is it? It frustrates me that PPI mis-selling is worth £20 billion. The budget that we could do with in schools is £20 million to £30 million—that would make such a difference to financial education. A better educated populace could reduce PPI mis-selling by 10% or lower the amount of debt that people get into. It is not just about financial inclusion. The understanding of how student finance works is woeful. People from non-traditional backgrounds are not going to university due to misunderstandings rather than a systemic problem in the way it operates. All those things could be improved by financial education. For me, it is an absolute priority that every child in one of the world's most competitive consumer economies gets some basic education in finance.

**Viscount Brookeborough:** I have one more very quick question. The other day I was discussing this with somebody from another country. They said that a major problem is student loans, not because they are borrowing but because students are coming out of university with too big a loan, and in that country they then cannot get a loan or get credit. Do student loans have that effect in this country?

**Martin Lewis:** No. Because we have income-contingent loans in this country, it is basically a reduction of income and does not go on your credit file. It does not work in that way. However, if you were to ask me what simple change I would make to improve the financial life of Britain—there are lots of big changes—I would say that I would change the name of “student loans” to a “graduate contribution”. That is for two reasons. First, it is far more like a tax than it is a loan. Too many people are put off by debt aversion, which is not relevant. Secondly, for 25 years, since 1991, we have educated our youth into debt. We have given them a compulsory thing that we call a loan. That inures them to other types of borrowing. How can you tell them not to get a high-interest credit card or payday loan when the state mandates them to get a loan to go to university? That simple naming issue is so psychologically detrimental to the way our society now perceives debt. Mandating people into debt that is not a debt—that we could have called something else and that other countries call a graduate contribution—has been an absolute tragedy.

**Lord Northbrook:** Could a public service organisation such as the BBC have as part of its duty an educational role on financial matters to help teachers who do not feel qualified?

**Martin Lewis:** Obviously I have the “Martin Lewis Money Show” on ITV, so I shall be somewhat careful in recommending that. ITV has been very good on this, and it also has a public service remit. The BBC could have an educational role, and I think it does to an extent. I would support all ancillary and periphery moves from banks, financial services, people like me and the BBC to help. But none of that replaces kids sitting in a classroom being taught something. So I would welcome it, but it should be seen as ancillary and not core.

**Baroness Primarolo:** I have a brief question. It has been suggested to us, Martin, that since financial education has been on the curriculum, support from the wider finance industry to help that education has dried up. They were doing the same—ticking the box; job done. Is that your experience? Much as people hate ring-fenced funds, do you see a role for using orphaned funds from banks, or something like that, to at least try to kick-start funding in the schools?

**Martin Lewis:** The answer to your first question is that you are absolutely right. Banks especially have pulled out of funding financial education now that it is on the national curriculum. We have effectively had the worst of both worlds: we have had no real funding for training from the Government and the private funders have pulled out because they think it is now being done by somebody else. That has been awful, and it is the reason why the Personal Finance Education Group charity had to merge with Young Enterprise; it just did not have the funding. I am not self-aggrandising, but it is the reason I am paying for my Money Week. That is really not for an individual to do. I am in

the fortunate position that I can do it for three years, but ultimately I do not think it is sustainable in the long term.

In terms of finding other money, we get into soft political arguments when we are talking about where funds should come from. I always think of mandated funds, which are taxpayer money anyway.

For me, the Money Advice Service is effectively a tax on the financial services industry, and we should try not to dress it up too much. That money would have been far better spent, certainly in the early days, on financial education, and I think that could still be done with some of that budget. The industry did not like it because it did not see that any good was being done with it. I think that the people paying for it would have a much softer attitude towards funding for financial education, because it needs to be remembered—purely from a self-interested point of view for the financial services industry—that the more educated you are, the more you engage with more products. So it is not a negative.

However, I would welcome funding for that wherever it comes from—even if you dug it out of a leprechaun's hole, quite frankly—so it does not matter to me. We just need to pay for it.

**Q148 Lord Shinkwin:** My question is in three parts. The first concerns an issue that Martin has already said is a problem and that government is a contributor to that problem. Notwithstanding that, I would be interested to know how you think government, businesses and the third sector could make financial guidance available to people at the key decision points in their lives? Secondly, what lessons would you draw from the successes and the challenges of the MoneySavingExpert website? Finally, what would you say are the particular challenges in reaching people who are experiencing mental health problems?

**Martin Lewis:** I will take the second question first, if you will forgive me. MoneySavingExpert has been phenomenally successful—far more than I ever thought it would—with now more than 15 million unique users a month and 11 million people getting the weekly email in the UK. The success of that has come, I think, from being separate from the financial services sector.

Going back to what we did differently—this is a problem that government has in replicating it—when I first started in personal finance journalism, personal finance journalism meant writing primarily about stocks and shares. It was seen as a little bit exciting if you diverged into mortgages. Personal finance journalism was primarily about getting quotes and balancing opinions. I did two things differently. First, I defined anything that you spend money on as a financial decision. In the early days, I got a lot of stick for writing in the personal finance column about buying DVD players, but more people were buying DVD players than stocks and shares. Surely, I explained to people, what they are looking at is also a financial decision and it should be seen from that perspective. That was one change.

When we talk about financial inclusion, one issue is that the FCA is the regulatory body that looks at finance, but it does not look at gas, electricity or water bills or at shopping and spending. So in the governance we have a problem of silos, as each silo is regulated in a different way. I could give many examples, but just take the ombudsmen. The financial services ombudsman is

statute based with a strict operating procedure and has real power. The communications ombudsman and the energy ombudsman are not statute based, but they can mandate any company to come to them to give evidence and, in some circumstances, they can mandate a solution. There are then the lesser ombudsmen, who can get companies to come to them but cannot mandate a solution, so they have to take them to court to get the solution applied. And then there are private companies that are ombudsmen. That type of cross-sector confusion—I am just giving it as an example rather than anything that is too relevant here—is one of the big problems that we have with silos. Understanding that finance is not about financial services is lesson number one.

Lesson number two—the thing that I did differently—is to give people answers. You would be amazed, but people just want the answer. Sometimes, if they trust you, they do not even want to know why it is the answer. This is the one of the biggest things that worry me, but people tell me all the time, “I don’t understand it, but you told me to do it, so I did it”, whereas I feel that understanding should be pre-eminent. If we look at the energy market, the truth is that people do not want energy comparisons; they want to be told which company to switch to by somebody whom they trust.

Those two things are very difficult for official institutions to replicate. Whenever I have worked with government on web tools, I ask, “Can’t you do this?”, and I am told, “Oh no, we can’t do that. That is a bit too much like telling people what to do”. But do you know what? Sometimes people want to be told what to do, and that is a big friction in the delivery. Pension freedom is great for people who understand it, but 60% of people just got their annuity from their pension provider. People do not want choice necessarily, and they do not know how to deal with it in some circumstances, so we have to be careful.

The issue with MoneySavingExpert is really simple. Our user base tends to be slightly more affluent than the average internet user. Our users are above 18. On debt levels, we stretch right across from people who have really serious money to those with absolutely nothing who are substantially in debt. But it is a self-selecting body of people who understand that they need to go and read; they are not necessarily savvy, and many of them are not savvy at all. But the first lesson that they have learnt is to go to someone they trust—and, hopefully, that trust is well placed—to get the answer. The problem that we have in inclusion terms is that, first, it is not even that people do not know what questions to ask, although that is an issue; they do not even engage in getting to the stage of asking questions.

One thing that we are working on at the moment—my giving strategy quite deliberately seeks to fill the gaps that I do not do in my work—is to work with the Trussell Trust on financial triage in food banks. That has been really successful. We have financial people at the food banks, at the point when people are at the level of desperation that they are asking for help with food. The person in the food bank can say, “Why don’t you go and talk to them about your budgeting?” That has been remarkably successful as a project, because when people are open to help on one subject, they are open on another. At the next stage, we want to enable those people to call the benefits office, because so much of the issue is about the jobcentre and benefits—the Trussell Trust issued something on that yesterday.

So the first thing to do is to find the nodes of vulnerability, where people will engage and are ready and open to get help without feeling patronised or that it is being forced on them or that they do not care at the moment. That would be the first thing that I would address.

Secondly—and this is incredibly difficult for government to do—people want to be told what to do in most cases. They want to be told what to do. They do not want choice. It scares them. One of the big reasons why people do not switch energy provider is that they get 10 providers all within £2 of each other, and they say, “I don’t know which one to go to”. My answer is: “The sin of not doing anything is far worse than the sin of picking the wrong one of those 10”. But that is a very difficult message. So we need to provide answers rather than guidance.

However, there is a whole regulatory problem on the back of that. There needs to be advice face to face and on the phone. The web—I may be rent seeking here, but I will declare it in advance—is pretty well covered, and not just by us. On the web, there is lots of good information about finances and on most things—not on benefits, which is not as good as it should be. So find the gaps where the web is not doing it—do not try to build big websites—and understand that people want to be spoken to when they are really scared.

Finally—sorry, I am going on—there was one thing that the Money Advice Service did really successfully. Sadly, it was turning the supertanker around just at the point it was canned. I had been very critical, but it was starting to do a good job. On our site, we experimented with something on ISA balance transfers, where the Money Advice Service helpline was available alongside the article. That enabled people to call the helpline, and the person answering the call would know the article—Money Advice is very reticent about giving product information. What we often found was that the difficulty is with the last jump, with just pressing the button. People will read everything, but then they just get stuck, whether they are dealing with gas and electricity or an ISA balance transfer. They could call the Money Advice Service and the person on the Money Advice Service line could answer their question. “Is it true that I can open only one ISA a year?” “Yes, that is true”. “Should I be going for this product?” “Well, according to the MoneySavingExpert guide, based on what you have told me, you could go for this product”. So Money Advice could defer the responsibility for product choice to us.

Effectively, what most people want is a savvy friend who gets this stuff, whom you can pass your thoughts to and who will guide you through the answer. That worked really well. We had an over 90% success rating or happiness rating from the people who tried that. So I think we can be clever in how we start to deliver for vulnerable customers and give them the advantage of the web-enabled information that is out there, but in more intelligent ways.

**Lord Kirkwood of Kirkhope:** How did you know that you had that success rate?

**Martin Lewis:** The Money Advice Service measured it through surveys on the people who had taken part. They were asked whether it helped them. It was the standard thing—I have forgotten the word—that all companies use. There was a standard customer recommendation-type thing. There is a word for it, but I have just blanked on it.

**Polly Mackenzie:** I will just say something about consumers with mental health problems.

Martin referred to nodes of vulnerability, but in behavioural economics you would call those the salient moments when people are open to advice that they might otherwise resist. We know that when they ought to seek debt advice, people often wait an average of 18 months before doing so because they go into a process of denial. Lots of people with mental health problems will experience financial difficulties as a result—often simply because they lose their job, have to take reduced hours or move on to statutory sick pay.

We know from academic literature that probably one in four people using mental health services are seriously behind on their payments. Yet there is no systematic support to refer people to any debt or financial advice, even though we know that consumers with financial difficulties are 4.2 times less likely to recover from an episode of depression within 18 months than consumers without financial difficulties. We published a report a couple of weeks ago looking at whether you could refer people to debt advice from the IAPT service. We think that if you could, and if you could resolve people's debt problems alongside their mental health problems, you would boost the IAPT recovery rate and lift it over its target of 50%.

The overarching objective is to look for those moments when people are open—they sometimes call them teachable moments—when you can get people to change their behaviour. They do not come along very often and so you need a laser-like focus as a policymaker on finding those moments, designing interventions and, crucially, testing them, which is what Martin does by reconfiguring his website all the time. That way, you can see what interventions actually get people to take up the advice.

**Lord McKenzie of Luton:** We use the term "mental health" very generically. It covers a whole spectrum of individuals. How do you particularise solutions and support in those circumstances?

**Polly Mackenzie:** You are right. It is strange: we never talk about physical health problems and pretend that asthma and diabetes are the same thing. But there is an assumption that schizophrenia and post-natal depression have similar behavioural outcomes.

Because we spoke to 5,500 people in our research, we were able to segment it according to condition. The figure for people who find themselves spending more money was very high, 97% or 98%, for people who are bipolar, and was lowest among people with post-natal depression, although it was still 72% or 73%. These behaviours may vary across condition when it comes to people's financial behaviour, but less than we would have necessarily predicted.

Something I did not necessarily expect is that eating disorders seem to be quite closely associated with financial difficulties. It feels like that is a transfer of psychological behaviour on to eating behaviour, but actually people also seem to have a comorbidity in their financial output. It is an area that needs a huge amount of research. People talk about manic spending in the context of being bipolar, and that is the area where self-harming financial behaviour has been most researched by academics. But our research suggests at least that it is certainly very prevalent across other conditions as well. There is not that manic phase of, "I can change the world. I am going to set up a new business. I am going to give all my money away to charity", but there is much



more medicating of mood to cheer yourself up or buying things for other people to make up for being a “bad” mother, wife or husband.

Also, most of the things you can get addicted to are quite expensive and therefore come with financial detriment. The biggest obviously is gambling, which can lead people into enormous financial difficulty. Weirdly, gambling is not considered an addiction in how it is dealt with at the Department of Health. I understand that there is some sort of wrangle over whether it belongs to the substance misuse team or the mental health team, which means that nothing happens at all because they are too busy wrangling.

**Martin Lewis:** Just as a side note, and to go back to your question, one good bit of news is that although we are not in a position to do it yet, substantial companies have asked us to look over their mental health policies for how they deal with vulnerable consumers with money or payment issues. We are not doing that as a charity yet because we do not feel that we have done research to a level to be able to, but I suspect that in two or three years we may be in the position to start helping companies learn how to be better with their consumers with mental health problems. That is one of the longer-term aims we have.

Q149 **Lord Harrison:** Martin and Polly, you have both mentioned payday loans. Will you give us an assessment of the short-term lending market following the tighter regulations and the cap on interest rates and the charges of the sector, which happened in the last Parliament? We have since been told that the market for payday loans is shrinking. Where do you think that demand has gone, and do you think that other regulations should be added in this narrow area?

**Martin Lewis:** It is important to start by stating that I will answer this anecdotally rather than with statistical research. I have always believed that the payday loans industry created a need by marketing. I am not sure it was one of latent demand. Certainly the television advertising was aimed far more at a quick technological solution. To go back to what Polly said earlier, the nightmare scenario is people watching a payday loan advert at 11 pm while they are drunk and then a gambling advert. We know that happens: you press a button, you get the money and then you gamble it. That is horrendous. So I think that some of the demand is a marketed demand. The demise of the Social Fund loans is another problem and a tragedy that should not have been allowed to happen in the way it has.

Demand is reducing. I always wanted a lower cap on charges. I argued for 50% and the FCA came back and said that it thought that would be uneconomical for companies. I said, “Yes, that is why I would like it to be at 50%, because then we would have no more payday lenders”. That is quite a simple solution. I do not think they are a net good. We would still be better off without them. The argument that people would then go to loan sharks has not been borne out in other countries. Closing that industry down does not mean that people would then go to dangerous lenders. Those who are going to go to dangerous lenders will do that anyway.

Credit unions are starting to fill the gap, and we need to encourage that sector far more strongly than we do. We are also starting to see community-based projects fill in the gaps in payday lending. They are very small, but I

think they are going to grow. As fintech develops, there will be more solutions that way.

It is always interesting that the banks never got involved in this game, partly I think because they did not want to tarnish their brand by doing so. But in some ways really cheap additional short-term lending, which could be a function of a type of account, might be helpful—and of course bank charges for getting overdrawn are in some ways more expensive than payday lending. So has it improved? Yes, definitely. The regulations are good. A cap on costs was far better than a nonsensical cap on interest rates that does not really mean anything because it just depends on when you are borrowing.

I certainly get fewer complaints about it. We hear about it less often. They are less prevalent on the television, which is very good because we had normalised this. I think that over 50% of children could quote payday loan slogans, which was the normalising of the worst type of debt and all part of creating an industry.

Are we there yet? No, but I am very warm towards the changes. As somebody who would like the industry to go away it is very difficult for me to give you much more than that, but it is nowhere near the problem that it was.

**Lord Harrison:** Polly, I will put the same questions to you, but could you extend the example and, say, have a price cap on overdraft charges? Would that help the general approach to matters?

**Polly Mackenzie:** It is worth looking at, because, as Martin says, unarranged overdrafts can be more expensive. We think that people will also use forms of secured credit such as pawnbrokers or logbook loans, which are often problematic because they do not use credit reference agencies because they have security. The same will often be true of an overdraft. There is no process. It just happens. Some people with mental health problems will put a notice of correction on their credit file that says, "Please do not lend me money. I am bipolar", or whatever it might be. Of course, if someone secures credit without going through the credit reference agencies, you never see that self-exclusion.

We are therefore trying to explore how you might introduce a new kind of financial exclusion: positive financial exclusion. Consumers have told us that they would like to be able to block themselves from being able to access credit. People who have been through bankruptcy say that it was the best thing that ever happened to them, because they were forcibly tied to the mast and they could not yield to temptation. We think there ought to be a way for people to come forward and say for whatever reason—"For my own control"; "I don't trust myself"—that they do not want to be able to access credit of any kind". At the moment, there is no way to do that. The credit industry would say, "If you don't want it, don't apply for it".

Of course, from our perspective, people have periods particularly of poor mental health but also periods of just making mistakes during which willpower is not enough and they want to be able to constrain themselves from making what can be very damaging decisions. In the high-cost short-term credit sector, that is important. We already have, albeit not quite, a right to self-exclude from overdraft with a basic bank account, which some people like because of that; they recognise that that new product helps them not to go off the tracks. We ought to extend that principle to other kinds of risky credit.

**Martin Lewis:** It is worth noting that in the States you can have a credit freeze—a freeze on your credit file. We have talked here about the idea of a three-month unlocking period. Everybody can unlock it, but not instantly. That gives you a breathing space from whatever your current issue is and to slow it down.

**Lord Harrison:** Very quickly on your hunch that the payday loan market is manufactured, is there any academic evidence for that?

**Martin Lewis:** No, there is not, but it is in the nature of payday loans. We talked about precarity earlier. If we take that out of this, if I am borrowing the £100 because I do not have it this payday, why will the next payday be any better? That is the problem in this demand scenario: most people do not operate that way. In fact, all that happens is that next month I cannot afford it either. That is one of the issues.

Polly made the point very well, and it is a nice finish, that for most people debt is the problem. For people with mental health issues, easy access to credit and the ability to borrow at any whim is a bigger problem. That is what they want to protect themselves from; they want to protect themselves from credit as much as debt.

**The Chairman:** A final very quick question from Lord Kirkwood.

**Lord Kirkwood of Kirkhope:** You have given us some very wide-ranging and extremely helpful evidence, both written and oral. Can I just ask you this? We are simple legislators and most of us are personally broke; the country is certainly broke. We have to make recommendations to government. If I pressed both of you to try to single out one recommendation that you would be disappointed not to see in our report, what, very briefly, might that be?

**Martin Lewis:** I will ignore my student loan change, which is a personal peccadillo. There are two simple steps here. Number one, we need a body that is responsible continually for assessing the financial capability of the country, because without that information this is all pointless. Number two, funding needs to be focused on where the gaps are. It is that simple: stop spending money on everything else; just put it into the gaps.

**Lord Kirkwood of Kirkhope:** That is very clear.

**Polly Mackenzie:** Martin mentioned it earlier. With universal credit we are expecting people to budget monthly without support or assistance. The technology is out there and we should be providing it to people. It is not just a four-week wait; it is actually a six-week wait. We are trying to work how to do some research into how many people could survive six weeks without any money coming in if they were to lose their job tomorrow. We are still working on the methodology, so I will come back to you on that. Fundamentally, that will push people into financial difficulty.

**Lord Kirkwood of Kirkhope:** That is a very good point.

**The Chairman:** Thank you very much indeed, both of you, for your evidence. It has been a really interesting session. You talked earlier on about various control options. It was a very interesting part of the session. Would it be possible to give the Committee a note on your work or your thinking in this area?

**Polly Mackenzie:** Of course. We have some papers—

**Lord Kirkwood of Kirkhope:** And something on universal credit.

**The Chairman:** Indeed.

**Polly Mackenzie:** We can send you all our papers.

**The Chairman:** That would be very helpful. Thank you so much.

MoneySavingExpert.com and Money and Mental Health Policy Institute – Oral evidence (QQ 142-149)

## **MoneySavingExpert.com and Money and Mental Health Policy Institute – Oral evidence (QQ 142-149)**

[Transcript to be found under Money and Mental Health Policy Institute](#)

## **MyBnk and Young Enterprise – Oral evidence (QQ 13-22)**

Evidence Session

No. 2 Heard in Public

Questions 13 – 22

Tuesday 5 July 2016

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Members present: Baroness Tyler of Enfield (Chairman); Viscount Brookeborough; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of Witnesses

Mr Guy Rigden, Chief Executive, MyBnk, and Mr Russell Winnard, Head of Programme and Services (Financial Education), Young Enterprise

**The Chairman:** Thank you very much indeed for coming. We appreciate it very much. For the record, I will introduce our next two witnesses. We have Guy Rigden, chief executive of MyBnk, and Russell Winnard, head of programme and services at Young Enterprise. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website, a transcript will be taken and published on the Committee website, and you will have the opportunity to make corrections to that transcript where necessary.

**Q13 Lord Northbrook:** What financial literacy and education do children and young people require, and to what extent are these needs being met?

**Russell Winnard:** First, there is a range of needs. All young people have different needs, and the best practice for financial education is to develop that provision according to young people's need. That said, there has to be a starting point. As such, as a charity we have developed a financial education framework that provides a starting point for teachers and others involved in financial education to identify key financial topics that may well be appropriate for young people of different ages. It is most certainly not a mandate, but it is a tool that teachers, parents, guardians and carers can use.

On the question of other requirements for high-quality financial education, we need the people involved in its delivery, which in the main are teachers but are also the range of parents, carers and guardians, to feel knowledgeable and confident enough to deliver it effectively. That also has to be in place. It is those two things together: having a wide range of topics that meet the needs of young people, starting at age four with coin recognition and giving and receiving change and going up to age 16 to 19 with financial product information and so on that is more in depth and relevant to them. That, combined with teachers who for the most part are confident and knowledgeable enough to deliver that effectively, is what creates that good provision of financial education, in my opinion.

**Guy Rigden:** MyBnk designs, develops and delivers financial education, and indeed enterprise education, to young people, so I agree with what Russell has said about what young people need, which is not one size fits all. Clearly, different things are needed at different ages, and age is a big indicator of what might be needed certainly by those in the mainstream. It is less of an indicator, of course, when you get to older children, or young adults, who might not be in the mainstream and who might have specific needs. You need to respond to what is relevant to them. Relevance is very important. As I say, age works for mainstream, but when you get out of mainstream you need to know what sort of young person you are dealing with. Are they leaving care? Are they a single mother? There might be two contrasting needs and you might just need to ensure that the single mother's baby is safe before anything happens. That is key.

The second thing that I would really endorse is that whoever is imparting this financial education—whether it is a teacher, a parent, a volunteer or, in MyBnk’s case, an expert—needs to be seen as a specialist, as an expert, because that relates very much to whether the message will go on.

Overall, it has to be holistic. That is the other thing. Maths is important, but skills, knowledge and attitudes are what lead to being able to engage in present and later life and to make informed financial decisions.

**Lord Northbrook:** As a supplementary question, do you think that groups of children and young people with distinct needs with regard to financial education might find accessing financial education particularly challenging and difficult?

**Guy Rigden:** I would say yes. I have a whole list of such groups of children and young people, who could include those leaving care, those with special educational needs, young offenders, those who are excluded from school for some reason. There is a whole list that you could group as relatively disadvantaged or with some special needs, but they are not the same.

The second characteristic of that group is that they are probably not in the mainstream, so you need to access them. MyBnk would do that by working with maybe 300 organisations a year, 200 of which will be schools and 100 all sorts of organisations where these young people might be or where they may be looking for a particular outcome. Perhaps they are on the waiting list for assisted housing, or something like that, and will need financial education.

There are many groups with separate characteristics, and you need to be able to deal with those characteristics, rather than as a one size fits all.

**Q14 Viscount Brookeborough:** I declared my interests at the start of the sitting.

What has been the impact of the inclusion of personal finance education in the national curriculum so far? I know that financial education is relatively young.

**Russell Winnard:** It is. It was embedded within citizenship in September 2014, and it had a contextual reference in mathematics. We have seen no significant improvement in the uptake of financial education particularly in the citizenship subject area. We are still looking at around 50% of maths teachers delivering maths in a wider financial context. In a survey that was commissioned as part of the all-party parliamentary group report into financial education, 75% of citizenship teachers responded that they were delivering. There is a further question there, however. Delivery is one part, quality is another, and ensuring the quality of that delivery is really important. We need to train teachers in order to get that quality.

On the question of having financial education on the national curriculum and making a difference, schools have a mandate, but, as we heard in the previous session, that is only for state-maintained secondary schools. It is not applicable to academies. The driver does not seem to be that it is on the national curriculum. The driver seems to be that senior leaders in school recognise the importance of financial education for their young people, and they are inclined to deliver it because of the difference that it makes. This is why it happens also at primary level. We know that it does not happen as



much as we would like, but there is a large element of financial education going on in primary schools that is not yet on the national curriculum.

**Viscount Brookeborough:** So in effect there is no standard approach. First, there is not an approach in every school because there are different schools. Secondly, even if children are at a school that will provide it, it may vary from the school next door. There is a big vacuum. Why can somebody not say, “The minimum we require is that all children will be told”—I am not quite sure what they will be told—“that there is a bank account and they can save”, and you then specialise thereafter as far as the different groups go? I fail to see that teachers who are graduates or whatever actually have the ability to teach this very basic thing. It is terribly simple to say, “It is good in life to save. Here are some examples of how to do it. We can start in class by saving sweets or whatever. We should have an account and a place to keep them and so on”. That does not take the brains of—

**Russell Winnard:** I absolutely agree. In fact, in providing teacher training, it is not really about them learning how to deliver something. They understand bank statements, the use of credit cards and debit cards, et cetera—those basics, those fundamentals—but what they do not have is the confidence. They are not confident enough to stand in front of children who ask questions, and they do not know where to get the resources to do that delivery. We often find that it takes a two-hour training session, and teachers leave with the confidence to go and deliver that on an ongoing basis, and they will deliver that to every cohort of young people that comes through their class. But they need that intervention in the first place just to make sure that they are doing the right thing and not teaching something that might be erroneous.

**Viscount Brookeborough:** But it takes a two-hour training session.

**Guy Rigden:** I actually think it takes more training than that to be effective. We have to begin from the starting point that teachers are good at engaging with young people. They would not be teachers otherwise. Certainly, from our point of view, that is the first thing we would look for if we were going to engage a trainer to deliver our programmes. They have to be able to do that. That is important. I say that because one of the answers that is often suggested is, “We should have a volunteer coming in”. That could be good, it could be bad, but essentially it is random. At least teachers are very good at engaging.

Then you get the other side: how do they become expert enough to be effective, given all the constraints that there are on schools? We have to face the fact that often the answer is, “Teachers can do that. We’ll absorb it, we’ll train them and add another thing”. The curriculum—even if not all schools have to follow it, they generally do—is very crowded and focused on academia and there is not a lot of time. Unless you are a very progressive school that has a fully integrated programme, perhaps with pfeG—with finance, capability and enterprise going throughout it—you might have one drop-down day or a few afternoons or a few hours, and you have to make sure that that works.

Just using us as an example, we do not think it is years of training but it is certainly not two hours. Typically, if you are an ex-teacher—maybe 60% of the people who work with us are ex-teachers—you would go through one week of home study to become expert in the relevant financial knowledge for young people. You would then go through two weeks of training—which is a

mixture of observing, learning the programme, being observed, co-delivery and being inspected—before you are allowed out on your own. The reason for that is not because we think that a MyBnk trainer going in for a drop-down day is the perfect answer to financial capability—it is not. I think the best answer is what pfeg does and you get the whole-school approach. But our experience—and we work with 200 schools a year—is that, practically, most schools are not in a position to do the whole-school approach. Maybe we will get there over time but we cannot see that happening at present.

It is a relatively specialist subject—I suspect if I quizzed members of the Committee about the minimum wage for a 17 year-old you would not know, and why should you know?—but if you are teaching it there is a lot of knowledge you need to have and you need to be in tune with the decisions that the young people are making.

**Baroness Primarolo:** These points you are making, Guy, are interesting and I want to explore them a bit more. A parallel would be that people are always nervous about doing their tax returns even though they know how to do them, because there is that commitment. Schools often operate in clusters now—primary clusters linked to a secondary school—and I take your point about a whole-school approach. Have you explored having champions within the cluster and therefore helping teachers to be more creative in how they start integrating into what they are already doing some of the basics of financial education?

**Guy Rigden:** I think this more is for Russell.

**Baroness Primarolo:** Okay, sorry.

**Russell Winnard:** I also just wanted to qualify—Guy mentioned pfeg a couple of times. Pfeg was an independent charity in its own right—it stands for the Personal Finance Education Group—and we merged with Young Enterprise two years ago. In all our programmes which focus on financial education, we work with the teachers rather than directly with the young people because we believe that if we can work with the teachers, embed into the curriculum, provide the training required as well as resources, it remains sustainable within the school. One of our key programmes is Centres of Excellence, where we will work with a school over nine to 12 months. The school has to complete a number of criteria. It has a lead teacher in the school who champions financial education. The senior management and leadership are on board and commit to it. Quite often financial education becomes a core part of the school improvement plan. One of the criteria is that once those centres of excellence achieve their status, they go on and share with other schools in their local area, well after we have withdrawn. What that means is that, exactly as you were saying, the knowledge, the skills, the creativity that that school has developed in becoming a centre of excellence for financial education is then shared with other local schools. It does not have to be those at the same phase of education: we have had secondary schools sharing with primary and with further education. We have 106 centres of excellence throughout England and Wales. Those schools should then mushroom out as they disseminate to more and more schools over time. It is a model that we replicate throughout a number of our programmes; sharing is important.

**Baroness Primarolo:** Perhaps you could follow up on that. Do you have examples of where schools share the cost? In getting one school to have that champion, obviously there is a cost to that school in the loss of teaching time elsewhere. Because of some of the financial budget controls schools now have, a cluster of primary schools with a secondary could agree to invest in getting one of them past the post so that that could then be shared back with the broader base. Are you working with that sort of model as well?

**Russell Winnard:** In a way, because we do not charge the schools for any of this.

**Baroness Primarolo:** But there is still a loss of teaching time.

**Russell Winnard:** There is a loss of teaching time. We are working with teaching alliances—federations of schools that support each other—and we have just started working with a multi-academy trust, which will operate in that way. It is an investment from the school in time and commitment but the schools get quite a lot out of it as well: the teachers are developing their own professional standards as they go through—we have evidence to show that they gain quite a lot—the school as a whole is developing that financial education package and it is sharing it with others within its group. Most of those groups—those clusters—are informal but we have these teaching alliances and multi-academy trusts, which are beginning to develop more.

**Guy Rigden:** I think schools is a really key question. You can look at it at different levels. Again, it is worth looking at the scale. I think I am right in saying that there are something like 6,000 or 7,000 secondary schools. Again, with respect to the pfe approach, 150 is great and I hope you get to 1,000, but there is a long way to go. What is very interesting and encouraging—and I know we are going to be asked about the Money Advice Service later—is that it appears to us that a series of interventions can be effective, from teachers doing it themselves, to outside experts coming in, to volunteers, to national campaigns; whatever it might be. Therefore, with differing amounts of investment and training you will get a differing impact, and you need to measure those impacts. So we are certainly participating. We are working with the Money Advice Service evidence hub, as we know Young Enterprise is, on what works in schools. We have financial education on the national curriculum, at least for secondary schools, but there is no systematic inspection or examination—we have surveys and bits and pieces—so the honest answer is that we do not know if it is working or if it is any good. So we need to make sure that that works first. That is a key priority.

If the answer is that teachers can do that, and I hope it is, that would be a great solution, but we should also remember that one recommendation from the APPG report is that we should embed financial education into teachers' training requirements as they go through university to train to be teachers. Unfortunately, we know that the direct-access route is now increasing substantially and accounts for about half of new teachers—I think that is right; Russell will probably know the figures better than me—which gives rise to the issue that new teachers are now coming into schools to be trained in schools that do not have the experts to train them. Then, you are relying on Young Enterprise to come in. The whole ecosystem will take a long time to build, which is why we need a series of direct interventions now—perhaps by MyBnk, but not by MyBnk in 10 years' time because the problem will have

been solved, I hope—and other things to ensure that all young people are getting this basic financial education and that it is being delivered effectively. You will have to inspect it, at least, if you are not going to examine it.

**Q15 Baroness Primarolo:** I think we are beginning to address some of the issues to which our next set of questions relate. Perhaps you can expand on some of those points. The Government have proposed significant changes in the provision of public finance guidance, including the creation of this new money guidance body. Building on what you have just said, what role would you like this new body to play, if it can, with regard to the provision of financial education to children and young people? Big question.

**Guy Rigden:** Our view is that the proposals are going the right way and that the successful parts of the old Money Advice Service, such as the financial capability strategy, which was developed with a lot of input from the third sector, the corporate sector, the academic sector and so on, are a good thing and should be maintained. Having some sort of road map, albeit a road map that will develop, is very important.

Secondly, being a body that co-ordinates, influences and guides is very important, and MAS is well placed to do that, clearly working upwards with the Treasury, the FCA, the Department for Work and Pensions and the DfE, and outwards with the corporates, us and so on. That is a very good role for it to have and it is already successful. It is strange to us that there are two bodies rather than one, because we regard pensions as a specialist savings product. They are very important, but that is what they are. Why is there not one body? I think it would help to have one body.

The new body must also have the capability to know what is going on in the sector, to generate evidence and to assess what interventions will work. As I am sure you are aware, MAS is now going through the process of commissioning what works. It is looking for evidence of interventions that work for all sorts of cohorts of young people. We are certainly putting in applications to test what we do, to see whether certain interventions work better and to develop new things, and I am sure Young Enterprise is as well. That is a good thing for it to do. It needs that capability. It cannot just be an entity without capability. If those things are looked after, I am quite encouraged by the direction that this body is moving in.

**Russell Winnard:** I concur on the co-ordinating role. MAS has had its criticisms, but one thing it has done particularly well in the last 18 months to two years is provide that facilitating conduit role between organisations such as MyBnk and Young Enterprise, which are out there and involved in delivering, and the banks and financial services sector, which are potential funders of ours, and bringing everything together. It has also played a key role in driving forward the focus on the evaluation of the impact of financial education in schools for children and young people. There has been a noticeable shift in focus on evaluation in the last couple of years. MAS has a set of impact principles which it has asked us and other charities to sign up to, and equally the people who fund us. Everybody recognises that importance. It is important for our funding, it is important for the young people we work with, and it is important for the schools to know why they are delivering this financial education, because if it has no impact they might want to free up

time in the curriculum. If it does, we need to think about it in a more planned and coherent way and establish that in every school.

On the one-body/two-body question, my feeling is that irrespective of whether it is one body or two it has to speak with one voice on financial capability for children and young people. It is a big strand, it is a very important strand, and there has to be co-ordination. We are probably heading in the two-body direction, but it would be more sensible if one of them focused on children and young people.

**Q16 Lord Shinkwin:** My question concerns the forthcoming life chances strategy. You may be aware the Prime Minister announced plans for such a strategy back in January. To put it into context, he outlined in his speech a range of measures to transform the life chances of the poorest people in our country and offer every child who has had a difficult start the promise of a brighter future. I am interested to know what role you think the Prime Minister's life chances strategy might play in supporting the development of financial literacy and capability for children and young people.

**Russell Winnard:** I think that financial capability, financial literacy, is a fundamental part of those life chances. To me, it underpins all those life chances and should be there as a foundation for the young person in deciding whether to go on into further education, an apprenticeship or the world of work. All those stages of an individual's personal development have a financial element underpinning them. If we could have that as a thread that runs throughout and at each stage reflect back on the financial skills, that literacy capability, which that young person needs in order to make those decisions, that would be a really positive move for the life chances agenda.

**Guy Rigden:** The objectives of the strategy are obviously very laudable, and I concur absolutely with Russell. What worries me slightly is that initiatives such as this can come and go. We have seen evidence that this one has temporarily gone, at least as far as I understand it. It was supposed to be coming a week ago, but it has been delayed. I hope it is coming.

One of the issues—picking up on the point about MAS, the evidence and so on—is that if you want effective financial education and capability for all, you need a stable environment for resourcing and funding it. What we tend to have—indeed, this was the APPG's recommendation to corporates—is, "Use your CSR budgets", and to schools, "Please use your pupil premiums to fund this". It means that there is an awful lot of effort all the time going into, "How do I get the money or the training to do this properly?" That provokes competition and innovation, which is good, but it is very inefficient in itself. So I worry a bit and this is an example. I just do not know now if life chances is going to happen. If it does, that is great and there will be an application process going through and we will get involved in that with our fundraising team and so forth. Is this the most efficient way to do it?

**Q17 Lord Holmes of Richmond:** Following on from that, what level of cross-government co-ordination is there in improving financial capability for children and young people?

**Guy Rigden:** I think the co-ordination is very good. If you look at the APPG, I think it is the biggest committee there and if I look at the interests of the members of this Committee, clearly there is a huge belief that financial

capability is a good thing. Where we fall down is in the specifics of: what does that mean for which cohorts? Who should do it and how should we address it? How do we train and how should we resource it? The second disconnect is that we can look at macroeconomic surveys talking about trillions in losses out there from poor financial capability but we do not have a good mechanism at the moment for, "An intervention here leads to a saving there". Some of us are working on that, and this is another thing that MAS is very well placed to do. It can fund this sort of macroevidence, which helps to establish what works and at what cost. I am pretty encouraged by the co-ordination. It is more the erratic nature of the support that you get if you are relying on all these different actors to do something. I would rather have something that was clear, perhaps through schools, that you have to do this.

**Lord Holmes of Richmond:** You raise a number of important issues around the hows and the whos. How clear a vision do you have on all those hows and whos?

**Guy Rigden:** If I were looking at schools—sorry to be hogging this—at some point you have to ask: where is the money and where are the resources? In the long term schools do have money; it is a question of how they allocate it. We ask schools to make a contribution to what we do. However, you also need innovation, evaluation, to keep up to date and so on, and perhaps it is not fair for schools to be funding that. Perhaps the charitable sector does that, perhaps the Government do that, but you need a long-term structure to ensure that if this is as important as everyone says, it ought to be funded properly, and it is not funded properly at the moment.

To give you a real example, we work with 200 schools a year. Since financial education went on the national curriculum, it has become "statutory", even though it is not being done, so those charitable funders are funding it less than they used to. We have systematically introduced a contribution. Schools need to get used to that. Clearly, they do not have limitless budgets—they have very tight and shrinking budgets—but they will pay that contribution. But we will do less in schools this year than we did last year and that is not demand-driven—demand is constant or up—it is supply-driven. We can afford to do only so much. Next year we will raise the contribution to about a third of the cost—it is about a quarter at the moment—and we will see what happens.

**The Chairman:** Following up on what you have been saying, what is your understanding of the real join-up or co-ordination between the Treasury and DfE on this issue? What I really mean is: who is really leading this?

**Russell Winnard:** All right, I will take that.

**Guy Rigden:** Russell, you go first.

**Russell Winnard:** You are absolutely right. That is a really key point, for the Department for Work and Pensions as well. Those three departments are crucial to this. If we have to have a front-runner, I would say the Treasury. I do not know whether that is the most effective front-runner because the weight that the Department for Education has is really significant. We have never really felt that there has been that level of support or co-ordination from the Department for Education. The Treasury has fed into—actually, via life chances—one of the programmes that we operate, LifeSavers, which works with primary schools to promote savings behaviours and attitudes. If we are talking about co-ordination, those three departments are crucial. There

is co-ordination over the recommendations of the APPG report. That is clear. They are good recommendations but they need to be taken forward. We do not want to be in a position in two years' time of reflecting back on this report and seeing that nothing has happened. They are good recommendations, which need to be actioned.

**Q18 Lord Kirkwood of Kirkhope:** Staying with this important question of co-ordination, it is my impression—it may be because I know more about it—that the integration that is available in this important public policy sector in countries such as Scotland and Northern Ireland and, to a lesser extent, as far as I am aware, Wales, may be simply a question of scale. I assume that your respective organisations have a remit that covers only England and Wales.

**Russell Winnard:** We license ours out to Scotland and Northern Ireland.

**Lord Kirkwood of Kirkhope:** Are you satisfied that there is enough communication across the various jurisdictions of the United Kingdom to make sure that best practice is captured and efficiencies are made? There are obviously differences in the curriculums and all the rest of it, but could that be improved? Is that something we should find out more about?

**Russell Winnard:** Absolutely, it can be improved. The curriculum for excellence in Scotland was a shining example, really, many years ago now, of how we can include financial education in a more thematic-based learning approach. It worked incredibly well in Scotland, with the support of financial inclusion officers throughout the local authorities. My understanding—and I have done a few tours of Scotland—is that with the demise of those financial inclusion officers, the level of financial education in Scottish schools is decreasing somewhat, which is really, really sad.

**Lord Kirkwood of Kirkhope:** I think that is fair.

**Russell Winnard:** But there are certainly lessons for us to learn. Even though our remit is for England and Wales, the Welsh education curriculum is slightly different. It has more of that thematic-based learning. The Welsh baccalaureate works far better for financial education than our siloed, subject-led education system in England. To answer your point succinctly: yes, there are lessons to be learned and, yes, we probably do need to explore that more.

**Guy Rigden:** At least in the financial capability strategy there is a devolved nation strand that co-ordinates against the main themes so I think something is being done to share best practice both ways. Whether we want to do more of that, it is recognised that we ought to be sharing.

**Q19 Lord Fellowes:** Would it be fair to say that you have mixed feelings on the advantages and disadvantages of being part of the national strategy, but you are part of it? Should banks not be helping with the financing and co-ordinating of this national strategy? They can afford it.

**Russell Winnard:** In terms of the national strategy, it is important. All of us who are involved in financial education provision and financial capability—even going as far as debt advice and support—ought to be reflecting back on that one national strategy so that we have something which is directing everybody in the sector. Should the banks and the financial services sector be doing more? I am sure there is always more the financial services sector can

be doing. As a charity that works closely with it, we have to make sure that what we are doing not only meets the objectives of the national strategy but in some way meets the objectives of the individual banks we work with, otherwise they are not going to want to engage with it. They already fund, via the levy, the Money Advice Service itself, so there is that level of funding. But it is about us working in partnership and making sure that—

**Lord Fellowes:** Yes. Broadly speaking, it is in their interests.

**Russell Winnard:** It is, and it fits very well with their corporate social responsibility strategies. Unfortunately, when the markets are not behaving, the CSR is one of the first things that gets cut. It is an area we have to be careful of.

**Guy Rigden:** We have to say that the banks are involved. They are funding various programmes. They have their own interventions. Again, they wax and wane to some extent. Going back to the fundamentals, we like to ask: who is our customer, who is our client here? For us, it is the young person. The school or the organisation is the facilitator. Whoever is funding it also has an interest. The national framework informs us but in the end it goes back to what is right for that young person. It is very important to always keep that in mind when making decisions.

Coming back to the banks, I absolutely believe that the banks have money and should contribute. Most of their interest is self-interest and altruistic, but there is certainly a marketing and PR aspect to it. You have to be very careful that you put that in the right place and you have not effectively nudged a young, vulnerable consumer to do something that perhaps they would not want to do. We are always very careful to do that and I know Young Enterprise is as well. My personal view is, we would not ask the corporates in any other sector to fund education that we believe to be vital and necessary, and we should not rely just on the banks either. They should help but not fund all of it.

**Q20 Lord Harrison:** Gentlemen, how important is it that the impact of financial education delivered to children and young people is tracked and measured, and how might we best go about that?

**Russell Winnard:** In my opinion, it is crucial. It has to happen. There are some significant challenges, as we have heard in this and the previous session: what are we trying to measure? In many cases it is the choices that people make a long, long time after they have had the intervention. There needs to be something that is more longitudinal as well. But it is crucial for the schools themselves. It is crucial for the young people to know that they are learning. It is crucial for us as a society to know that we are improving that financial education.

In terms of how we do that, there are a number of areas. We have to provide schools with the opportunities to evaluate themselves and recognise and understand the importance of evaluating to make sure that they are meeting the needs of their young people. On a wider scale, we can involve Ofsted. If we incorporate something around financial education into the Ofsted common inspection framework, there really is a driver in schools to be delivering high-quality financial education, and for Ofsted to be involved in that monitoring of quality would really move things forward. At an even broader level we have



things like the OECD's financial literacy test, which the UK is currently not involved in. To be able to opt in to that so that we can reflect on how we are doing against the benchmarks set in other countries would be really useful. In fact, that is one of the recommendations of the APPG report, that we should be involved in those assessments.

**Guy Rigden:** I agree that evidence is vital but, again, I would be slightly nuanced on that. If you are working with younger ages, there is a number of things you should have in place and that a good organisation will have in place. First of all, do you have a theory of change? Do you know what you are actually trying to address? The national curriculum has a series of topics; it is not a theory of change. We would always have that. What are we actually trying to do? Whether you are a teacher or anyone else, you need to make sure you are doing that. Secondly, you can employ methodology that is likely to result in success. Our acronym is SUPER: specialist, unique, participatory, effective and relevant. Basically, that means it is good teaching, so do that. Thirdly, you can do simple measurements. You can measure the baseline: what could I do beforehand? What did I know beforehand? What was my motivation beforehand? You can do that sort of thing.

When you get to the longitudinal, it is pretty difficult and challenging to measure a short-term intervention with a 10 year-old and what is going to happen at 24. To some extent, let us go through the Money Advice Service evidence process, but at some point you will say, "Come on, if it is potentially going to save you billions, perhaps you should invest a few tens here and not get too het up about it". At older ages, when there are many more financial decisions and choices that could be made, absolutely, you can do it. So in the work we do with vulnerable young people, we will do the theory of change, we will have a view of what we are trying to do, so we are empowering them to take control of their money and we can measure: have you opened a bank account? Have you checked your credit score? You can do more at that age.

**Q21 Lord Harrison:** Guy, you have mentioned cohorts several times. Is one of the recommendations that this Committee might make that we need to be more sophisticated about where we target this financial advice to younger people? The other point you have linked in, which you have repeated, is that there are times when we intervene which have a powerful effect later on in life. You think that, too, should be reflected?

**Guy Rigden:** I think there is a natural tension between the best time to educate being the younger the better—that forms habits—but also when something is relevant. You do not make so many financial decisions as a primary school child, so you have to contextualise it. Those are the two points and there is a tension there. Yes, we agree: start at primary, try to set habits; but also, if you are just going into independent living and all sorts of decisions are coming up, your mind is focused on that and you can really educate; or you are considering going to university—that is another time.

**Lord Harrison:** Russell, you have twice mentioned the importance of knowledge for children later in life. You almost implied that we should look at the curriculum as a whole and get rid of those parts that do not add value and, in your case, prioritise the financial advice.

**Russell Winnard:** The curriculum should be seen as a whole. We most definitely advocate a whole-school approach to financial education. Teaching

financial education on its own is not going to work in many cases, unfortunately. Schools just do not have the time or the capacity to fit that into a timetable. So schools will teach their normal subjects—that might be maths or citizenship but, equally, it might be drama or music—but if they can use a financial context, it is a great way of bringing that financial education in and saving teachers time.

**Lord Harrison:** That is a good example: drama.

**Russell Winnard:** Drama is brilliant. Role-plays of situations and circumstances and getting young people discussing them in groups are really powerful.

**The Chairman:** Russell, you mentioned the OECD financial literacy test. Would you be able to give the Committee a short note about that? It sounds very interesting and pertinent.

**Russell Winnard:** Yes, will do.

**Viscount Brookeborough:** I like the idea of introducing finance into everyday life in schools, whether it is in drama or whatever else, because if people want to learn about it, they will learn about it, and it is much better than trying to dump it on their plate, especially when you bring up the cost, the time and the school activities or whatever. I am being too simplistic about it, I know, but if you have something on the curriculum there must be a way of testing it, even if it is only a general knowledge questionnaire. You say you cannot have an examination or whatever. I do not disagree with you because you are the expert, but I talked previously about the basic knowledge that would be of help to a child of 10 and you said the basic minimum wage—I think we are making this all too complicated. There is a basic knowledge, which does not involve the minimum wage, the tax rate and whether the Conservatives or Labour might change it, or what happens internationally. It is quite simple. It is about pounds, shillings and pence—no, pounds—and bank accounts. It is about whether you have a bank account and whether you keep it.

**Guy Rigden:** I beg to differ. You can say whether or not you should have a bank account. We can all agree generally that having a bank account is a good thing and having a pension in the future is a good thing. It is when you get asked the questions that go beyond that—how do I choose a bank account? What factors might I look at? What is important to me? What are my motivations?—that you need a deeper set of knowledge to be convincing as a teacher, in any subject. We would not expect a history teacher to be teaching to a pack and we should not do that with financial education either.

**Viscount Brookeborough:** You get some children leaving school—the schools where it is not taught—who simply do not know whether they should save or not. Incidentally, nobody told me to save until far too late.

**Guy Rigden:** It may be wrong for some people to save. Again, if you took a vulnerable group—let us say you have got your first job—

**Viscount Brookeborough:** It is a good thing to aim for.

**Guy Rigden:** It is a good thing to aim for.

**Viscount Brookeborough:** A pension is saving.

**Guy Rigden:** For instance, it may be that, if you are nudged into a workplace pension and you have not taken a decision and that money is now locked up for 30, 40 or 50 years, and because you do not have any cash you now have to access high-cost credit, that is not a good decision.

**Russell Winnard:** To address your first point about evaluation and potentially a knowledge-based test, schools do evaluate financial education and they do it in their own way. What we do not have is anything standardised. The IFS provides qualifications in finance and financial studies. They are GCSE or A-level equivalents. The problem is that young people have to opt in to those qualifications, so it does not reach everybody. But if there were a way of standardising the assessment, that would be very interesting.

**Lord Northbrook:** Do you think that this should be two-step process—a GCSE in basic bank account knowledge and then the technology side coming along later?

**Russell Winnard:** I am very reluctant to say that there should be a formalised qualification because you are then forcing schools to provide something that does not necessarily work for them. I see it as a staged and progressive learning experience. You need to begin financial education as early as possible. I am a big advocate of financial education in primary schools, building that basis of knowledge, which can be the very simple things, and you progress that on through your secondary education. What we are not good at currently is meeting that transition point between primary and secondary. Secondary schools are all very ready to say, "Let's start from zero, assume they know nothing", and actually some 10 and 11 year-olds know an awful lot about finance. It has always been the case. I was a science teacher and we did exactly the same: we assumed that the students who came to us knew nothing and we would start again and repeat learning about vertebrates and invertebrates, for example, which they had done three years ago. The same thing is happening and we need to work really hard on how we assure secondary schools that the vast majority of young people are coming to them with some financial education knowledge and experience.

**Q22 The Chairman:** Thank you. I will round off this evidence session by asking you both to say where you think this Committee should focus its efforts. We are at the beginning of our work but we have a short time so I would be really interested to hear, say, two suggestions from each of you of where you think we should focus our work.

**Guy Rigden:** I will answer just in respect of young people, as you would expect. There is a major gap with vulnerable or disadvantaged young people that is not being met. Local council services are being reduced; they are out there, this is real, it is now.

**Lord Kirkwood of Kirkhope:** You mean financial disadvantage?

**Guy Rigden:** I mean all sorts of disadvantages that result in financial pressure. There is a whole list of different circumstances. Our fastest-growing programme is something called Money Works, which is survival money management. It is about confronting money issues, building self-belief and aspirations, and gaining control of financial lives. That is what we are trying to do. There is a lot of demand for that and I think that needs to be joined up with what the councils are doing. That is one. The second thing I would do is

concentrate on making sure that what has been legislated already is being done effectively. It is what is on the national curriculum and what is in schools. There is a process there that is being followed, but if in a year's time or 18 months' time we start to get a lot of evidence and we are not systematically implementing, that would be very concerning.

**Russell Winnard:** From my side, it would be really interesting to consider the balance between prevention and cure. We have financial education being delivered in a safe environment where you can reach the vast majority of young people, and that has some advantages in terms of cost and reach and being that safe, secure environment where things can be trialled, tested and role-played and if they are wrong it does not matter. Compare that to what happens at the point where people get into financial difficulties and have to access the services and support. Both are always going to be needed. It would be really interesting for the Committee to look at what that balance is. If we can provide financial education to everybody, what does that look like in terms of the cure? Does it reduce the number of people who would experience financial difficulties and get into those situations where they need support? My other suggestion would be that there are a huge number of recommendations in the APPG report—this is reiterating something I said before—on how we can ensure that these are actioned appropriately. What are the channels for these to be actioned so that in another two years' time we do not have a report that looks very similar and makes the same recommendations? That is key.

**The Chairman:** Thank you very much indeed. It has been another excellent session. Thank you very much, both of you, for your time. We really appreciate it.

## **National AIDS Trust (NAT) – Written evidence (FEX0042)**

### **About NAT**

NAT (National AIDS Trust) is the UK's HIV policy and campaigning charity. Our work is focussed on achieving five strategic goals:

- Effective HIV prevention in order to halt the spread of HIV
- Early diagnosis of HIV through ethical, accessible and appropriate testing
- Equitable access to treatment, care and support for people living with HIV
- Enhanced understanding of the facts about HIV and living with HIV in the UK
- Eradication of HIV-related stigma and discrimination.

NAT is currently assessing the access that people living with HIV in the UK have to financial services and products and will be publishing a briefing with recommendations in 2017. We present to the Committee an initial indication that there are problems for people living with HIV and expect to gather more detail in the course of our project.

### **About HIV**

Public Health England data estimates there are 103,700 people living with HIV in the UK. Advances in treatment mean HIV is now a manageable long-term condition and those diagnosed in good time and who respond well to treatment can expect good health and a normal life expectancy.

### **NAT's response to the House of Lords Select Committee on Financial Exclusion's call for evidence.**

#### **Definitions and causes of financial exclusion**

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

1. NAT believes that people living with HIV in the UK experience financial exclusion on all three counts as per the committee's definition; the inability, difficulty and reluctance to access mainstream financial services.
2. HIV is classified as a disability under the Equality Act 2010. Although people living with HIV are protected from discrimination under the Equality Act 2010, in the context of some financial products, insurance for example, determining terms or selling against certain risks is subject to proportionate difference in treatment provided that it is reasonable and based on relevant and current information from a reliable source.<sup>475</sup> Relevant information used to assess the risk must be actuarial and providers cannot rely on untested assumptions, stereotypes or generalisations.

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<sup>475</sup> K. Monaghan QC, Monaghan on Equality Law: Second Edition. Oxford University Press. P. 542.

3. NAT is aware that there is an ongoing issue of disproportionate difference in treatment based on untested assumptions about HIV in the financial services system, likely to be based on outdated information about HIV. In the UK people living with HIV who are diagnosed promptly and are on effective treatment have a normal life expectancy, maintain good health, and achieve viral suppression to the extent that they are non-infectious. We have concerns about the level of knowledge about HIV among providers, there is evidence that financial services have not yet caught up with medical advances.
4. The recent HIV Stigma Index Survey UK gave insight into the potential scale of the problem. One in nine respondents to the stigma survey reported having been denied insurance products in the last twelve months.<sup>476</sup> We have also heard anecdotally from financial advisors that people living with HIV struggle to take out health insurances such as private health cover and critical illness cover and that if they are accepted, the high premiums make it redundant.
5. We highlight below particular examples as to how we believe people living with HIV experience financial exclusion as per the committee's definition.
6. First, the committee defines financial exclusion as the inability to access mainstream financial services. People living with HIV are explicitly excluded from particular financial products or are offered premiums that make them entirely unaffordable. The examples we are currently aware of are critical illness cover and income protection insurances. Although critical illness cover is not currently available, a 2015 survey of 100 people living with HIV found that 90% of respondents would take out such cover if it were available in the marketplace. 74% of respondents reported they had taken less than the national average of 4 days or less off of work due to sickness.<sup>477</sup>
7. Second, the committee defines financial exclusion as the difficulty to access mainstream financial services. A key concern here is an apparent poor level of knowledge among people living with HIV and insurance provider staff about what they are able to access. We hear that people living with HIV are often unclear as to what products and services are available to them and this leads to difficulty in obtaining the products they are interested in. Speaking to the helpline manager at the Terrence Higgins Trust, we were informed that over the past two years there had been an increase by over 60% in the number of enquiries received that related to financial services and insurance.<sup>478</sup> One notable example where there is confusion is life insurance, which has been available to people living with HIV since 2009. Despite this

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<sup>476</sup> The People Living With HIV Stigma Survey UK 2015, National findings. Accessible via: <http://www.stigmaindexuk.org/reports/2016/NationalReport.pdf>. Whilst the survey didn't ask how many people living with HIV had sought out insurance overall, the one in nine figure represents a significant proportion

<sup>477</sup> Unusual Risks, 'Could IPP & CIC be possible for HIV Positive People?' May 2015. Accessible via: [http://www.unusualrisks.co.uk/assets/Press\\_Release\\_May\\_2015.pdf](http://www.unusualrisks.co.uk/assets/Press_Release_May_2015.pdf)

<sup>478</sup> Personal Communication (S. Gampenrieder, THT, September 2016)

many people living with HIV are unaware that life insurance is available to them. Further to this, we are aware that upon an HIV diagnosis people will often cancel their existing policies unnecessarily. When conducting their latest HIV and Insurance Survey, Unusual Risks found that 40% of the respondents who had indicated they had cancelled their insurance would have still been covered by their policy for HIV.<sup>479</sup> Lack of information is therefore a key component that hinders people's ability to access financial services.

8. We have also heard anecdotally that despite some companies offering life or health insurance cover for people living with HIV, front-line staff may not be informed and will turn away clients unnecessarily. Experiences do not necessarily match industry best-practice guidance. Whilst some good information resources for consumers exists, such as the ABI consumer guide for life insurance,<sup>480</sup> without a comprehensive source of information detailing the full scope of products available to people living with HIV, who provides them, and whether they are likely to come across different terms, difficulty of access is likely to remain an issue.
9. Third, the committee defines financial exclusion as the reluctance to access mainstream financial services. People living with HIV may be reluctant to access services due to, amongst other issues, the experience of stigma and discrimination associated with HIV and issues around disclosure. In addition, we have heard anecdotally that the level of questioning and inquisitiveness around an individual's HIV status whilst applying for products can be intimidating. This indicates that even where there is provision for people living with HIV, it does not necessarily mean that access is easy. As one person told us, *"Getting life insurance is a nightmare with most of the well-known banks."*
10. The above are real issues that need to be researched and addressed to prevent financial exclusion experienced by people living with HIV. Our concern is not only around a lack of knowledge and outdated assumptions towards HIV as a health condition but that this is happening to people who are often subject to multiple-discrimination based on factors such as their sexual identity or ethnicity. That is why NAT is doing more work to understand the experiences of people living with HIV when accessing financial services and products. Whilst the above is not an exhaustive picture as to how people living with HIV experience financial exclusion we believe it is indicative of an important issue and one NAT will be looking further into over the coming year.

## **Addressing financial exclusion**

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<sup>479</sup> Survey conducted by Unusual Risks Mortgage and Insurance Services, News Bulletin Summer 2016

<sup>480</sup> Association of British Insurers 2016, HIV and Life Insurance Consumer Guide. Accessible via: [https://www.abi.org.uk/~/\\_/media/Files/Documents/Publications/Public/2016/HIV%20and%20Insurance/HIV%20and%20Insurance%20Guide.pdf](https://www.abi.org.uk/~/_/media/Files/Documents/Publications/Public/2016/HIV%20and%20Insurance/HIV%20and%20Insurance%20Guide.pdf)

## **Question 7: What role should Government, the charitable sector and business play in tackling financial exclusion?**

11. There needs to be a change in the way providers of financial services think about HIV, which must be applied across the sector. Where industry best practice guidance on HIV exists, it must be applied to individual company policies and procedures and be adhered to at all levels of service provision to ensure the best experience for customers. The amount of products people living with HIV can access, the terms on which they are sold and the process involved in obtaining these products should reflect the fact that over the past thirty years HIV has changed from being a terminal illness to a treatable and manageable long-term condition and that with effective treatment people living with HIV can live long and healthy lives. This comes as part of a wider need for innovation, a larger market and increased competitiveness to allow broadened access to products for people living with HIV and other long-term conditions across the financial services sector.
  
12. HIV along with other long-term conditions should be duly represented as part of the Committee's investigations so that a fairer financial services system is created for those who have a health condition but want to plan financially for the future. In England alone, there are 15 million people living with a long-term condition.<sup>481</sup> Given such high numbers it is time that the 'non-standard' financial services market is reviewed. We therefore support the recommendation made as part of the Extra Costs Commission that more should be done to investigate whether disabled people and similar potentially under-served groups have access to insurance that fairly reflects risk.<sup>482</sup> Whilst respecting commercial sensitivity, we would welcome the opportunity to be reassured that risk is being calculated appropriately and fairly. People living with HIV are doing the right thing by trying to plan for the long-term and it is not acceptable to have their choices limited without sufficient and transparent reasoning. We think this investigation could be done collaboratively with the charity sector and other representative organisations. This would help to foster a spirit of greater openness and transparency and would be to the benefit of the 15 million people living with a long-term condition, including those living with HIV. Separately, we also believe there is a role for the charity sector in communicating the access rights the groups they represent have to financial services.
  
13. NAT believes that the Government has a leadership role to play in addressing financial exclusion among people living with long-term health conditions in the UK, including HIV. We also welcome the establishment of the House of Lords Financial Exclusion Committee and hope that it will continue to prioritise disability and particularly long-term conditions as part of its focus.

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<sup>481</sup> Kingsfund: <http://www.kingsfund.org.uk/time-to-think-differently/trends/disease-and-disability/long-term-conditions-multi-morbidity>

<sup>482</sup> Extra Costs Commission, Driving down the extra costs disabled people face. Accessible via: <http://www.scope.org.uk/Scope/media/Interim-report/Extra-Costs-Commission-Final-Report.pdf>, page 20.



**NAT**

*15 September 2016*

## **Nationwide Building Society – Written evidence (FEX0059)**

### **Summary**

Nationwide Building Society welcomes the opportunity to respond to the House of Lords Select Committee on Financial Exclusion call for evidence.

Our mutual model means we are able to plan and consider the interests of our members and customers over the long term. This has led to our unique approach to meeting the changing needs of our customers, through modifications to our processes or investment in branches and technology and the way we engage with our customers.

Attention to this area is extremely valuable. From the evidence sessions the Committee has held to date, it is clear that the Committee are taking a suitably broad view to the main issues, and an appreciation that financial exclusion is a significant societal issue affecting stakeholders beyond banks and building societies.

In this response we have drawn experiences from our vulnerable customers work, specifically our Specialist Support Service, which provides one-to-one support to help existing customers make informed financial decisions based on their circumstances and which we developed in partnership with Macmillan. We want to see provisions of this nature become a common-place feature across UK retail banking.

Balancing the needs of consumers between the appropriate application of technology and human face-to-face interaction is an important area for consideration. Our Nationwide Now technology shows this, and we would be pleased to provide Committee members with a demonstration.

Nationwide would be pleased to provide further details of the information contained in this response, if required.

### **Response to consultation areas**

#### **Definitions and causes of financial exclusion**

FCA Occasional Paper 17 – Access to Financial Services in the UK provides a useful perspective on the nature of access, in that “access does not just affect the vulnerable – it affects consumers across the spectrum”. Understanding the link between financial exclusion and vulnerability and the impact that being financially excluded will have on customer vulnerability needs to be fully explored.

Nationwide has developed a Specialist Support Service which provides one-to-one support, to help existing customers to make informed financial decisions based on their circumstances (further details below). This has provided useful insights into

customer's bespoke needs when facing financial vulnerability. Broadly, financial exclusion can be seen to occur when an individual's circumstances does not fit the standard product or service offering provided by financial services providers. It should also be noted that exclusion could be perceived as affecting a customer's ability to access products or services such as opening a bank account as well as ongoing commitments such as mortgage payments and, as such, different approaches to customer needs are required.

Based on our own insights, customers who may find themselves at risk of financial exclusion, though not exhaustive, may include:

- Rural dwellers, or those with limited access to a branch
- Older Households, who may encounter age restrictions on products, or who may struggle with the way their provider chooses to communicate with them
- Those suffering from shorter-term exclusion arising from life changing situations such as redundancy
- Those with physical access requirements or disabilities, if not catered for appropriately
- Low income households, who may struggle to secure credit
- Those who are lacking digital literacy, as some financial service providers move more towards online services and potentially shrinking branch networks
- Those who lack financial capability or education
- People whose personal history may preclude them from certain products and services (such as former or serving military customers, customers suffering from bankruptcy, ex-offenders etc.).
- Those whose first language is not English.

Those with disabilities are particularly at risk where providers fail to acknowledge the need for reasonable adjustments. At Nationwide, we ensure that all our digital platforms are accessible, that our branch network is optimised to welcome customers with disabilities and that our products and services are available via a range of channels to give people choice as to how they do business with us. We also train our employees to understand disability and how to respond to customers' needs.

Mental health and mental capacity provide challenges for financial services. Under the Mental Capacity Act, providers have to assume that the customer has capacity unless proven otherwise, but we also have a responsibility to ensure that customers fully understand the action they are taking, whether that is purchasing a new product or carrying out a transaction that is perceived by the providers as not in their best interests. Financial products can be complex and if a customer cannot demonstrate that they understand the terms and conditions, they may be excluded from certain products.

Financial service providers should encourage customers to disclose any worries about mental health, to enable support to be made available, but as mental health can be a fluctuating condition, safeguards need to be in place to prevent any stigmatisation of the customer or any long-term impact on their access to products that may meet their future needs.



## **Financial education and capability**

The challenges in the provision of financial education remain significant despite the important action taken to date by the All Party Parliamentary Group and organisations such as Young Enterprise/Personal Finance Education Group.

Nationwide's long-established approach to improving financial literacy focuses on initiatives for primary schools and enabling teachers to teach financial literacy in an effective way.

As such, this approach has led us to believe that to be most effective in future, financial education should concentrate on enhancing financial education at an earlier age, at primary school, and coupled with this, enabling primary teachers to enhance the role of financial education by providing them with the appropriate content and capacity to deliver this

Financial literacy is an important strand of Nationwide's Citizenship programme. Our strategy aims to address both education about the importance of saving, budgeting and reducing debt as well as people's attitudes towards doing so. Improving numeracy skills in both adults and children are an essential aspect to Nationwide's activities in this area.

## **Addressing financial exclusion**

Nationwide is constantly developing how we approach financial exclusion and publications such as the FCA's Occasional Paper 17 provide valuable information and which form a useful basis for our future work in this area.

Much of our attention has been focused on aspects of consumer vulnerability. While we are still developing our practices in this area, based on this experience to date, we perceive that the focus on customers with particular needs is crucial for retail financial services and should be reflected in products and processes. In particular, it is important that organisations avoid a one-size fits all solution to vulnerability.

Nationwide's Specialist Support Service has been initially focused on customers affected by cancer, developed in partnership with Macmillan. One thousand Nationwide customers have now benefitted from the service and it has been expanding to other consumer vulnerability areas over 2016, working with multiple other charitable specialists, for example, Parkinsons UK, Motor Neurone Disease Association and British Heart Foundation.

The fair treatment of all customers is essential. While we are still developing activity relating to certain aspects of vulnerability, where possible, Nationwide is working with other financial services providers to share lessons and insights from our valuable work to date in setting up the Specialist Support Service. We want to see provisions of this nature become a common-place feature across UK retail banking.



## **Government policy and regulation**

There is an important role for the government to play in reducing and preventing financial exclusion. This is especially the case in promoting a cross sectorial approach to facilitating financial inclusion.

While independent of government, the Financial Inclusion Commission, whose aim is to promote financial inclusion on the public policy agenda, is seen as a positive initiative which contribute significantly to the policy making process.

It is encouraging that the FCA are working in partnership with the Financial Inclusion Commission, looking at how firms implement changes which facilitate access to financial services.

In addition to working with the Financial Inclusion Commission on the topic of access and financial exclusion, the FCA has also more recently re focused on addressing the other “non -standard” needs of customers through their consumer vulnerability agenda (an extension of the principals based approach introduced by the Financial Services Authority through their Treating Customer Fairly agenda which began in 2007).

This has been welcomed by industry and next year, to follow on from their Discussion Paper – Ageing Population and financial services (February 2016), the FCA will focus on the needs of the ageing population.

The proposed consultation on the FCA mission could present a useful opportunity for the regulator to hear further views on its role relating to financial exclusion.

At an industry level, Nationwide has been working with consumer bodies and trade associations such as the British Bankers Association (BBA), the Building Societies Association (BSA) and the Lending Standards Board (LSB) to deliver an industry-wide response to the broader Regulatory challenge which extends to all aspects of customer vulnerability.

There is however no set time table, only the expectation for firms to act. A clearer set of expectations and a more definitive time table would be welcomed.

It is also worth noting that currently, financial services providers have to manage the access needs of existing (and potential) customers alongside the needs of the business, the Regulators and other applicable legislation. One example where the right balance is challenging to achieve relates to Anti-Money Laundering (AML) for instance.

Increased guidance on regulatory expectations in relation to these areas would be welcomed, as would further insight into aspects of conduct established to have unfairly excluded customers.

## **Financial technology**

Nationwide's experience, shows that balancing the needs of consumers between appropriate application of technology and the human face-to-face interaction through our branch network is the most appropriate way to address challenges associated with accessing financial services.

An example of this is our investment in our branch network, which includes investment in our Nationwide Now technology.

We are committed to our branch network and we do not have a branch closure programme. Our 700-strong branch network is a crucial part of our future plans and based on how many of our customers prefer to access our services.

Crucially, we have earmarked £500m over the next five years to invest in our branches, demonstrating our commitment to ensuring our branches are relevant in a digital age. This involves investment in Nationwide Now, a high-speed high-definition video conferencing technology which enables mortgage advice to be given face-to-face over a secure connection.

This capability has been extended to over 400 branches across the UK. The service allows us to provide our members greater access to consultants at time that fits them via a secure HD video link in our branch network. Two hundred specialist consultants complement our branch presence by providing six-day-a-week access to consumers who may previously have been constrained by the working patterns of their local branch teams. A case study following a couple in Oban, can be viewed [here](https://www.youtube.com/watch?v=qoRWK6jZnXk) (<https://www.youtube.com/watch?v=qoRWK6jZnXk>), illustrating how Nationwide Now operates for customers in rural settings.

We would be very happy to provide the Committee with a demonstration of how the Nationwide Now technology works in improving access.

## **Background to Nationwide**

Nationwide is the world's largest building society, with over 15 million customers and around £195 billion of assets. Our history stretches back over 160 years and we believe that our proud culture, based on our mutual heritage, is the reason we have the best levels of customer satisfaction among our high street peers.

*14 September 2016*



Nationwide Building Society and M&S Bank – Oral evidence (QQ 219-230)

## **Nationwide Building Society and M&S Bank – Oral evidence (QQ 219-230)**

[Transcript to be found under M&S Bank](#)

## **National Housing Federation- Written evidence (FEX0097)**

### **Key messages**

- High housing costs – caused in part by the shortage of affordable homes – means that many people are financially excluded. As our Autumn Statement submission sets out, housing associations are ready and able to step up to this challenge by ramping up supply.
- Housing associations also do a lot to identify and support financially excluded households – from providing financial inclusion advice and support, and access to low-cost loans, to targeted support for households at risk of being evicted and help with getting ready for work. But they could, and want, to do more, for example, by being able to access direct funding from the Department for Work and Pensions (DWP) to provide budgeting support to help Universal Credit claimants.
- An unintended consequence of the Local Housing Allowance (LHA) cap is that it is pushing households into poverty. The Federation is calling for the LHA cap not to apply to people above pension age, and for the exemptions to the Shared Accommodation Rate to be broadened so that vulnerable single people of any age can continue to afford to live in low-cost social housing.

### **Key stats on financial exclusion in UK**

- 356,000 households in the UK don't have a bank account<sup>483</sup>.
- 13 million people do not have enough savings to support them for a month if they experienced a 25% cut in income.
- 50% of households in the bottom half of the income distribution do not have home contents insurance<sup>484</sup>.

### **Key stats on financial exclusion in the social sector**

- 177,000 social rented households in the UK don't have a bank account. This means that about half of all households without a bank account are social rented households<sup>485</sup>.
- Median household income (excluding housing benefit) for UK social renting households is approximately £14,000. This compares to a median income of £23,000 for private rented households and £33,000 for owner occupied households.
- Adults in social housing are almost twice as likely as private renters and nearly three times as likely as owner occupiers to experience poverty (having a household income below 60% of the median income).
- On average social renting households have significantly less savings than private renters, people with mortgages and outright owners. The median social renting household has £200 in deposits and savings. The median outright owner household has £49,000 in deposits and savings.<sup>486</sup>

Social renting households are still the tenure group with the least protection against significant financial shocks, both present and future. On average social

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<sup>483</sup> Family Resources Survey, 2014/15

<sup>484</sup> 'Financial inclusion: improving the health of the nation', Financial Inclusion Commission, March 2015

<sup>485</sup> Family Resources Survey, 2014/15

<sup>486</sup> Bank of England/NMG Consulting Survey 2015

renters have lower incomes and less savings than private renters or owner occupiers. This means they are less able to manage unexpected costs or changes in their income. In addition, they are likely to have less access to affordable credit and are often the target market for expensive credit options, such as payday loans or Bright House.

## **Financial inclusion**

### **The key components of financial inclusion**

In a financially inclusive society everyone would be able to easily access and use financial services to help them to manage their money, to absorb financial shocks, and to plan and provide for the future. Four key components are needed to achieve financial inclusion:

- Access to affordable housing.
- A secure and stable income that meets a minimum standard.
- Access to appropriate and well-regulated financial services, particularly transactional bank accounts, savings accounts, affordable credit, pensions and insurance products.
- Access to free and appropriate advice and education, particularly for those with debt problems.

### **How financial inclusion services are funded**

- Many housing associations directly fund financial inclusion support for their tenants, through the surpluses that they generate.
- Improving Financial Confidence is a £31.7m programme from the Big Lottery Fund which funds projects to help people to increase their confidence in managing their money, focusing specifically on social housing tenants who are the most likely to be financially excluded. However, the programme is now in its final year and this funding is coming to an end.
- The DWP funds personal budgeting support for Universal Credit claimants who need additional support with money management to help them manage the transition to Universal Credit. However, this funding is only available to local authorities and, we're calling for housing associations to be part of the commissioning process, so they can access this funding too.

### **The role of housing associations in addressing financial exclusion**

Housing associations provide a range of services to support financially excluded households. The key ones are detailed in this briefing and are:

1. Providing a holistic financial inclusion service
2. Providing access to affordable credit
3. Supporting people affected by welfare reform
4. Supporting specific groups (e.g. care leavers and older people)

#### **1. Providing a holistic financial inclusion service**

Housing associations provide holistic support for their tenants to support them with all aspects of their finances. This may be provided in house through an internal team (either a dedicated team offering advice and support, or it may be part of the role of housing or income officers), or through a partnership with other housing associations, local authorities or charities in the area. Financial

inclusion cannot be addressed effectively in isolation from other issues a person may be facing. Many housing associations are providing financial inclusion support for their tenants as part of a holistic service that aims to help tenants develop the capability to manage their situation successfully.

Social housing tenants tend to have lower incomes than those living in other tenures and welfare reform has pushed a lot of families to the limit in terms of their ability to cope financially. Any economic downturn could put people's finances under increased pressure. This makes housing associations' work in addressing financial exclusion amongst their tenants even more critical.

### **Case study – Pennywise (partnership approach)**

#### *Project description*

- Funded by the Big Lottery through their Improving Financial Confidence programme.
- Bristol-wide project led by Places for People in partnership with Bristol City Council, Knightstone HA, United Communities, and other housing associations and advice services.
- Money mentors work with social housing tenants to help them develop the confidence and skills to change their behaviour and manage their finances effectively.
- Through one-to-one and group work, Pennywise delivers learning in areas such as household budgeting, income maximization, savvy shopping and cooking, safer borrowing and saving, energy efficiency, and getting online.

#### *Impact*

- Engaged with and supported around 1,700 residents through 1:1 delivery and a further 1,000 through group workshops since the start of the project in 2013.
- 96% of one-to-one and 84% of workshop beneficiaries report increased financial skills and confidence.
- Significant improvements in all key indicators, including rent arrears, debts, banking and possession proceedings.
- 55% of those with at risk tenancies are now secure.
- Positive impact on participants wellbeing:
  - 39% report improvements in their mental health following engagement
  - 25% report sleeping better
  - 20% have subsequently moved into work, training or education.

### **Case study – Viridian Housing (in house approach)**

#### *Project description*

- Financial inclusion service is a core part of the business.
- Embedded into every stage of the customer's tenancy journey – affordability assessments are conducted pre-tenancy, new tenants receive support to ensure their financial needs are understood and addressed early on, and tenants are supported by the financial inclusion service whenever they fall into financial hardship.
- Dedicated website that provides useful information about money related matters, including benefits and budgeting, and gives customers the opportunity to live chat with advisors about their money worries.

- Holistic service that is closely linked with other teams, such as income management and employment and volunteering services.

*Impact*

- Maximised tenants' income and helped tenants to access relevant grants to prevent food and fuel poverty.
- Positive impact on rent arrears.
- Eviction proceedings were prevented due to the intervention of the financial inclusion team in around 200 cases.
- Improvement in customer satisfaction.

## **2. Providing access to affordable credit**

Up to 8.8 million people are over-indebted and an estimated two million people took out a high-cost loan in 2012 as they were unable to access any other form of credit.

Housing associations have partnered with credit unions to offer affordable credit options to their tenants so that they have an alternative to expensive pay day lenders. Credit unions have the capacity to offer affordable credit to more customers however in some cases they are held back as they lack the name recognition that more expensive, national pay day lenders have. Many housing associations also help their tenants to access affordable furniture and white goods, which they might otherwise have bought from expensive rent to own retailers, such as Bright House.

### **Case Study – Places for People, Financial Services**

*Project description*

- A personal loan service for customers who are predominantly excluded from traditional lenders.
- Lends from £250 - £3,000.
- Loan payment plans are flexible and can be rescheduled according to the customer's needs.
- Funded entirely using a combination of its income and repayments from existing loans and income from administration of equity loan portfolios.
- Open to Places for People tenants and the general population.
- Easy to apply by telephone or online.

*Impact*

- The typical loan saves the average customer £262 over the term when compared with other lenders.
- Provided over 8,500 loans, generating comparable savings for customers of over £2m.
- Very positive customer feedback – four-star rating from De Facto and a 100% Feefo rating.

**My Home Finance (including additional information on the attractiveness of loan finance to CDFIs in light of the experience of My Home Finance)**

My Home Finance operated as a Community Development Finance Institution (CDFI) from September 2010 to May 2016.

It was established by the National Housing Federation to make small loans (in practice average c.£350) for household necessities, to customers who because of their insufficient or poor credit record, can't get access to mainstream bank loans, and who otherwise would resort to doorstep lenders, payday lenders or loan sharks.

My Home Finance made well over 22,000 loans and saved its customers over £4m when compared to the cost of doorstep lenders.

My Home Finance was initially part funded by DWP grant finance and then subsequently raised loan finance primarily from housing associations. The former was not repeated and the latter dried up in 2015 when revised government regulations regarding social rent increases reduced housing associations' projected income streams.

My Home Finance failed because it was unable to secure enough finance to cover early year operating losses whilst at the same time trying to grow its loan book to a size which would generate sufficient income to become profitable.

The critical requirement for a business such as My Home Finance is to be able to progressively attract more finance as its loan book grows. Grants are not available in a sufficiently predictable way for the amounts required and equity investment is problematic due to the structure and nature of the business. This leaves loan finance as potentially the most viable form of investment.

The loan finance My Home Finance raised from housing associations was unsecured at interest rates of up to 6% pa. In practice the coupon on the loans is not critical because the gap in the customer lending market being targeted is large and price insensitive (between 42% APR from credit unions to around 270% APR from doorstep lenders and much higher figures for other sources).

Moreover, such loan finance could be secured over a (growing) customer loan book, making the investment comparatively less risky.

Unfortunately, despite strenuous marketing efforts targeted at banks, corporate and personal social investors, sources could not be found in time to prevent My Home Finance's demise.

The benefits of the service offered by My Home Finance are not restricted to the saving on the cost of the customer loans. Allied to promoting individual financial responsibility they have the capability to improve social behaviour and the general resilience of communities. If government were to step into this funding gap it would underpin a wide variety of policy objectives.

### **My Home Contents Insurance Scheme**

The National Housing Federation in association with Thistle Insurance Services Limited (A JLT Group Company) have developed an insurance scheme to ensure all residents living in social and affordable housing have access to affordable home contents insurance. My Home Contents Insurance Scheme is available to all residents of social housing providers including tenants, leaseholders, shared owners, key workers and market rent tenants. There are no minimum property security requirements and there are no policy excesses. Premiums are based on the resident's postcode but many housing association members have premiums available which are specific for their housing stock. Residents have the flexibility to pay their premiums fortnightly or monthly by cash at any post office or pay zone outlet, monthly by direct debit, annually by cheque, postal order, debit or credit card.

### **3. Supporting people affected by welfare reform**

#### **Changes to Universal Credit**

The Federation supports many of the principles behind the introduction of Universal Credit (UC), including making sure that work pays and simplifying the benefits system. However, some of the changes introduced by Universal Credit, such as the monthly payments and single payments to a whole household, will be challenging for some people on low incomes. Making the following two changes would help to ensure that people are not at increased risk of financial exclusion as a result of Universal Credit:

- Allow social housing tenants to choose to have the housing costs element of Universal Credit paid directly to their landlord.
- Remove the seven-day waiting period before many tenants are entitled to money through Universal Credit.

#### *Direct payments*

Enabling a simple system to allow direct payments to landlords would reduce the costs associated with administering Universal Credit to both the DWP and housing associations and reduce the risk of arrears to associations which can often stymie development aspirations.

Removing the right for tenants to choose to have their rent element of Universal Credit paid directly to their landlord not only removes the element of choice from tenants but puts at risk the security of housing associations' revenue stream. This is fundamental to their ability to finance new development and their ambitions to build the homes we so desperately need and would allow them to spend more energy focussing on getting people in to work.

#### *Seven-day waiting period*

Tenants applying for Universal Credit who are assessed as being fully capable of work have to wait around six weeks before they can expect to receive their first payment. This includes a seven-day waiting period, which they will receive no payment for. This is likely to cause financial hardship for many social tenants.

Universal Credit is designed to provide a safety net to allow people to manage essential expenditure while they look for a job. A strict conditionality and sanctions regime ensures that people must actively seek work and rules around

income and savings ensure that only people on a low income with small savings are entitled. The seven-day waiting period fundamentally undermines that safety net and greatly increases the risk of tenants getting into arrears with rent and struggling to manage day to day living expenses.

We recommend that the seven-day waiting period is removed to ensure that tenants can continue manage their essential expenditures, such as rent, food and heating, whilst they look for a job.

### **Preparing for Universal Credit**

Universal Credit currently offers Personal Budgeting Support to claimants who need it. This is contracted out by DWP to local authorities who either deliver it in house or sub-contract it. It is the responsibility of the Jobcentre Work Coach to identify claimants who need support.

However, there are issues with the process of identifying claimants who need additional support, and as a result of this many housing associations provide additional support services for their tenants. Housing associations have a great deal of experience of providing budgeting support and would therefore be keen to use this expertise to offer Personal Budgeting Support for Universal Credit claimants on behalf of the DWP.

### **Case study: Nottingham Community Housing Association (NCHA)**

#### *Project description*

- Provides targeted support to all tenants who will be moved on to Universal Credit.
- Support is provided by the Tenancy Support and Tenant Involvement Team and covers three key areas:
  - Banking – providing information about basic bank accounts.
  - Budgeting and debt advice.
  - Digital inclusion – often related to financial inclusion as without access to and ability to use the internet people will often miss out on the best deals and end up paying more for their utilities and other bills. NCHA provides one on one training for tenants identified as needing extra support in this area.

#### *Impact*

- Contacted all single tenants aged 18 – 60 in receipt of Housing Benefit or who have been in the last 6 months.
- Of the 482 tenants contacted, 65 need banking advice, 57 need budgeting advice and 67 need IT training – NCHA Tenancy Support Team are providing this support.
- Have helped to maximise tenants' income by ensuring they are claiming all of the benefits they are entitled to and by helping them to access grant funding.
- This has resulted in a reduction in rent arrears and in numbers of evictions.

### **LHA cap**

From 1 April 2018, the way Housing Benefit or the housing element of Universal Credit is calculated will change so that if a claimant has signed a new or renewed tenancy from 1 April 2016 the amount of benefit will be restricted to the Local Housing Allowance (LHA) level for that size of household. If the tenant is single and under 35 years old the benefit eligible rent and service charge will be



capped to a shared accommodation rate (SAR). There will be a few exceptions to this – for example for severely disabled people or people aged over 25 who have lived in a hostel – but these are very limited.

Single tenants under 35 will face a shortfall between their benefit and the rent on a one bedroom social home. The average gap in England is around £22 per week and this ranges from £17 in the North East to £38 in London. Many younger single people are allocated social housing because of vulnerability and pressing housing need. Many of these people will not be covered by the DWP's list of exceptions to the SAR. These include:

- Single people to whom the local authority owes a duty under homelessness legislation.
- Pregnant women.
- People under 25 living in supported housing and/or with a history of homelessness.
- Disabled people.
- Care leavers over the age of 22.
- People for whom shared housing is inappropriate but who do not come under MAPPA arrangements.
- People leaving custody.
- People who have served in the armed forces.

Housing associations across the country are looking at practical measures to enable them to continue to provide homes for people under 35. These include developing shared housing. However, the supply of shared housing is likely to be very limited as there is very high demand from families for larger homes in most areas. Shared housing will always be inappropriate for some single people.

#### *Federation position – what should be done?*

The LHA cap should not apply to people above pension age and the exceptions to the SAR should be broadened so that vulnerable people can continue to afford to live in social housing. This will help prevent homelessness and allow social landlords to work with younger people to improve skills and move into work. This Government has rightly emphasised the importance of homelessness prevention and appropriate exceptions to the LHA SAR rate for social housing tenants should be viewed as part of this work.

## **4. Supporting specific groups**

### **Care leavers**

Young people leaving care are often prioritised for social housing but may find it difficult to maintain a tenancy due to lack of experience. Some housing associations have worked with local authorities to develop specific pathways and support for young people leaving care to help them to develop the skills to manage their income and their tenancy effectively.

### **Case study: The Money House, Hyde Housing**

#### *Project description*

- Big Lottery funded project.
- Partnership between Hyde Housing and Greenwich local authority – this has been integral to the success of the project.

- All young people leaving care in Greenwich are referred to The Money House project and must complete it in order to receive a bidding number for social housing.
- 5-day training course run by specialist youth workers, that takes place in a real flat – this provides a real world context and allows the challenges young people will face when they move into their own flat to be replicated.
- The course covers:
  - budgeting
  - banking and borrowing
  - consumer rights
  - tenant's rights and responsibilities
  - working and benefits – how to manage the transition from benefits to work.

### *Impact*

- Trained over 560 young people in The Money House.
- In a study of outcomes of participants in The Money House, attendees were found to be three times less likely than non-attending peers to get into arrears of over £500.
- In the same study no graduates of The Money House have been evicted – compared to an average eviction rate of between 3-10% for 16-25 year olds.
- Analysis of the project shows it has had a hugely positive impact for the young people participating, as well as a positive financial impact for the housing association, due to the reduced rent arrears and eviction proceedings.

### *Scaling up the project*

- Hyde are developing an e-learning course that uses The Money House ethos and style.
- Other organisations can buy the training guide and a package of materials to deliver The Money House course.

### **Older people**

Lots of older people are missing out on benefits and support that they are entitled to. Older people are also more likely to face digital exclusion, which means they may miss out on the best deals and end up paying more for their utilities and other services. Housing associations are providing support for older residents to help ensure they maximise their income, both by claiming the benefits they are entitled to and by getting the best deals for their energy bills.

### **Case study: Hanover**

#### *Project description*

- Dedicated in house team that provides four services:
  - Insurance Wise – partnership with Aon to offer residents the option to purchase affordable contents insurance. The product has been designed for Hanover residents and ensures they can access an affordable product with low premiums and no or low excess.
  - Home Wise – provision for minor and major home adaptations as needed by the resident. Support is provided by an Adaptations Manager to source additional funding for major adaptations.
  - Money Wise – Two Financial Rights Officers and one Lead offer a national financial rights service that helps residents to maximise their

income by offering advice on their entitlement to benefits, assisting them to make applications and liaising with other agencies on their behalf. No financial advice is provided.

- Energy Wise – One Energy Advisor provides a national service advising and helping residents to make savings on their energy bills by switching provider or changing tariff. Checks eligibility for the Warm Home Discount or Winter Fuel Payment and offers general energy saving advice.
- Residents can contact the services directly via phone, email or post and by speaking to on site staff. Regular marketing campaigns and estate days ensure all residents are aware of the support available.
- Areas with particularly low levels of Attendance Allowance take up are targeted to ensure residents are aware of the support available to them.
- Estate Days/Visits offer support through one to one sessions where general advice is also available for all residents through presentations and literature.

### *Impact*

- The services are very popular with residents and there are high levels of take up and engagement.
- The Money Wise service has generated approximately £2.7m in additional income for residents since it started four years ago. That's an average of £4,000 per year of additional income for each resident supported.
- The Energy Wise service has generated approximately £327,000 in savings for residents. The average saving per resident is £150.
- This is a very positive outcome for the individual residents and helps to reduce poverty amongst older people. It also helps to improve resident wellbeing by ensuring they have the money and support to live independently for longer.
- Maximising income for residents increases their ability to pay their rent, which in turn maximises the housing association's income. Many older people have to pay a top up on their rent to cover support costs and maximising their income helps to ensure they can afford this.

## **5. Housing associations' approach to pursuing rent arrears**

One of the questions raised by the Committee at the oral evidence session on 25 October related to the collection of rent arrears and referred to evidence suggesting that local authorities and registered social landlords can be quicker to use bailiffs or the courts than many commercial creditors. We have reviewed the available evidence and can find no evidence that housing associations are quicker to resort to using bailiffs in pursuit of customer's debt than other landlords or commercial creditors.

Housing associations make every effort to help their tenants manage their money effectively and come to a reasonable repayment plan when they fall into arrears and eviction is always a last resort. Council and housing association landlords must follow the steps in a special pre-action protocol before starting any legal proceedings to evict a tenant for rent arrears. This includes contacting

tenants with rent arrears to discuss the cause of their arrears, their financial circumstances, their entitlement to benefits and plans for repaying the arrears.

Most housing associations will also have their own policy and procedures for the collection of rent arrears and housing officers or specialist financial inclusion officers will work closely with tenants to explore all options for resolving arrears before the association begins any legal proceedings. Even after legal proceedings have been started the housing association will continue to work with the tenant to resolve their rent arrears and the tenant will have the opportunity to enter into a repayment plan for the arrears. If the tenant agrees to pay their current rent and a reasonable amount towards their arrears, then the association will postpone the court action whilst the tenant sticks to this arrangement.

*21 December 2016*

National Housing Federation and Local Government Association – Oral evidence (QQ 102-111)

## **National Housing Federation and Local Government Association – Oral evidence (QQ 102-111)**

[Transcript to be found under Local Government Association](#)

## **National Youth Agency, Rees Foundation and Young Scot – Oral evidence (QQ 69-78)**

Evidence Session No. 7

Heard in Public

Questions 69 - 78

Tuesday 11 October 2016

[Listen to the meeting](#)

Members present: Lord Empey (The Chairman); Viscount Brookeborough; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Jon Boagey, Associate Director, National Youth Agency; Louise Macdonald OBE, Director, Young Scot; Sarah Milan, Director, Rees Foundation.

**Q69 The Chairman:** First, you are very welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will also be taken and published on the Committee website. You will have the opportunity to make corrections to that transcript where necessary. If you are content for me to do so, rather than asking you to make opening statements, if you wish to add anything when you are answering a question you are free to do so. Different members of the Committee will ask questions, but they make ask supplementaries as the answers unfold.

I will commence by asking you what the key financial challenges facing young adults are and about the relationship between those challenges and financial exclusion. In other words, which groups of adults are particularly vulnerable to financial exclusion?

**Sarah Milan:** I represent particularly the care-experienced group of young people, so my answers will focus particularly on them. At the Rees Foundation we offer a lot of advice and support to young people with care experience, and financial issues are a major concern for them. We find that the key challenges can be their understanding what their responsibilities are as well as their rights and eligibility for support. Many people who I speak to are managing on a very low income, which is a big challenge for them when making decisions and when planning. One thing we talk a lot about is the impact of sanctions in the benefits system and appeals of those. I speak to a lot of students, particularly full-time students, whose financial issues are different and more specialised.

My main general point in relation to this group of people is that they lack a safety net and quite often people to go back to. Leaving the care system can be isolating and difficult, and they do not have the safety net that a lot of young people have of family networks and even stable friendship groups. This limited support makes them a particularly vulnerable group of young people and means that they face different challenges.

**The Chairman:** Do you feel that they come out of the education system having gained little or no knowledge there?

**Sarah Milan:** Yes. I do not hear much evidence of them having gained knowledge through school. We talk a lot about their social workers and their foster carers or personal advisers and, again, there is a limit to what advice and information they receive there.

**Louise Macdonald:** Good morning everyone. I really take the point that is made. There is a particular issue with the care-experienced, the looked after and care leavers that has to be taken quite seriously. It would be welcome if this Committee could explore that further.

More generally and more broadly, Young Scot works with all young people in Scotland. We work with 11 to 26 year-olds in Scotland, and we are a

membership organisation; we have 680,000 members across Scotland. We have specialised in financial information and support for young people for many years—since about 2005. I should also say that I am a member of the financial capability strategy board for the UK.

Generally, what young people have told us about and what strikes me is the interconnectedness of financial inclusion issues across young people's lives and that we cannot see it just in the context of one simple issue—that it is just about finance, and that is it. Actually, it is tied to transport, employability, whether they can engage locally in their community, whether they can be an active part of the life of their community, whether they can access opportunities. The interconnectedness of financial inclusion in young people's lives strikes me hugely.

**The Chairman:** You mentioned transport. Do you mean the cost of transport?

**Louise Macdonald:** Yes. The cost of transport is a key issue for young people. Now we find that zero-hours contracts are quite often a new issue for young people or young adults. They will quite often travel to their place of employment, and pay for that travel, and are told that there is no work for them today and they have to go back again. It has cost them £2, £3, £4, £5 to get there. There are a significant number of linked issues, which means that this cannot be looked at in isolation. Broadening the gaze would be really helpful in thinking about this issue.

**Jon Boagey:** I echo what Louise has said about broadening the view. We have to think about the financial challenges in young people's lives in the context of their broader lives. For many young people, that transition to adulthood should be a time of opportunity and hope, but in reality for many it represents a whole range of significant challenges. We know that for many young people unemployment is high. When people get jobs those jobs are often temporary, contracts are fragile, and there is uncertainty about their future employment. Educational qualifications are not what they used to be. A report out today from the CIPD talks about the value of a degree and whether educational qualifications lead to employment in the way they used to. There are real challenges in housing, owning your own home and the tenuous nature of rental contracts; many young people are pushed into private tenancies that are not always secure and that represent financial challenges such as deposits, payments of rents, council tax and energy bills.

There are whole issues with being online. Young people's lives are now lived online in all sorts of different ways, and access to spending and so on is significant.

Finally, we also need to remember that we are talking about young people and, as I said at the beginning, young people's lives need to be about opportunity and looking forward. It is a time in people's lives when they want to make relationships and think about new opportunities and ideas in life, and there are financial consequences from doing that and from being secure in the way you set out your life in the future.

**The Chairman:** Thank you. Sarah answered this question, but, Jon and Louise, do you get any sense that young people coming out of the formal education system have a grasp of financial issues at all?



**Jon Boagey:** From our perspective, we know that there is some financial education, but the need remains significant. The key thing that we might explore later is the value of intervening or giving financial support at those key transitions points in young people's lives.

**The Chairman:** Louise, what is your take on that?

**Louise Macdonald:** In Scotland, it is not a specific strand; it is embedded across the whole curriculum for excellence. Over many years, additional support was given to schools for financial education, and there were local officers who did that job very well. They have gone, sadly. In the current climate, those posts were not maintained. So while there is still good practice, we are hearing from young people that very often their financial education is not visible or recognisable, so they come out without knowing that they have had any financial education.

Q70 **Lord Haskel:** We have heard about the support that your organisations give to these young people, but of course they get support from their families, financial services and employers. What role do these and your organisations play in shaping young adults' behaviour and attitude towards money: that is, a more responsible and understanding one?

**Sarah Milan:** There are some specifics to the care experience of a young person. They have quite a unique relationship to money. It is a cultural thing and is part of their experience in residential or foster care. In my experience, young people are very aware of money and how it applies to their lives in different ways from other young people, because they are aware that their carers and social workers are being paid. Many of the key adults in their lives are actually paid professionals, which means that many young people's lives have been impacted on differently and their approach is different.

Young teenagers in care are aware of what control or lack of control they have over money, and this is an issue for them when they move from their foster or residential care placements on to a more independent place. They become responsible for it all very quickly, with a lot less support after people have been looking out for them, so it is quite a quick transition. That has a big impact on them. Many of the people who the Rees Foundation works with are in receipt of benefits, so their experience continues to be that of a limited income, which can mean a different lifestyle to that which they experienced while they were in care. That can be quite a culture shock.

The other thing that influences their attitudes to money is their social work and personal adviser experience. The level of the professional's knowledge and capability in terms of finances will have a big impact on a young person. If the professional is capable and knowledgeable about finances, they are able to pass that on—if they have a good relationship with them. If they do not, they might not be as competent in doing that, so their education and training options are important.

In my experience, we are dealing with crisis management a lot of the time. Young people either think they are getting on okay or they feel that they are struggling. They may find themselves in crisis before support services kick in or anyone is actually available to be there for them. So that reactive rather than proactive approach also has an influence on them.

The Rees Foundation's approach is that we believe that young people should be supported in having a responsible and sustainable approach to their finances, and we offer lots of signposting and advice for them to do that. We have to help them deal with the realities of their situation, and that may be in contrast to their ambitions and aspirations. It is about helping them to hold on to the ideas of hope that Jon mentioned by seeking opportunities, and to help them combat the disadvantages they face.

**Louise Macdonald:** From our perspective, there are some great practices going on across a whole range of different providers, whether they be industry, employers or the third sector, but we have to note that the quality is mixed and we still do not seem to have grasped the holy grail of having evidence of what intervention actually works. We still lack real evidence of efficacy across a lot of these programmes. Some amazing work is being done in primary schools, which are a great space for exploration and so on through money weeks and £1 or £10 challenge programmes, which are brilliant. But certainly our experience is that by the time young people get to secondary school it is more variable.

That, I think, goes back to the point about recognising where young people are. They are growing, learning and stretching and trying to work out how the world works, and what actually matters then is real, experiential learning. We know that what makes the difference to any young person's financial capability is the ability to apply it to the real world. One of the key things that we need to think about is the delayed transition into adulthood for some young people, because of austerity and some of the situations they face, so that they are not moving into independent living sooner. They do not have a real experience of finance and that has a huge impact. It also takes them longer to gain confidence in dealing with financial issues. The new modern family report that came out in August details this very well and it is worth exploring.

**Jon Boagey:** From the National Youth Agency's point of view, our focus is on youth work and our interest is in young people's personal and social development. We approach financial capability by thinking about the broader personal and social skills that young people need in their lives in order, if you like, to organise themselves. They need to think about their self-management, their confidence, their communication skills and so on. All those personal attributes are really important to how you begin to think about managing your money and the decisions that you make, and so on. Our interest in this area has been through that and through the programmes that we have run in partnership with financial institutions and others. They always come from that starting point.

I should add that in all those programmes the key thing has been involving young people themselves in designing them. One of the differences between out-of-school or non-formal education and formal education is that although there is lots of creativity in the way formal education delivers such programmes, which we support because they are important, programmes can be designed where young people together with a youth worker can negotiate what it looks like. That is a different type of programme, which is often unique to the direction in which the group wants to go, but it is also often very successful. We have some strong figures from the money skills champions

programme, a peer education programme that we ran that demonstrated this impact.

**Lord Haskel:** You have described a whole range of ways in which young people's attitudes to money are affected, including their family. Because there is such a range, is it necessary to have a lead from Government to bring it all together, or is it better left with a whole range of organisations working independently?

**Jon Boagey:** I feel strongly that the Government need to play a central role in bringing initiatives together, whether that is devolved down by providing financial support to an organisation like the Money Advice Service or whatever may be the case. We know that there are key moments in young people's lives that are significant in providing financial capability and education. You cannot intervene at those moments if you do not have support from across government.

Two examples that we may talk about later are the youth obligation and apprenticeships. We are seeing a big push on apprenticeships at the moment, with 3 million of them by 2020. But where does financial inclusion or education take place in that context? I do not see it. There is a lot of opportunity for it to happen, but it is not wired in at the moment. The Government need to think more about this if they are going to take financial capability seriously.

Q71 **Viscount Brookeborough:** Thank you, because that leads into my question, which is about government policy. You all agree that financial education should start early and should be continuous through the different stages. I understand what Louise said about Scotland and that its policy was for it to be within schools and how that actually works. In Northern Ireland, where I live, that is also the case. But we have been told that schools in England are not uniform in this respect, because there are free schools and schools outside the curriculum, and therefore it is variable at best, and maybe non-existent.

In the paragraph above the question on youth strategy, which no doubt you will have processed, it seems incredible that responsibility for education, which is what it amounts to in schools, has been moved from the Department for Education to the Cabinet Office. That puts it out of education control straightaway. It was then moved again to the Office for Civil Society, but I am not quite sure what it does, and then to the Department for Culture, Media and Sport. If we are to start where young people start, which is as young children at school, what would you like to see being done at that stage, because clearly it is not getting to 100% of children at all? It is fragmented, so when your services are required at different stages, you have some young people who may have some knowledge of saving the odd pound and others who simply have no knowledge. Would you like to comment on the strategy?

**Louise Macdonald:** Leadership on policy and in government is absolutely essential, and I agree that a coherent approach is necessary. I cannot comment on how it has been organised at the Westminster level and I shall leave that for colleagues to do so. It is about creating an understanding across the support system for children and young people of the central importance of this topic. Too often it is still being left in the hands of specialists or technical enthusiasts. The approach in Scotland of trying to

embed this into lots of topics is a good one. I do not think it has been as successful as it could have been and that there is more to do. The new opportunity we have in Scotland is the announcement last week of the Fairer Scotland strategy, which has positioned this issue in the ambitions to tackle poverty, childhood poverty et cetera, and some key work has been done. You are right that it has to be complementary, and I would be slightly concerned if we said that it has to be dealt with in just one place. We need to move forward on multiple fronts, but doing that in a way that ensures good leadership coherence across the policy.

**Jon Boagey:** In response to your question about school education and how it prepares us for what we do later, I do not know that much about primary education because it is not my area, but my sense is that citizenship education for young people as they grow is very patchy. In some schools it is done really well, while in others it is not. Typically, although there are attempts to put financial education into the maths curriculum, by and large most of it happens in citizenship education. There are other skills and knowledge in relation to financial education, but I worry that that is actually quite limited and would ask whether it is broad enough on things like tax, council tax, energy bills, managing mobile phone bills and so on. These are practical things which many young people when they leave school suddenly have to deal with, but the education was not there when they were learning about money in a much more specific way.

As to the arrangement around the youth strategy, I think that many in the youth sector feel that it should be closely connected to education. The Office for Civil Society has done a good job. At the moment it is trying to put together a new youth policy rather than a strategy. There was a policy, I think five years ago, which remains in place. We have strategies in government that relate to young people, but we do not have a youth strategy that sits across everything and sets down the outcomes we want for young people.

Q72 **Lord Northbrook:** What financial education is there for young adults who are not in formal education? Is the current provision sufficient? If not, what is required to meet the needs of young adults?

**Sarah Milan:** I started to talk about this point earlier. It very much depends on the knowledge of the professionals working with young people, so social workers and personal assistants are key to that. They will have a big impact on what support young adults can receive and what information they can connect with. Those who do reach out to organisations like ours and others can be signposted to a nearby service where we find that we can get them information and good services quickly.

As is probably the case for all of us, but particularly for young people, if we do not know that the services are there, we cannot get the support and information we need. We need to make sure that young people are aware of what is available outside of the formal setting. That is important, as is the need for such services to be approachable. Obviously online services have improved, so that if people do not have access to a phone because of their situation, they can access the internet and have an online chat to get information.

If I might go back to the previous question, obviously the majority of the young people we work with are over the age of 18 and are therefore outside

the lower education system. It is important that the youth strategy is seen as being relevant to a wider group of professionals, and that is probably the case for many policies in relation to this group. It is about joined-up thinking and a systemic approach across schools as well as local authorities that are responsible for young people's care.

**Louise Macdonald:** I would say that this group is potentially where the greatest opportunity might lie, because they are facing the transitions of young people who are not in formal education. There is an opportunity to engage with financial decisions across a whole range of issues. There is potential in modern apprenticeships, vocational training and with employers to play a significant role. This is where I see a real opportunity. Some Money Advice Service research published last August points out that young people who are students are less financially confident than those who are not because they are not getting the real-world experience of having to negotiate these decisions. For young people in that position, finding clear go-to resources can be the issue. The amount of information available can be a little overwhelming, and we have to recognise that the way of the world for young people is very often about seeking information or making decisions just in time. It is not about long-term planning, it is more, "I need to know this and I need to know it now, so where do I go?" Adapting services and provision for young people is really important.

The one point I want to make at this stage on this group is that digital is hugely important. I know that we will come on to this later, but actually digital connectivity does not mean digital competence. We are doing a huge amount of work with the Prince's Trust and the Carnegie foundation for the cohort of young people who are very far removed from education and employment, and their level of competence in digital matters really would surprise people. It means that young people in this position are more vulnerable, because everybody thinks that they are digitally savvy, so they are even more at risk of being left behind because nobody is paying attention to them.

Q73 **Lord Harrison:** Good morning to the three of you. As someone who is digitally connected but deeply incompetent, that rang a bell with me. How successful has the Government's new strategy been in supporting young people in developing their financial capability? I will ask Louise to start, because when I say "Government" I am referring to HMG here, but you are very much under the regime of another Government, who perhaps have started developing different strategies.

One more point, if I may. You said that your range in Young Scot was 11 to 26 and that sometimes some of the young people you are dealing with have delayed the move into adulthood. That is quite tricky. Is that the right range? Does it correspond to what we have been doing elsewhere? Perhaps there is a different perspective north of the border.

**Louise Macdonald:** From a strategic point of view, I would need to check, but I think that many years ago there was a specific financial capability strategy for Scotland. That went under the current Administration. More has now been embedded across different approaches, such as education and learning, and is focused very much on poverty and the anti-poverty strategy work that is going on.

I do not know the detail, so the Committee may want to seek further information, but as part of the consideration of the new welfare powers that are coming to the Scottish Parliament there is currently a consultation on what will happen to social security and how that will operate in Scotland. Again, conversations about support in relation to debt, crisis management and financial services are all part of that.

One element that is very positive for me is that there are commitments in the Fairer Scotland strategy, which I mentioned earlier and which was published last week, to tackle such issues and to provide things such as a new job grant for young people aged 16 to 24 who are unemployed for six months or more, and transport support for modern apprentices and, again, unemployed young people. Some of the pinch points that have been identified by young people in the engagement with them are being addressed.

You cannot point to a single strategy in Scotland, which I know is a frustration for some colleagues who work in this area because of course it makes engagement more complicated, but in some of the key life stages for young people you can see work that has been undertaken. I am not sure that there is a narrative that joins that up, though. That is probably a gap.

Very quickly on the question of delayed adulthood, if we have time, there is a sense that, because of the situation that young people are now facing, where very many do not believe that they will have as positive a life as their parents, we are now getting a lot of evidence that young people are tending to stay at home longer and are delaying some of those decisions. That will have an impact on young people and, I think, potentially a wider impact on their financial capability longer term if it is going to take longer for them to engage with independent decision-making around this topic. That is the point I was trying to make.

**Jon Boagey:** Very briefly, I mentioned the youth strategy. *Positive for Youth* was published in 2011 or early 2012, but there has been nothing since then that brings together a view on what young people's lives might look like and what good outcomes would be, part of which one would hope would be financial capability. Of course, we have individual strategies. We have a strategy from the Money Advice Service and strategies in other areas, but we do not have an overall youth strategy.

There are some interesting initiatives that offer opportunity for financial education. A lot of money is being put into the National Citizen Service, and it would be nice if there was a way of including some financial education for 10 and 11 year-olds<sup>487</sup> who go on that service. There is investment in volunteering and social action. There is a programme called Step Up To Serve, which is encouraging young people to get active in their communities and so on, and a recently announced youth investment fund, which is intended to support, I think, 40 of the most deprived areas of the country, and to support youth work initiatives in particular. There are opportunities there to try to focus a bit more on financial education,

Finally, there has been quite a lot of discussion about life chances—there is a life chances fund—and whether government strategy overall could think about

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<sup>487</sup> Note by witness: The reference should be to children in school years 10 and 11, rather than 10 and 11 year olds

investment in areas of financial education and see that as investing to save later on. There is the really strong argument that if you get it right and spend some money on young people's financial education, you are likely to save money down the line. Not just in this area but much more broadly there is a really compelling argument for pointing public spending in that direction. Perhaps the Money Advice Service and others could look at that.

**Sarah Milan:** I have nothing to add to that.

**The Chairman:** Thank you very much indeed. At this point, Baroness Primarolo would like to ask a supplementary.

**Baroness Primarolo:** Louise, in answer to Lord Harrison and several times elsewhere, you have mentioned the question of the transition to adulthood being later. You edged around it in your description of the Fairer Scotland strategy, but can you spell out in a bit more detail the implications of building a financial capability strategy if the key life changes, the key life events, are moving and at different paces for different groups of young people, or would you say that the Fairer Scotland strategy is trying to sweep that up at the moment?

**Louise Macdonald:** I would say that Fairer Scotland is trying to tackle the real concerns about the levels of poverty. One in five children in Scotland is affected by poverty, and Fairer Scotland is a very strong response to tackling that. It has identified some key life stages where you can very clearly see the link between poverty and financial inclusion. That is the context. It is not a financial inclusion or a financial capability strategy per se. There are elements there.

For me, there is a need to take account of what is happening with young people and the fact that their future is less secure. It feels like a less secure place that they are going into. It is more difficult to plan for, and there are far fewer certainties than perhaps their parents had, such as the ability to get a house or a secure job. The kinds of issues that are leading to that delay need to be taken into account in our thinking and then matched to the evidence that real-time experience is what leads to young people's understanding. We need to adapt approaches and think of new ones to tackling financial capability and where we tackle it. That is the point I am trying to make: there is a need to take into account the fact that the landscape has changed for young people, and we need to be aware of the implications of that.

I would echo Jon's point that making that investment now to support young people in relation to these issues is a fantastic step towards prevention and longer-term positive outcomes for young people as they grow, start families, have their own children et cetera. Really exploring that—and I do not think that we have explored it entirely or understood it yet, because it is still happening—and being responsive to what that is telling us feels important to me right now. I hope that helps.

**The Chairman:** Lord Fellowes, you are up next, but we will have to speed up a bit if we are going to get all the questions in.

**Lord Fellowes:** Luckily Lord Haskel mentioned it.

**The Chairman:** By the way, if you wish to answer a particular question or to move on, please feel free to do so. Please also feel free to let us have in

writing anything that occurs to you subsequently. We would be very pleased to receive all that at any stage in the process.

**Lord Fellowes:** I have a quick question that is supplementary to the issue of the Government's intervention. There must be a huge variety of ways in which those who are financially excluded get by. Would Government intervention be welcome to all of them, or would they feel almost overwhelmed by such intervention when they can go to people like Louise and Sarah? Could you give me an idea of how the medicine goes down?

**Jon Boagey:** It depends on how it is presented. For the young people I can think of, it is about the setting, who presents the information and how it is delivered. An interesting report produced by the YMCA talks about young people's experience of jobcentres and how they are not really at all helpful in engaging with young people who are thinking about work. In some cases the interventions are not very successful. A better way of doing it might be through providing funding to organisations that are more on the front line.

**Louise Macdonald:** I would agree.

**Sarah Milan:** Can I add that that is a really interesting point in relation to the care experience, because that is the relationship that these young people have with the state. They often have negative feelings about that. Sometimes when it is presented differently, as Jon as described, and the advice comes from different agencies, it can come across as being more accessible.

Q74 **Lord Kirkwood of Kirkhope:** I want to ask you about the Money Advice Service, but before I do that may I quickly canvass your views? Your evidence is valuable and you make a powerful case, but are you actually saying that we should be doing something separate and distinct for the problems faced by the young people of the kind you have described so eloquently? Louise said that there is a strategy in Scotland that is waterfront-wide. Is that something the Committee should make a recommendation on for what the Government should do in the future? Are you saying that the problems are so distinct for 16 to 24 year-olds or whatever the age is that we should specifically set up something separate, or that we should try to embrace it better in a comprehensive policy-wide approach like the one that seems to be developing in Scotland?

**Sarah Milan:** All these questions cause me to think about what young people would tell me to say. What these young people would say is that they struggle the most with not having an individual response. We have to think about them as a distinct group, and particularly for me being close to the care-experienced, because it impacts on what they need. If we take a blanket approach, we risk not giving them a response that is individual to them—not individual only to young people with care experience but individual to them literally. That is what we must not lose.

**Lord Kirkwood of Kirkhope:** So there is a case for a separate approach for young people.

**Sarah Milan:** I think so.

**Louise Macdonald:** I have mixed views about this. I absolutely think that any service has to be person-centred and start with the young person. It all has to evolve from there. I do not necessarily think that that needs to involve



a specific agency or the development of a specific programme. What is key is being responsive and understanding the life stages that young people are going through. This again comes from hearing from young people about how they walk out of school and have no way of applying any real knowledge. They do not feel that they have had the exposure to it. Using that transition phase as an opportunity for deep engagement, which may be part of reaching an understanding through a wider evidence base, makes an argument for a targeted approach at that stage that is based on helping young people generally through great youth work and other programmes.

**Lord Kirkwood of Kirkhope:** But does that require a separate body and separate funding?

**Louise Macdonald:** I am more in favour of joined-up; I am very nervous of silos.

**Lord Kirkwood of Kirkhope:** That is a good answer.

**Jon Boagey:** I am with Louise. There are lots of examples of big investments into things like the Connexions services, careers services and so on which are around for a while and then disappear. What is really important is strategy, leadership, and then the money to make it happen.

**Lord Kirkwood of Kirkhope:** That is very helpful. Thank you. I have two quick variations on the same question about the Money Advice Service. We know that it has been going through some revision recently. Are there any learning points from that which you think we should be picking up on? Have you and your organisations had a chance yet to consider the announcement that was made on Friday that rather than having the Money Advice Service, Pension Wise and the Pension Advisory Service as separate entities, they are going to be banged together into a single point of contact for financial capability? Would you be in favour of that or not? With the learning points from the MAS experience in the past, is the future of a single organisation a positive move or not?

**Jon Boagey:** If I am honest, we did not have much contact with the other two pensions bodies. Our focus has been on the Money Advice Service. What is key for us goes back to my previous point. The MAS has developed a strategy, begun to identify what works and has put outcomes together. It would be a great shame if we lost that. We must not lose the initiative, because otherwise we will just go back to stage one.

**Louise Macdonald:** I concur with that. The real strength of the Money Advice Service has been the focus on what works and gathering together an evidence hub. Losing momentum on that would be a real loss. I am old enough to remember when the FSA originally did some of this work, but very sadly it got lost. It would be a missed opportunity if it was lost again. The advantage of a single agency bringing all these bodies together is that young people tell us that sometimes working out where you are meant to go can be very difficult. A clear, single point of contact is helpful for young people. They will know that it is their go-to place. But what really matters is what they then get as a response and whether will they have the local connection that they require.

**Sarah Milan:** I do not have a lot to add, because we have not worked much with the Money Advice Service at that level. A number of the young people we

have worked with have had a very positive experience of the advice because they have been given fast, accessible information.

**Q75 Lord Shinkwin:** I am interested that you all touched on the importance of the digital angle. Louise, you made a very telling point about the assumption that young people are digitally savvy and how perversely this makes them more vulnerable. I would be grateful if you could give me your opinion of the way in which financial services engage with young people inclusively.

**Sarah Milan:** I want to offer some practical examples. Our experience is that our young people have a lot of trouble with issues of identification, which can be a big obstruction for them. Young people who have arrived unaccompanied in this country sometimes have an unresolved status. If they were looked after, when they turn 18 years old, all of a sudden they have no status in this country. They probably will not have access to their birth certificates, and that can be difficult. They will not have all the ID that banks and other financial institutions might expect. That will impact on how they experience what they can access and what they might be able to achieve.

Housing also impacts on this. Not having a permanent address will affect what you access in the banking system. We have seen technology offer new opportunities. When these situations arise, local authorities are able to provide access to online top-up cards so that people can take out cash, but that ends up again taking control away from the young person, which is a big issue for them. It is about making financial services accessible in situations that are unique to this group, as well as enabling them and respecting them as autonomous adults.

**Louise Macdonald:** I absolutely second the point about proof of ID for opening bank accounts. That is a central issue that needs to be tackled, particularly in the provision of fee-free basic bank accounts for young people. That is important.

A few years ago we did a piece of work with Lloyds Banking Group. It was a co-designed programme to ask young people what they thought banks should do. This is probably quite separate from the CSR programmes that financial companies and others run. There is a very practical sense on the part of young people about what they want from financial services and products, and as you would imagine a lot of it relates to less jargon and services and products that are much more youth-friendly, such as the youth-friendly charter mark for financial services.

There is the interesting dimension here of how we consider that financial services engage with children and young people. We had quite an interesting challenge from a group of young people who told us that if we care enough about children and young people's rights to codify them in law, that applies to every aspect of their interaction with services. What does interaction look like across various services through that frame? What does a company engaging with a young person as a customer look like through that lens? That has been a challenge that we have been wrestling with when trying to think about what that means. Banks runs some great programmes, but taking young people seriously as consumers and customers is an area for exploration.

**Jon Boagey:** Briefly, there are some interesting issues to do with the speed and pace of technology and whether or not the implications of that are

reflected in the curricula, the training material and so on that young people access, because I suspect that it happens so fast that we are not keeping up with it.

There is a real issue about the ease with which it is possible to buy online, and related to that is the issue of young people and gambling. The accessibility of online gambling is bubbling away as a real issue. We have some data that suggests that 15% of 11 to 15 year-olds report have gambled in the last week. There are some real questions about that, which we need to think about, and what that means in terms of financial education.

**The Chairman:** That is a very interesting point. Lord McKenzie will kindly ask questions 9 and 10.

Q76 **Lord McKenzie of Luton:** I can be fairly brief with question 9 as it has been covered by the answer that we have just had.

I want you to focus specifically on credit rating agencies and how all that works, because it does not seem to be a very transparent process in many respects, and its impact on young people's ability to borrow when they are in debt and how they address that and get out of that conundrum. Perhaps I will stop there and come on to the other question later.

**Jon Boagey:** I am sorry but this is an area that I do not know very much about, so I cannot comment on it.

**Louise Macdonald:** The point I would perhaps like to stress is the need for affordable credit, particularly for young people who face greater disadvantage. Obviously the change in legislation on loans such as payday loans and online loans has had an impact; the research supports that. But we do not know where young adults are now going for smaller loans under £500. I certainly support of the work by the Carnegie task force on affordable credit has done on this and on the need to explore this much more and perhaps to look at working more with credit unions and community development financial institutions. We continue to have an issue with getting any core investment into CDFIs, but that could be something that financial services play a part in. It is not a substitute for a fair wage, effective welfare, great wraparound support and so on, but further consideration needs to be given to scaling up those models to offer alternatives to credit for young people.

**Sarah Milan:** In our experience, high-street credit is quite attractive to young people because it is very easy to access. It does not take much for them to seek out that money and not understand the implications, such as interest rates.

**The Chairman:** You mean store cards and that kind of thing.

**Sarah Milan:** I am thinking more of short-term loans, payday loans—the kinds of companies that seem to be cropping up on the high street. We are hearing more about them. Young people are quite vulnerable to that kind of debt. People often describe that overwhelming feeling of never being able to get away from it. How are you going to get on top of it if your situation is not genuinely changing? One of the reasons why people go to high-street credit is rent arrears, because housing is an issue, and those rent arrears are with their own local authority, which has looked after them as children. That is a

big issue for me: corporate parenting and how the housing department views itself in that way, or not.

We also see a lot of young people looking for other informal ways of accessing money and then becoming deep in debt with friends and family. That is a big issue. In fact, young people will go to each other, and we see all sorts of money changing hands where it can because they are trying to support each other.

**Lord McKenzie of Luton:** Is that guarantee of friends and family to be encouraged?

**Sarah Milan:** No. I think it perpetuates all their financial difficulties. That short-term credit causes more stress. We see their emotional well-being also being impacted, which means that they are not coping with other parts of their life as well as they might.

**Louise Macdonald:** That then has an impact on relationships. Very often, important relationships that are there for support become affected by that borrowing and the fact that they are borrowing money perhaps from family members who do not have very much to begin with.

**Lord Haskel:** The Government have been encouraging the online banks, the challenger banks, the Post Office. Has this had any impact on the people whom you support?

**Louise Macdonald:** I think young people are much more comfortable using online banking facilities and apps, but we have to think about how that plays into the “just in time” mentality that we talked about earlier and the impact on the ability to plan, and so on. These things are important developments, but we still have to think about how we support young people to use them responsibly. It is a mechanism to use, but it is also another teachable moment.

Q77 **Lord McKenzie of Luton:** This question answers itself pretty much, but I will pose it anyway. How will young adults be affected by measures such as the freeze on the local housing allowance, the social housing size criteria and the withdrawal of housing benefit for 18 to 21 year-olds? How will such measure affect financial exclusion?

**Lord Kirkwood of Kirkhope:** Exactly.

**Lord McKenzie of Luton:** We can anticipate.

**Sarah Milan:** My understanding is that young people with care experience will be treated differently in some of these circumstances but not in all.

I also wanted to mention the changes to the work allowance as part of universal credit, because we have already seen that having an impact. I am sure you have seen the report from the Children’s Society that came out recently. It details this, so I will not go into them.

**Louise Macdonald:** I am not aware of the detail yet, but again as part of the announcement of the Fairer Scotland strategy last week there was a stated commitment that the Scottish Government will mitigate any impact of housing benefit withdrawal for young people aged 18-plus in Scotland.

**Jon Boagey:** I have nothing to add. It will clearly have an impact.

**Q78 Lord Holmes of Richmond:** Is appropriate and co-ordinated support available to young adults to enable them to manage changes in their benefits and avoid incurring benefit sanctions? If further support is required, what form should it take?

**Sarah Milan:** This is a really big issue for us at the Rees Foundation, you might not be surprised to hear. There is evidence that care leavers experience more sanctions than any other young person and that their appeals are more successful and the sanctions overturned more often. We know there is an issue with how they are experiencing sanctions.

I mention the safety net again, because this is where it really plays a part. If you do not have a family network to turn to when your income is greatly affected and may be reduced to almost nothing, you literally have nowhere else to go. These are some of the young people we are talking to and helping to buy food and fuel in between, so we find ourselves supplementing those young people at times of real financial difficulty.

Another issue for us is the level of communication between departments and between the jobcentre and the local authority social workers and personal advisers. Again, I mention the housing departments. Where the sanctions are taking place, everyone needs to be aware of that. If there are issues with young people's behaviour, with better communication we can prevent those young people from being sanctioned in the first place and then from facing the difficulties that they face. It is about everyone working together.

**Louise Macdonald:** I agree with that.

**Lord McKenzie of Luton:** This is a brief supplementary. It used to be said that people did not really recognise when they were being sanctioned—they just assumed that it was a reduction in their benefit, took it on the chin and carried on. Is that still your experience, or have matters improved?

**Sarah Milan:** I have never had that experience. Everybody who is in touch with us about sanctions has said that they have a great impact on their ability to live day-to-day life.

**Lord McKenzie of Luton:** It is a question of whether they recognise that that was as a result of a sanction rather than just some change in the benefit.

**Sarah Milan:** No, they talk to me about sanctions. The other issue with that is that people do not have the full information, so somebody could say that they have been sanctioned and maybe realised why—they may have missed an appointment, for example—but then they have not had the information on how long the sanction will continue, how much will be sanctioned and the kind of stuff that enables them to plan and us to support them. That is why communication is so important.

**Viscount Brookeborough:** Can you give us an idea of where you think we should focus our attention, probably in a single place, to achieve something with this report? We have 100 or more pieces of written and oral evidence, so without necessarily thinking of your own little space, on what, in one sentence, do you think that we should focus to get the greatest effect overall?

**Jon Boagey:** From my point of view, you might encourage an approach that brings services for young adults under a strategy so that we can all work together. I have an image in my head of a lily pond with lots of things that are

all slightly separate, but we need for it to grow and all come together as one coherent delivery.

**Viscount Brookeborough:** Should you have an association of deliverers, as we do not seem to have a common point?

**Jon Boagey:** It sounds like a good idea. We would have to look at what that was, but it needs to be much more joined up.

**Lord Kirkwood of Kirkhope:** Should it be a government lily pond?

**Jon Boagey:** The lily pond is what is there at the moment.

**The Chairman:** I do not know what people who are watching this are thinking.

**Jon Boagey:** For young people outside of school it is pot luck at the moment whether they come across a programme or whether they get the right support. That is not good enough. We need something that hits those life moments, such as apprenticeships or youth obligation. It does not seem to be so difficult that it cannot happen, but the Government need to get a grip and make it happen.

**Louise Macdonald:** For me it would be about truly listening to the voices of young people and really understanding, when you are having your deliberations, the reality of life for young people now, the decisions that they face on a daily basis and what is happening for them. The power of co-designing whatever comes from this with young people is central, because young people are experts in their own experience. Look for evidence of where it is done with them, rather than done to them. That would be my central message. Really understand the reality of young people's lives, because it is not the same as when we were 16.

**Sarah Milan:** I see it as a positive that what both my colleagues have said reflects what I would like to say, too. Any services must be accessible and work across departments and all the agencies that impact on young people's lives. They must respond to young people's real-life experiences, not just in the present day but historically. It is about taking into account who they are and where they are coming from.

**The Chairman:** Thank you all very much for an interesting and informative session. I just repeat that if you have any further thoughts that you want to send us when you look at the transcript, we would be happy to receive them—indeed, it might work the other way round as well. We thank you very much indeed and wish you well in your work.

## **Neyber – Written evidence (FEX0065)**

### **Introducing Neyber:**

Neyber ([www.neyber.co.uk](http://www.neyber.co.uk)) was founded by former Goldman Sachs investment bankers Martin Ijaha and Monica Kalia along with financial technology expert Ezechi Britton. The founders joined together to deliver a genuine alternative to the solutions offered by financial service providers whose high borrowing rates and low returns on savings have helped to create an unprecedented era of financial stress and exclusion. Neyber is an alternative consumer lending platform that operates in the employee benefit space. Since its inception in 2014 Neyber has lent in excess of £30M to key workers in the public and private sectors.

Neyber enables employees to reduce their borrowing costs with access to affordable loans with repayments taken via salary deduction - all at no cost to the employer. As Neyber's technology integrates with payroll, employers can offer an easy-to-implement workplace financial solution that acts as a key driver for employee engagement, productivity and to reduce stress-related absenteeism.

Through its affordable rates, Neyber has delivered an effective 5% pay rise to the majority of its borrowers, by enabling them to consolidate their debts, saving them up to 20% on monthly debt repayments. Neyber provides its services across the UK in organisations ranging from SMEs to major private and public sector employers. The company began by lending to serving and retired officers in the UK Police service. Neyber will rapidly expand its presence in 2017 across the 30M strong UK employment market.

### **Definitions and causes of financial exclusion**

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?
  - (i) *We believe that the two concepts are related and do not differ. Those who are financially excluded are unable to access goods and services with convenience and at a cost that is reasonable. Those who are included are able to do so with ease. In practical terms this can result in the financially excluded paying punitive charges for their loans, water, gas, electricity, clothing and electrical goods. As a consequence the poorest individuals and communities pay a greater proportion of their incomes for basic services than those on higher incomes and are further impoverished as a result.*
  - (ii) *The causes of financial exclusion arise from a range of demographic and regional factors within UK society. In the past, and prior to the establishment of the post-war welfare state, financial exclusion solely*

*resulted from poverty. The poor could not afford to pay for the basic goods and services to sustain their lives and suffered grievously as a consequence. Those most on the margins were sent to the Workhouse, while millions of others subsisted on low wages in poor housing conditions.*

- (iii) *In modern day Britain, with a developed welfare state and free health service, the causes of financial exclusion are more intricate. The great majority of people have access to money to pay for the basic aspects of life. State support, although diminished by welfare cuts, also enables people to subsist in housing that is maintained to legislated standards. With an increasingly diverse population financial exclusion can also arise where foreign workers that move to the UK are not catered for by mainstream lenders. Traditional lenders also have insufficient information to make an informed risk based decision about an individual's ability to repay, when they have little credit history, otherwise known as having a "thin credit file", which results in exclusion.*
- (iv) *What matters most now is an individual's inability to access the financial services that enable the great majority of people to pay for their goods and services or to borrow money at reasonable rates. This is diminished by poverty, poor education and the lack of access to online services and is the root cause of 21<sup>st</sup> century financial exclusion.*
- (v) *A Neyber report "The DNA of Financial Wellbeing" (copy attached) evidences the damaging consequences of financial exclusion. Based on a UK wide survey of 10,000 employees, the report found that:*
  - *70% of the UK workforce admitted to wasting a fifth of their time at work worrying about finances, costing the economy an estimated £120.7bn per annum*
  - *At least 17.5m working hours were lost per year as a result of workers taking time off work due to financial stress*
  - *55% of employees said that being under financial pressure affected their behaviour and ability to perform their job in the workplace – rising to 62% for those under 34*
  - *51% said that financial pressure affected their relationships with their colleagues*
  - *31% lost sleep over money concerns, with 39% suffering from anxiety*
- (vi) *The report also evidences how those financially excluded lack sufficient "buffer" savings to meet emergency expenditure needs; with over 30% of employees having less than a months' salary held in reserve for*



*these purposes. Those unable to meet short term expenditure needs are likely to resort to pay day lenders, further compounding their indebtedness and financial exclusion.*

2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?
  - (i) *By our definition (an inability to access goods and services with convenience and at a cost that is reasonable) people across UK society are affected by financial exclusion. And this will be found in varying degrees depending on the age, social class, level of education and geographic location of those concerned. Given that this is the case, various sectors of society will experience financial exclusion in different ways. What matters most are the consequences for individuals or communities across the UK; with those at the extremes being unable to live their lives in relative contentment.*
  - (ii) *In the pre-digital age those living in geographically remote communities, without the physical road or rail infrastructure to link them up to major conurbations, would have numbered amongst the most financially excluded in society. Today communities affected by deindustrialisation, migrants with no access to bank accounts or people with limited education, poor physical/mental health and a lack of digital connectivity will most likely be financially excluded.*
  - (iii) *The propensity for financial institutions (Post Office, Banks, Building Societies, Insurance Companies) to lessen their physical presence too will also add to financial exclusion; with the elderly being most affected by this due to their inability to travel or a cultural aversion to financial services being largely processed online. In a rapidly ageing society with growing longevity this will become an increasingly important factor.*
3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?
  - (i) *We believe that financial exclusion is one of the most the most visible symptoms of social exclusion. This is formally defined by the EU as "having a household income below the poverty threshold, being severely materially deprived, or living in a household with low work intensity". The two are inextricably linked with financial exclusion being unlikely to be evident in the absence of social exclusion. This is why the most extreme instances of financial exclusion can be found*

- amongst people living on benefits, with low wages or in areas of high unemployment.*
- (ii) *Indebtedness arises directly from the factors that define social exclusion and results from people not having ease of access to financial services with reasonable credit costs. Those with the lowest incomes need to borrow the most but, as a result of a credit rating system that is gamed against them, they will pay the highest interest charges.*
  - (iii) *The financially excluded will also fall prey to goods or service providers who are content to profit from exploiting financially vulnerable customers. Those involved range from pay day lenders to utility companies who demand that the poorest pay the most for their power or water via pre-payment meters. An accompanying lack of consumer protection traps many families in an ecosystem of financial exclusion that persists across generations.*
4. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?
- (i) *We believe that those with physical and/or mental illness will particularly be affected by financial exclusion. This is largely due to their falling within the definition (see 3.i) of social exclusion. Those most critically affected will have low incomes due to the nature of their employment, subsist in part on benefits or not work at all.*
  - (ii) *Their ability to access financial services, with ease and at a reasonable cost, will be diminished by factors such as a lack of access to online services, an inability to cope with financial administration and providers whose products are not designed with the needs of the physically or mentally impaired in mind.*
  - (iii) *For those with mental illness, significant dangers lie in their dealings with the providers of goods and services. People suffering from anxiety, depression or in a manic state might take critical financial decisions at the peak of their ill health, with deleterious impacts on their financial wellbeing. They could, for example, spend unwisely, gamble frivolously or take loans via banks or credit cards. All of which would be undetectable by online or high street financial/retail outlets; whose staff are not trained to detect such behaviors or prevent transactions taking place.*

## **Financial education and capability**

5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?
- (i) *We believe that social exclusion and financial exclusion will often be ingrained within families and communities. Where this is of the most extreme nature, strategic interventions by both Government and third sector providers will be of the greatest benefit. Initiatives aimed at helping the most troubled families have already been put in place by the Government that seeks to address their specific needs. What matters here is the effective targeting of educational recourses towards those in the greatest need.*
  - (ii) *For the physically ill and mentally ill we would recommend that providers of both goods and services have staff trained to address their specific needs. Educational initiatives of this nature will help to ensure that people working in shops, supermarkets or online retail sites provide equality of treatment for financially vulnerable customers. The Sainsbury's supermarket chain has already embraced this requirement in a pilot "slow shopping" project that enables people suffering from dementia to take greater time in store and at the checkout when making their purchases.*
  - (iii) *For those not included in (5.i) and (5.ii) above educational initiatives could help to lessen financial exclusion. We believe that there are considerable merits in young people being made aware of how to manage their finances and access services at a reasonable cost.*
  - (iv) *In principle we believe that the education authorities covering England, Wales, Scotland and Northern Ireland should agree a "financial literacy" module for inclusion in their respective national curricula. Ideally this would cover the basic principles of money management and in the latter stages of school life encourage understanding of financial products and the role of the major institutions.*
6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?
- (i) *(5.iv) above suggests how financial literacy could be established throughout the school curriculum beginning in primary education and leading to the point of departure for apprenticeship (age 16) or University (age 18). In all respects we would envisage people developing sufficient financial knowledge throughout their schooling. This would ensure that they are prepared to establish bank accounts,*

*save money to meet both emergency and long term expenditure needs, avoid excessive indebtedness and take out insurance where necessary.*

- (ii) As people move from school or University into the workplace the social touch points for providing/accessing financial education become much more diffuse. This poses a challenge because at these points in life people will be beginning to take the long-term financial decisions that will govern their future financial wellbeing.*
- (iii) We believe that the workplace provides the most ideal juncture for the continuation of financial education. This is because employers have a direct interest in the financial wellbeing of their staff and are largely responsible for their continuing professional development (CPD). While not seeking to impose additional burdens on hard pressed employers we would suggest that they add financial literacy to company induction and ongoing training programmes. The training could take place at key stages throughout their employee's life leading all the way up to retirement. Given the propensity for people to frequently move between employers during their career, this should be put on a nationally agreed curriculum and shared across the UK labour market.*
- (iv) Neyber has developed a new financial education portal that is available to borrowers across our entire customer base. The portal is focused on improving the financial wellbeing of borrowers. It is based upon the principle of providing people with conversational insights that are tailored to their personal financial circumstances. This is in recognition of the growing demand for financial educational resources that exists throughout the UK employment market.*
- (v) Where people are unemployed or unable to work, financial literacy training could be provided through third sector providers such as the Citizen's Advice Bureau, at community centres or as an online resource for those who are housebound.*

## **Addressing financial exclusion**

- 7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?
  - (i) The record levels of indebtedness in the UK and evidence of how financial stress is impacting upon people's lives entirely negates a*

*laissez faire approach to financial exclusion. As a nation we have a collective responsibility to address financial exclusion, because it is morally right, beyond the powers of most individuals to remedy and the curative power lies in the hands of civil society.*

- (ii) *To decide whether appropriate support exists for the "most excluded" we first need to agree who is included in this category. Our belief is that financial exclusion is symptomatic of social exclusion and, if you accept this premise, then both those considered to be the "most excluded" and the curative actions needed to support them require multi-agency interventions involving the Government and third sector organisations.*
  - (iii) *As a starting point we would suggest that this Select Committee seeks to define the "most excluded" during the course of its deliberations. In Neyber's view this would identify those who were most critically affected by their inability to access financial services with ease and at a reasonable cost. Accompanying socio-economic analysis of the impact this form of exclusion has on the lives of both individuals and communities would be helpful, too.*
  - (iv) *This suggested socio-economic analysis would enable the Government, financial services providers and the third sector to coalesce around a policy agenda that served to:*
    - a. *Acknowledge and address the link between social and financial exclusion*
    - b. *Derive tailored interventions to help those defined as "most excluded"*
    - c. *Establish a Bill of fundamental rights to counter financial exclusion*
    - d. *Agree a statutory "public service obligation" to treat customers fairly for the providers of goods and services across the financial service and retail sectors*
  - (v) *This approach would also be in accordance with the work, inspired by the Prime Minister, across HM Government to discern how greater equality can be achieved across society, with specific reference to those most excluded in contemporary Britain.*
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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?

- (i) *Banks and other financial institutions are encouraged to become more inclusive around their lending practices. However the reality is that the most excluded lack access to affordable credit due to perceived risk around their ability to repay. This could either be due to insufficient information around borrower characteristics (thin credit files) or previously poor borrower behaviour, driving lower credit scores. Encouraging banks to adopt a more inclusive attitude towards lending involves taking on more risk, and this is wholly inconsistent with the Government's objective of having a better capitalised banking sector with lower leverage. As such, any solution to the problem of exclusion needs to address the risk point, either through better data on borrowers' ability to repay and/or improved management of defaults.*
- (ii) *Financial services and products are traditionally designed to profit the provider, with a designated customer cohort delineated for advertising/marketing purposes. Providers rationally take a supply as opposed to a demand led approach in product design due to their legitimate commercial considerations. This is why those who are most financially excluded have a limited range of products available to them and are forced to pay more.*
- (iii) *The difficulty in designing products aimed at the financially excluded lies in the complexity of this customer cohort. As described at 3 (i) those most socially excluded have needs which go far beyond the scope of product designers. Their financial exclusion is derived from poverty, low incomes and unemployment, with little opportunity to remedy this arising from a more "inclusion friendly" Post Office or banks.*
- (iv) *We would suggest that a substantive remedy lies in the Financial Conduct Authority (FCA) undertaking a consumer/industry consultation process aimed at defining:*
  - a. *The most effective means for providing common access to financial services at reasonable costs to the majority of consumers*
  - b. *Parameters for the industry to observe in the sale of products to those potentially experiencing financial exclusion*
  - c. *A statutory public service obligation for the UK's banks and financial service providers*
- (v) *Neyber has already proved that innovative product design can deliver greater access to reasonably priced financial services for the majority of people and boost financial inclusion. Our business model negates the commonly perceived risks seen in the consumer credit market. This is because we work directly with employers, are able to better know our customers and minimise credit defaults through taking loan*

*repayments via deductions from employee salaries. We are therefore able to approve 75% of our loan applications and to help more people achieve greater financial wellbeing. For those that we decline for credit a route towards debt management advice is provided through our partnership with Payplan one of the UK's leading debt advice organisations. This means that nobody is left out by the Neyber business model.*

- (vi) *Affordability is a fundamental consideration in all of our loan decisions, as is the financial wellbeing of our potential and current customers. In contrast, traditional lenders such as the high street banks and P2P providers decline the great majority of their applicants. This is due to their inability to mitigate the risks associated with unsecured borrowing and the costs arising from the use of inefficient legacy technologies. Their failure to provide credit also financially excludes loan applicants, who in the worst circumstances, are forced to access loans from pay day lenders at punitive interest rates.*

### **Accessing affordable credit**

9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?
- (i) *We consider that it is too early to draw conclusions about the effect of capping payday loans. What is clear is that the demand for unsecured credit continues to grow across the UK and that average per household debt, at £11,500, is at record levels. It is therefore essential to ensure that those needing credit can access it at affordable levels or receive appropriate advice in the event of their exceeding their ability to repay outstanding debts.*
- (ii) *Regulatory changes capping payday interest rates were designed to protect borrowers from opportunistic lending practices. The regulatory changes have led to a significant retreat in the size of the payday lending market. The changes rightly forced lenders to assess affordability at the point of the loan being originated. However, the changes have failed to address the demand problem. The emergence of peer to peer lenders over the past 5 years has also served the prime borrower market and again does little to provide any alternative to those with less than prime credit scores.*
- (iii) *A longer term policy solution is suggested at 7 (iv) above for establishing a sustainable means of delivering fairly priced credit to the*

*financially excluded. In the interim we would suggest that the remedy suggested at 8 (iv) above is enacted by the FCA with the active participation of HM Government, the devolved authorities, third sector providers and the financial services industry.*

- (iv) *Neyber's business model, as detailed in 8 (v-vi) above, has already delivered access to affordable credit for thousands of working people across the UK. The company's loans have enabled borrowers to consolidate their existing debt at lower interest rates, saving up to 20% of their annual credit costs. Neyber's growing network of partnerships with public and private sector employers will ensure that an ever increasing number of people will be able to access affordable credit in their workplace.*

## **Government policy and regulation**

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

- (i) *We believe that you cannot abstract financial from overall social exclusion, as the former is symptomatic of the latter. The fact that our new Prime Minister has put inclusion and equality at the heart of her policy agenda provides an apt assessment of the failure of successive administrations in understanding and addressing exclusion. We do believe that the Government has a fundamental role to play in addressing all forms of exclusion, whether for financial, gender, race or cultural purposes. The actions suggested at 7 (iv) above would provide a strategic approach addressing the social and related financial exclusion agenda.*

11. What has been the impact of recent welfare reforms on financial exclusion?

- (i) *Our view is set out in 10 (i) above with regards to the relationship between social and financial exclusion.*
- (ii) *Given that the welfare reforms (Universal Credit, Benefit Cap and Under Occupancy Charge) were not designed to address financial exclusion, it is near impossible to provide an empirical assessment. What is clear is that those socially and, by dint of circumstance, financially excluded continue to suffer from their inability to easily access financial services at a reasonable cost. This is regardless of the*



*new welfare policy agenda and more reflective of the austerity economic policies of the past eight years.*

12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?

- (i) *Our view is set out in 10 (i) above with regards to the relationship between social and financial exclusion.*
- (ii) *The fact that the Prime Minister has demanded that HM Government focuses its domestic agenda on diminishing exclusion and boosting equality provides an apt response. We believe that much work needs to be done over the life of this Parliament and the next to ensure that inclusion policies are coordinated and delivering across the national, devolved and local Government. The policy agenda set out in 7 (iv) above would provide the basis for this.*

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? What balance should be struck between regulations and incentives for financial institutions?

- (i) *Our view is set out in 10 (i) above with regards to the relationship between social and financial exclusion.*
- (ii) *The FCA is not configured or mandated to address social exclusion or symptomatic "financial exclusion". There may be an intangible benefit arising from the efficient policing of providers by the FCA and its requirement for customers to be "treated fairly"; but this form of market intervention fails to address the core issue of people having equality of access to financial services at a reasonable cost.*
- (iii) *We believe that an appropriate balance between the rights and responsibilities of producers and consumers, whether excluded or not, would be achieved by the actions suggested at 7 (iv).*

### **Financial technology (Fintech)**

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?

- (i) *It is essential that the Government and FCA help the FinTech sector to maintain its growth trajectory. This can best be achieved by a*

*supportive approach to regulation, progressive corporate taxation and incentives for start-up businesses. Both HM Treasury and the FCA have a core role to play in these respects; but we judge it essential for the FinTech sector to take responsibility for its own growth, without recourse to public funds. The FinTech sector benefits from the representation provided by its trade body "Innovate Finance", whose approach to the sector focuses on the pro-societal outputs that it can deliver. We envisage that these will include encouraging greater equality of access to financial services and to leadership roles in the industry for people of diverse, religious, gender and cultural backgrounds.*

- (ii) *We believe that the data capture by FinTech providers could contribute towards a greater understanding of financial exclusion. However the existing mass data stores, held by the credit reference agencies, could be of much greater and immediate use. The fact that this data source is withheld from public scrutiny, by these agencies and their clients, diminishes the potential for policy makers to gain a more thorough understanding of those who are socially and financially excluded. We recommend that these agencies operate with greater transparency in the interests of the socially and financially excluded.*

*14 September 2016*

## **Neyber and Pockit – Oral evidence (QQ 159-167)**

Evidence Session No. 16

Heard in Public

Questions 159 - 167

Tuesday 15 November 2016

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (Chairman); Bishop of Birmingham; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

## Examination of witnesses

Virraj Jatania, Co-founder and CEO, Pockit; Monica Kalia, Co-Founder and Chief Strategy Officer, Neyber.

Q159 **The Chairman:** Welcome, and thank you for coming. Do make yourselves comfortable, and I will go through one or two of the formalities. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website, and you will have an opportunity to make any corrections to it, as necessary.

On the subject of interests, Lord Kirkwood will not ask any questions during this session. Lord Kirkwood, would you like to explain why?

**Lord Kirkwood of Kirkhope:** Yes. For the record, I am looking forward to joining Neyber as a member of its advisory board. I have not yet had the pleasure of attending a meeting, and I am looking forward to that. In order to stay within the rules, I shall be a mere observer of this session, if that is okay with you.

**The Chairman:** Fine, thank you. I will start by asking you both to introduce yourselves and to explain briefly the nature of your company and the work you do.

**Monica Kalia:** My name is Monica Kalia and I am the founder of Neyber. The business was started two years ago. Prior to Neyber I worked in investment banking, at Goldman Sachs, as one of the lead analysts, responsible for covering the European bank sector during the sovereign crisis and the sub-prime crisis. That gave me a front-row seat in terms of the challenges caused by the banking crisis, such as depositor protection, and a good window on the crisis's impact on the provision of credit to the consumer and to SMEs. That was one of the reasons why I decided to found Neyber.

We are a consumer lender, so we operate exclusively in the consumer credit space. We lend money to individuals for a range of reasons—debt consolidation, home improvements, car purchases—and we fulfil a range of consumer credit needs. We have a unique route to market: rather than lending to individuals directly, we partner through the employer and offer our solution as an employee benefit. The advantage for us is that we lower our customer acquisition costs, so we can originate loans more cheaply. We can be far more inclusive about who we lend to, because we know more about the individual borrower characteristics—we know who they work for, and we can verify salary et cetera. In addition, we have security of repayment, because we take all the repayments of loan and interest directly from an individual's salary. Essentially, it is a salary-deducted lending model that we think gets around a lot of the issues associated with data and risk that existing incumbent banks are unable to resolve.

In our two-year history, we have managed to secure a unique partnership with an organisation called Police Mutual, and we are now lending to 43 police forces across the UK. We have launched in the last six weeks to four NHS trusts, so we are lending to NHS employees and a range of private sector

organisations, including Anglian Water, UK Power Networks and DHL—marquee names that recognise that the financial well-being of their employees is important. Therefore, they are looking to address financial inclusion but also financial education.

**The Chairman:** Thank you. That is very helpful.

**Virraj Jatania:** Good morning. I am the founder and CEO of Pockit, which I decided to found about three years ago after a number of years growing up in emerging markets. I moved around quite a lot when I was younger, and from my experiences I had always noticed the inefficiencies of cash-based communities and the problem that leads to for consumers when they are outside the banking system. I built Pockit to solve a problem for unbanked and underserved consumers specifically involving the most basic banking products. It is a place to deposit your money, pay bills and transact in the way that conventional consumers and all of us would be accustomed to.

We are therefore an alternative current account provider in the UK. We provide our customers with a bank account into which they can have their salary or government benefit paid. We also provide 28,000 locations across the UK through a partnership with a company called PayPoint, at which our customers can deposit cash into our accounts. We then allow customers to pay bills through direct debit through our accounts, and to transfer funds to other UK bank accounts. We also provide them with a MasterCard, so that they can transact on the high street and online, and we give them an app with which they can manage their money and stay on top of their finances at all times.

We founded the company about three years ago but launched officially in September 2014. We have just over 100,000 customers as of today, and we are solving quite a large problem for a lot of our customers who have not been provided with bank accounts by major high street banks. Our vision for the future is to build out the services that we provide to our customers. We know that they are underserved across the spectrum of financial services. Their first problem comes with depositing money and paying bills, but they also have no access to low-cost remittances or lending, they have no credit profile, and they have never even thought about savings and insurance products. Our vision is therefore to build an inclusive bank so that we can provide them with all those services.

Q160 **The Chairman:** Thank you. Those are two very helpful explanations. We will start with the first question. What are the principal ways in which fintech, in your view, could help to address financial exclusion? I know that you have already started to tell us that, but could you develop that a little and tell the Committee about the notable successes that you have had, or indeed about any things that have not worked? I would ask that in this session you speak in layman's language and not assume that we are familiar with jargon that might be your everyday parlance but is not ours.

**Monica Kalia:** It may be helpful to start by explaining how the definition of financial exclusion might have evolved. My perception is that in many ways the definition of exclusion, say 10 or 20 years ago, was used solely in relation to people who were poor—it was really a poverty issue—and potentially to people who lived in remote areas.

To my mind, the definition of exclusion has changed quite significantly over the past few years. That could be because of the make-up of the workforce. Foreign workers have moved into the UK and they lack a credit footprint and data, so they are obviously excluded in that respect. Virraj and I have spoken about this session, and his experience has been of people who cannot get basic access to financial services such as a bank account.

Exclusion also has an impact where people are declined access to things like bank loans. We commissioned a 10,000-employee survey across the UK, which we submitted to the session. Some of its findings point to aspects of exclusion. One data point is that 40% of people between the ages of 25 and 35 have been turned down for access to bank credit in the past year. Some 15% of those people have no idea why. This speaks to the fact that people are excluded from access either to a bank account or to a loan, often because they do not have the basic education or understanding of complex financial products even to get access in the first place. So it is important in the first place to set the scene by setting out the issues and what exclusion consists of.

To answer the question more directly, we see fintech as being in the fortunate position in the UK of having a constructive regulatory background. Also, it does not have a lot of the challenges and legacy that the existing financial-services incumbents face: old technology, which they are having to grapple with; and legacy branch networks that nobody really goes into. Obviously that is a generalisation, but a vast proportion of the population no longer goes into branches. They are grappling with that legacy. Fintech can be much more agile and nimble when servicing customers' needs and in a low-cost way. That means that huge swathes of the population who are not profitable from the perspective of incumbent banks can be served much more readily by fintech, because their cost of acquisition is that much lower. Fintech can be and has been a huge part of the financial inclusion solution.

**The Chairman:** May I interrupt you on that point? What you say about the impact of bank branch closures is very interesting. Quite a lot of the evidence that the Committee has received has suggested that that in itself can, for some people who like that form of banking, be a cause of exclusion. Can you just respond to that point?

**Monica Kalia:** That is definitely a valid point. At the end of the day we are dealing with a diverse demographic, and for people living in remote areas who rely on their post office or their bank branch and are used to physical transactions—it could be the older population—cutting bank branches aggressively can obviously exacerbate the problem.

At the other end of the spectrum, fintech has been instrumental in driving broader acceptance and inclusion in financial services through the use of things like smartphones and tablets. Our evidence is that 70% of our transactions are done on a smartphone or a tablet. You have to have that two-pronged approach. Some people want to rely on the physical; they want that face-to-face contact and the bricks and mortar, because at the end of the day they still perceive banking to be a trust business. Then you have people who do not need that infrastructure. They want to use social media, and the trust is driven by their social media connection with their peers and who they are banking with. They also want to be able to transact online, and they want

a loan or a bank account to be approved within 24 hours. Fintech can jump to those demands, and it is increasingly what people are demanding these days.

**Virraj Jatania:** Monica has raised an extremely interesting couple of points. I will give you our definition of financial exclusion in relation to our customer base. A lot of people come to us because: they have had some form of debt in the past so a bank is not willing to provide them with an account or with one that has the functionality that they require; they are new to the country; or they do not have the prerequisite ID and verification documents that banks require in order to open a bank account. That is why we see a lot of people falling into the category of consumer we serve.

Fintech has enabled smaller organisations, at a much lower cost, to disrupt the financial services space and to get access to the banking or financial services infrastructure in the United Kingdom. That has enabled us, for example, to provide access to direct debits and to faster payments such as instant transfers. These are services that five or 10 years ago companies would not have been able to access. Fintech has enabled that.

The point about branches is also extremely interesting. We see very interesting feedback on branches from our customer base. A large proportion of customers feel what in our industry is called branch inertia. Going into bank branches is quite a scary experience because they feel that they might be scrutinised to extreme levels by banks, or that, because they do not have the documentation, they might be viewed differently from somebody else who is in the queue.

Having said that, we have also seen that they need some form of offline network to give them the credibility and the support that they might need. For us, that is things like the way we do customer service, and the places where we acquire customers are quite offline-driven in order to give them the support and help that they need.

**The Chairman:** Can you explain what you mean by offline?

**Virraj Jatania:** I mean more face-to-face interactions with customers. We have a network of 28,000 locations across the UK where our customers can deposit cash, which is very important for our customer base. We also work with employers to provide our accounts to their employees. We work with a large employer of temporary labour in the UK, and we provide our account instead of their employees being paid in cheques which they then take to a Money Shop or a Cash Converters to convert from cheques into cash. We work through more face-to-face channels as opposed to purely online channels and being quite obscure, so customers have a person to interact with, get feedback from and have more of a dialogue with.

**The Chairman:** Can I check that that is a face-to-face conversation, not a telephone conversation.

**Virraj Jatania:** Yes. It could also be a telephone conversation, but we see face to face as one of the most popular means.

**Bishop of Birmingham:** Could I ask about the 40% who get turned down for loans? I have not read the survey yet, but are either of your products looking at that age range, and are people getting access through you who might be turned down by the other systems?

**Monica Kalia:** Yes. That is an interesting question. Some of the alternative lenders that have emerged over the last few years have a decline rate of about 80%, so they approve about 20% of applications. A traditional high street lender like a Barclays—this is a Barclays statistic—turns down 60%, so six in 10 applications for bank credit are declined. In our current offering, across the police force for example, we approve around 65% to 70% of applications. That is all across the board; some of it is people who are in that millennial group, but it is across all age ranges and salary levels. The reason why we can be more inclusive about who we lend to goes again to the risk data point. If we are lending to a police officer, we can verify that they work for the Met and their tenure and salary, so we are privy to a lot more information, which allows us to make a risk-based decision in a much more definite environment. And because we are taking repayments directly from a salary, we are also solving risk, so that lack of willingness to repay aspect is removed.

Fintech tries to be disruptive by using technology but also by offering a genuine consumer benefit. I view consumer benefit as more affordable lending. We can lend more affordably, because most people consolidate credit card debt and pay rates of around 20%-plus. Neyber charges between 5% and 10%, so they can borrow more affordably, which is a genuine consumer benefit. The other aspect is access, which is basically your approval rate. The ability to lend to much more of the population is where fintech can be more disruptive.

**Baroness Primarolo:** I have a quick question about your using salary deduction. Do employees mind that their employers therefore know their credit history or at least that they are borrowing?

**Monica Kalia:** The way the relationship works is that Neyber is the provider and the employer very much facilitates. It is similar to providing access to private medical care, for example. The data in relation to your credit history and the size of your loan, and so on, is information that is passed to Neyber, not to the employer. That is an important point, because obviously employees see a stigma in their employer knowing about their financial situation. If they are seen to be in debt and not coping financially, that might cast aspersions on their professional capabilities, so preserving anonymity is key. The interaction with the employer is via the payroll. The employer will be passed a schedule of repayments and deductions that have to be made on a monthly basis, but that is only the monthly deduction as opposed to the size of the loan that has been taken. Next year we will also introduce a savings product, and the schedule will not specify whether it is a loan deduction or a savings deduction. We are there to protect the anonymity of the borrower.

Q161 **Lord Shinkwin:** I am delighted to hear that you both recognise that there is a need for balance in how you engage with customers, whether it is face to face, on the phone, or online. I am interested to know whether you think it will be possible for the fintech sector to produce solutions that help to address the needs of all groups who might be at risk of financial exclusion. How do we ensure that digital exclusion, coupled with increased use of new technologies, does not exacerbate financial exclusion, for example among older people or disabled people?



**Virraj Jatania:** Fintech is definitely capable of solving a large portion of the problems. It cannot be the sole solution to all these problems; it will need the support of regulators, government, and the general financial services space and for everyone to partner up and solve these problems. Therefore, to look at it as the sole problem-solver would not be right.

When it comes to digital exclusion, we do not see a huge amount of our product with regard to the customers who sign up with us. That does not mean that it does not exist; we know that it does. That is why it is important that the more face-to-face or telephone-based solutions are coupled with the online solutions. Anyone who is looking at this as a purely online play has got the wrong end of the stick. From our perspective, it is a three-pronged approach: telephone, face-to-face and online. If you provide across that spectrum, you can address the challenges that digitally excluded customers face.

When a fintech company that is solving a problem for financially excluded customers is building its product set, it is extremely important to think about the digitally excluded customer as well. Therefore there is a big piece around product design; whenever you think about any changes or any introduction of new products in your product set, you need to make sure that you are thinking about providing the simplest, most transparent and convenient product to the customer. If you can do that, you will not exacerbate the problem with digitally excluded customers.

**Monica Kalia:** I would add only to your question of whether fintech will be able to serve all the needs. While I echo Virraj's point about it not being a one-size-fits-all or a cure-all, I would go back to my original statistic: alternative providers turn down 80% of applications; we currently turn down 35%. Arguably, therefore, we are doing a much better job, but we are not perfect. We have been able to support the 35% who we cannot lend to through financial education and working with debt advice charities.

Generally speaking, when we cannot lend to an individual, it is because of affordability. That individual should not take on additional debt and they need to have better education, or they might just have made some bad decisions; they are not aware that renting and moving address year after year is compromising their credit history, for example, or that not being on the electoral register also has an impact. We have been able to fill that void with financial education, which is received incredibly well through the employer channel. We can be inclusive by identifying the body of people who we cannot lend to because of either of those reasons, and by providing financial education we can improve financial capability. At least that provides them with the building blocks to get there on that journey. All this has to be married with education, which is another important role for fintech.

**The Chairman:** Can either of you directly address Lord Shinkwin's point about the impact of this on older people—perhaps those who no longer have an employer—and people with disabilities, both physical and mental?

**Monica Kalia:** We work with retired police officers, so the offering already resonates with the retired population. We also have a very strict approach towards vulnerable customers. To that extent, in effect we have a customer service operation in London where we deal with those customers on the phone to make sure that there is adequate provision. Obviously part of the FCA's

requirements is identifying people who have a vulnerability because of mental health issues, age, or whatever, so that is an important part of the proposition. But I take the point that largely digital propositions may be deemed not to serve the direct needs of that population. That is a valid point. However, supplementing it with the right level of customer service is something that both our organisations are very focused on.

**Virraj Jatania:** I echo what Monica has said. In the same vein, a large proportion of our customers are ex-Army veterans. A large proportion of people who have served in the Army have lived abroad for a number of years, so when they come back to the UK it is difficult for them to get access to banking services. Again, a large proportion of these customers will be above the age of 50 or 60; we see that they can interact with the product and find it easy to get access to it. We also provide a telephone sign-up process. All our account sign-up processes take about two minutes and we have 100% guaranteed acceptance—unless there are some technicalities whereby someone cannot get an account, but there are very few such cases. We require an email address for somebody to sign up, and if a customer does not have an email address we will help them to sign up for a Gmail or a Hotmail account and get them up and running. Again, as Monica was saying, we will take different approaches through our customer service channels to address the problem of digital exclusion when we see it. It is sometimes hard to address every problem that you might find. Often, someone who is digitally excluded may not actively look for the product, so it is a matter of finding the problem and then trying to find a solution at that point.

**Lord McKenzie of Luton:** I am trying to get my mind around this. I can understand the circumstances where your client base is the police force and members have retired or are still in employment; because they get a regular salary, they are likely to have a decent pension. The same applies, or perhaps less so, to Army veterans. But how does it work for someone who is on a zero-hours contract? How many of those people are you routinely able to serve? What is the magic that enables you to do that?

**Monica Kalia:** We have done a lot of our own risk work, looking at different employee groups across the UK, and there are some quite clear trends. The most creditworthy are employees in, for example, education organisations and the police force. At the other end of the spectrum, you have retail and NHS employees, and employees in cyclical sectors such as construction. The difference in creditworthiness and their ability to repay is really quite marked, often by the nature of their contracts and the fact that there may be more foreign workers in health and retail. Obviously from our perspective we have to look at affordability, as any lender would. We have to be able to map that individual's ability to repay that debt, which is where lenders got into problems during the last financial crisis. It is much more difficult for us to lend to people without a regular income, but we can offer our other services, such as financial education.

There are retail workers who are paid weekly and may have a less regular income, and in that respect we have managed to solve the risk aspect, because ultimately it comes down to risk. We have created a product for them called a salary advance loan, which allows them to borrow up to 80% of their net monthly salary. If they leave employment, we can take the residual loan from their last pay cheque. We have tried to come up with solutions that are

more inclusive, regardless of what type of employee you work with. But making sure that we can keep up with the demands, based on the different employment and payment trends in the UK, is a work in progress.

**Virraj Jatania:** To follow on from Monica's point, given that our product is not a lending product, we are not bound by some of the criteria and requirements that Monica has in her business. We are providing the first step on the ladder to enable people to deposit their money safely and to pay bills. A large proportion of our customers are people on zero-hours contracts. Our vision is to build up enough of a dataset on these customers so that we can analyse it and show that although they might be in temporary work or working sporadically, they have built up enough of a track record over a six, nine or 12-month period for us to say that they can afford lending up to X amount, and then we try to provide a very tailored product for that customer.

Q162 **Lord Haskel:** You have told us how fintech can provide credit for people with thin credit files or limited financial history, but there are dangers associated with new data and information sharing—and we had this episode with Tesco Bank. What are the risks associated with these technologies, and how might they be mitigated?

**Monica Kalia:** One of the questions is: is new data helpful in providing you with a better answer from a risk point of view? There are two different sides to this issue: is it right to use new data—and does it actually help you; and how do you protect that data? New data is helpful because it gives you supplementary information that provides you with the better answer. Traditionally, lenders would look at the scores of credit bureaux such as Experian and Equifax, and that would give you a "computer says yes" or "computer says no" answer. That is based largely on your past history, so if you defaulted on your student debt that could stay with you for years and years and impact on your ability to access credit on fair terms.

The use of supplementary data such as your social media score, your LinkedIn profile or your transaction history can act as an overlay, so the decision is no longer as binary. But the risk with using that data is that it is unproven. You cannot use it in isolation because this is a new technique; and you do not have a sufficient time series to go back through to provide proof, which results in a better risk outcome. In that context, there is a lot of "learn and see". We still use the bureaux scores as our mainstay, but we are trying to use incremental data to be more inclusive. But you cannot abandon credit bureaux data and say, "I am just going to look at this person's transaction history and social media footprint, and make my decision based on that".

Some of the US lenders have abandoned FICO scores and have gone quite aggressively in that direction, but I do not think that the UK fintech sector is at that point. So there are risks associated with using other data that are worth mentioning.

The other aspect is data security and data privacy. As we move into open banking standards and portability of data, it will be very important for us to protect that data. To be honest, the Tesco scandal and the scandals involving people being able to access data are what keep the founder of a fintech business awake at night. We can do everything possible to make sure that we have the ISO standards, that we are handling data carefully and that our controls and systems are robust, but the evidence from the situation with

Tesco and others that have gone before is that as our controls get better, so people's ability to hack into systems becomes more sophisticated. It is a challenge for all of us.

**Virraj Jatania:** I would largely echo what Monica has said but would add a couple of points. The credit bureaux in the UK market are quite closed off at the moment, which makes access to building credit profiles for financially excluded customers quite difficult. A real effort is required to open up those companies and help provide them with the data that both Neyber and Pockit have, and help them create profiles for customers. That is one thing we would like to see, and we are working with a lot of credit bureaux to make that happen.

There are new credit-scoring businesses such as Aire and Credit Kudos, which you may or may not have heard of. They are trying to use social media scoring and psychometric-based questions to make a decision on someone's credit profile. While they are extremely interesting and we are working closely with a number of those companies, the biggest problem is the adoption of those scores by utility providers such as mobile, broadband and energy and water companies. Until they start accepting those scores, unfortunately they will not have a lot of validity. We are in a bit of a chicken-and-egg situation whereby we need a bit more adoption before a lot of these new scoring methodologies can become mainstream.

As you pointed out with the Tesco example, there is a real issue with data security here. As Monica says, it is the one thing that keeps a founder up at night. My biggest concern is always how we continue to ensure that we are always as secure as possible from a data perspective and that we are in keeping with regulation and compliance requirements. One benefit that fintech businesses may have over some of the incumbents is that a lot of the technology that our platforms are built on is new, whereas a lot of the existing providers rely on legacy systems and you have data all over the place in the architecture of their platforms. That opens them up to being in a slightly more risky situation. That does not mean that fintechs will not be targeted—we will, 100%—but we have at least a slightly cleaner slate from which to build and make sure that we are as secure as possible.

**Lord Haskel:** Are you also kept awake at night by the personal risk to your customers—for instance, unscrupulous people getting hold of the data and using it? Do you feel that the National Cyber Security Centre has a role to play in this by setting standards and requiring people who use the internet in this way to have certain security standards in the same way in which, if you drive a car, you have to have some kind of insurance policy?

**Virraj Jatania:** I completely agree. There is definitely a role for the National Cyber Security Centre in this. I have just come back from a trip to Silicon Valley in San Francisco on the west coast of America. One of the talks we had was about cybersecurity and how the reality is that the internet was not built for what we use it for today but was built to share files and for simple needs. It is not the fault of anybody specifically, but we have built an entire world off this platform, although it was not built for that reason. A huge amount of work needs to happen to make the internet fit for purpose, because today, frankly, it is not. Hopefully new technology such as blockchain and some others will come out that will enable us to have a much more secure system.

Q163 **Lord Northbrook:** We have had a number of submissions about the open banking standard, for instance from Barclays, the British Bankers' Association, the Financial Services Consumer Panel, the Money Advice Service and the Money and Mental Health Policy Institute, which said that this is a positive example of the benefits of fintech. How might this open banking standard, which I understand is due to be introduced by 2019, support the development of the fintech sector, how will it help to address financial exclusion, and could we also talk about the security aspect?

**Monica Kalia:** From our perspective, the open banking standard approach will allow portability of data. This will allow a lender such as Neyber or another fintech lender to get access to an individual's account history, their transaction profile, and will allow them to build up a much more composite picture of an individual's ability and willingness to repay. We have to make assumptions about those things now, so our underwriting decision by definition is based on those assumptions. If you no longer have to make those assumptions and you are in effect allowed to have access, because my file is my file, I can provide that to a lender and to a price comparison site, and I can get a better outcome with regard to making sure that I get a product that is tailored to my needs and a price that suits me.

In the past, we have seen the existing incumbents privy to a huge amount of current account and mortgage information, which lenders that do not have an existing relationship with customers are not privy to, so they are at a huge information advantage. With the open banking standard approach, through the use of APIs, which allows another lender to tap into an existing incumbent's database, you end up in a situation where you can make a much more informed decision, and that has to lead to better customer outcomes. It levels the playing field between fintech and incumbents, and that should be embraced.

Obviously, those open APIs and the way you access that data means that data security and privacy will need to be even more of a focus. For me, how we solve that will be the big question, because that is no small ask. Everybody needs to be aware of that. So I would expect open banking standards to lead to better customer outcomes and a fairer and more equitable system, but I would caveat that whole data piece.

**Virraj Jatania:** I will add a couple of points. The open banking standard has the potential to be game-changing. From the perspective of our customers who are unbanked and outside the system, it will not be as game-changing for us as a company in relation to the other data that we will be able to find on that customer from another financial services provider. However, it will allow us to build a much better set of products for our customers to interact with and will allow us to access some of the product sets of larger financial organisations and institutions, which will enable us to build a much better user journey and experience for our customers.

For companies that own the customer relationship, it will add a lot of benefit, and banks will to some degree become more providers of the pipes as opposed to owning the full relationship. That is where you will see some of the fintech businesses really benefit, as they will be able to build a direct relationship with the customer and then provide a lot of the services that banks have been providing. From that perspective, it is extremely interesting.

We need to be a bit careful in that the aim is to have this by 2019 but the reality might be slightly different. It is a big undertaking. It is about two years away, and making it all happen in that short space of time will not be straightforward.

In addition, the implementation steering group for the open banking standard is being led by a large number of the banks. This will not be their best friend; it will be a big challenge for them. Therefore there is a question about how quickly all this will happen. I support that by pointing out that the adoption of email took about 15 years from when it first came out to when it became mainstream. Hopefully, it will not be as bad as that, but we will see a significant period of time before this becomes widespread.

Q164 **Bishop of Birmingham:** Can we move on to the Financial Conduct Authority for a moment? Can you reflect on its role in supporting fintech—project innovation, and so on? Can you also reflect on the balance it might provide between innovation and protection?

**Virraj Jatania:** We are very lucky that we have a very fintech-friendly regulator. The FCA has been extremely helpful to fintech businesses by providing advice and making them accessible and easy to speak to. It has a core role to play in the evolution of the fintech space in the United Kingdom. It has just announced the first batch of companies that have gone into their sandbox environment, which is an environment where there is a slightly lighter approach to regulation for businesses to prove the solution to a specific user case or a problem that a customer might be facing. That is a great initiative, and the fact that it has proactively taken those steps shows that it is really thinking about the fintech sector.

When it comes to financial exclusion, it might have been a little less focused. It has not necessarily been in its remit to solve that problem, and as a result it will require companies from the private sector, such as Neyber, Pockit and a number of others, to take that baton and really try to solve that problem and engage with the FCA as much as possible to get its support and help with that. So while it is doing a good job, when it comes down to our specific space it might not have been able to do as much as necessary.

On the balance between protection and innovation, the foremost focus for the FCA has to be protecting consumers and treating customers fairly—the types of initiatives that it does very well. I do not think that any of the innovations have been so extreme to date that it has had to prioritise innovation over its core focus of protecting consumers.

We are in a world where, interestingly, fintech is talked about a lot. What we are seeing in fintech today is innovation—more agile companies able to innovate on what exists today; it is not pure disruption. When things like blockchain and digital currencies become mainstream, they will become quite disruptive, which is when there will be a key role for the FCA to play in how it balances innovation with protection. As of now, I do not think that protection is being sacrificed.

**Lord Haskel:** Do you find the rules of the FCA onerous?

**Monica Kalia:** Yes. That is the other thing that keeps us awake at night.

**Virraj Jatania:** I would say yes and no. That is probably the right way to answer that. Some rules are extremely onerous. If you suspect suspicious activity on an account, for example, you have to place a block on that account, but you cannot tell a customer why their account is blocked; you cannot speak to them, in effect. But if you have a customer who has some money in their account and they are calling you 10 times a day, it is quite difficult to keep saying that there are technical problems or that you cannot speak to them at that point. That is tipping off and is an FCA regulation. It is quite rigid, and it is quite hard to make sure that you always stay on the right side of it, but you have to.

On the flipside, we are servicing customers who have had no access before, and parts of the regulation allow us to given them that and to open a basic account for a customer who does not have much footprint or has no real data to prove that they should have one. There are pros and cons. Parts are onerous.

**Lord Haskel:** Does that help or hinder financial exclusion?

**Monica Kalia:** Having that rigorous framework is really important, because obviously you have to separate the companies that have the right operating infrastructure and approach and that are genuinely doing things for the consumer benefit. The alternative is to have a lax regulatory environment in which anyone can rock up and start a consumer lending business. Having the right level of infrastructure and regulatory framework is super-important. You have to have the appropriate approach and the right balance between having the infrastructure, and the guidance on what regulation needs to do to support those businesses, and fostering innovation at the same time.

We have engaged with the FCA Innovation Hub, which has been very constructive. It has taken a very pragmatic approach to legislation, but the standards on affordability, treating customers fairly and vulnerable customers, which we have to adhere to day to day, are significant. From an operations and a risk-in-compliance point of view, it is incredibly rigorous.

Q165 **Lord Harrison:** Good morning to you both. To what extent have larger banks and financial service providers supported your work? Across the wider fintech sector, what is the nature of the relationship between start-ups, SMEs and the major financial services? Do they ever blossom into beautiful relationships?

**Virraj Jatania:** Interestingly—and this relates a little to my point earlier about innovation as opposed to pure disruption—the large proportion of fintech companies today have to work with banks and larger financial services providers. For example, we work with Barclays, where our customer funds sit in ring-fenced accounts. We also access a large proportion of the payments infrastructure through Barclays. There are a number of examples of this.

There is a relationship between fintech and the banks and financial services institutions that exist today. This is a model of collaboration, not a model always of direct competition. Companies such as ours, Pockit and Neyber, are servicing consumers whom banks, for a variety of reasons, are not choosing to service and are not playing in that space, yet they are happy to provide their infrastructure to enable us to do that. We view this as a partnership with financial institutions and banks, and in that vein we are also in discussion with a number of the banks on servicing customers who they cannot provide

accounts to, for example. That is just one example of how a fintech business is working with them. I think you will continue to see that trend; I do not think it will change overnight and that fintech banks will say, “We don’t need anyone in the banking space to work with. We can do it all by ourselves”.

**Monica Kalia:** I think the relationship has evolved. In the early stages of the fintech boom, the incumbents viewed fintech with suspicion, and fintech would have liked to have been seen as the new kids who would in effect be able to disrupt the banks and the banks would in effect dwindle over the time. We have had a bit of a reality check over the last year or two, and it is much more of a partnership. I think the incumbent banks recognise that fintech’s advantage is that we can originate relationships far more cheaply, we are more cost-effective in how we win customer relationships, we are much more innovative in how we develop products and we have the technology that allows us to process loan applications or open accounts far faster than an incumbent operator.

There is a flipside to that. In my business, for example, we have to work with the banks because we do not take deposits, and the cheapest form of debt capital is deposits. Essentially, the access to debt capital, which is the most important part of the lending relationship, is owned by retail banks, and I cannot see that changing. Therefore there has to be this kind of symbiotic relationship between banks and fintech, which I think will prevail. Ultimately we need access to cheap deposit funding, and the banks own the deposits.

Q166 **Lord McKenzie of Luton:** Last year we heard from the Government about their ambitions for fintech. The then Economic Secretary to the Treasury said, “We are already a major player in financial technology; our ambition is now to be the major player—the leading FinTech centre in the world”. To what extent have their actions and policies helped to deliver against that ambition?

**Monica Kalia:** From our perspective, the Government have fostered an innovative environment. We have a constructive regulator, a competitive corporate tax rate, and access to a diverse pool of human capital, so we can attract people from all over the world to work in fintech. All those are very significant, positive ingredients to reinforce the UK’s status as a leading fintech centre. Obviously Brexit will unfold, and I have no crystal ball for what the impact will be.

My ask, I guess, from a human capital perspective, is that we continue to attract tech people not just from Europe but from all over the world, which we probably have not done so a good job on in the past. I am talking about a mix of people. For example, STEM graduates from Asian countries want to come to the UK, and we should encourage that.

The biggest impediment to fintech growth, from my perspective, goes back to access to debt and equity capital. The start-up culture in the UK is poles ahead of that in a number of other countries, but it is still way behind the US. Our culture of embracing entrepreneurship and risk appetite is still behind that of the US. If I could say what would make my life easier, it would be the ability to tap into capital so that people can have that view about how visionary models can be game-changing and to fund them more easily.

**Lord McKenzie of Luton:** What does it take to make that happen?



**Virraj Jatania:** I was in San Francisco and Silicon Valley last week. People out there think on a completely different level about innovation and building technology companies. That is supported by an incredible ecosystem that allows all this to happen. One interesting point is that that has been building for 50 years now, so to expect it to happen in five years in the UK will be difficult. We need to be scrappy. We need to build a few very successful businesses in the fintech space, with the hope that those entrepreneurs exit those businesses, bring in a lot of value and reinvest that into the fintech ecosystem here in the UK. If we can build a very attractive environment for something like that, we can achieve what Monica is alluding to. It will be difficult just to have government policies to enable that to happen; it will take a mixture of government policies and private sector thinking.

**Monica Kalia:** It comes down to the cost of capital. In the UK, the cost of capital is much higher than it is the US. That could just be because of your risk premium from your association with these investments. Ultimately, it comes down to risk tolerance, which is much higher in the US than it is the UK. In the US, people tend to take a portfolio approach towards investments and take it as a given that 90% of those will fail but that the 10% that flourish will be the unicorns. We have been less focused on that type of approach in the UK, where it is much harder.

**The Chairman:** We are almost at the end of the session. Baroness Primarolo has the last question.

Q167 **Baroness Primarolo:** It has been a fascinating session, so thank you very much. We have taken a lot of evidence from different groups. Perhaps, given the nature of your businesses, there is no simple answer to my question, but when the Committee draws up its recommendations, is there a particular recommendation that you would want us to consider, bearing in mind what you have said about ecosystems, innovation and how much government can do? Is there a piece of the jigsaw missing that could be put in place?

**Monica Kalia:** There is one that relates to my business specifically. We employ a facilitated provision of financial services. The benefit to the employee is that they get access to finance on fairer terms. Therefore, very much as we have had with auto-enrolment, which is the obligation to provide a pension, we could ask for an obligation on the employer to provide financial education for free to employees and access to financial services that can be taken from the payroll. This has been done in many countries where there are emerging markets.

**Baroness Primarolo:** You think that we could sell that to the employer by saying that there would be a benefit for them.

**Monica Kalia:** Yes.

**Virraj Jatania:** As you know, there are different natures to our business. The way the system works at the moment for consumers who are outside the banking system is that they try with a bank, and if the bank does not offer them the product or service they are almost left to figure it out by themselves. From my perspective, I would love there to be, especially at the Department for Work and Pensions and jobcentre level, a recommendation for an alternative provision of current accounts and financial services to consumers. At the moment, the Post Office is the only entity that is

recommended outside the high street banks. It is quite an archaic provider of financial services. In effect, it is just a white-label version of what banks provide. It needs to be opened up to fintech business in order to be the solution to the problems that consumers are facing.

**Lord Harrison:** Perhaps you and Monica could provide us with examples of other countries that are already doing this and encouraging the employer to provide for it.

**Monica Kalia:** You could look at Brazil, for example, and a number of countries in Africa. This exists in those countries because they do not have credit bureaux data, so they deal with the risk by using a salary deduction model. My argument is that we have the data but we could be much more inclusive and offer a better deal to consumers if employees had the right to say, "Yes, I want to take this consumer loan but I want to take it from a provider who can deduct the repayments directly from my salary". There are a number of examples.

**The Chairman:** Would it be possible to let the Committee have a short note on some of those examples in other countries that you have talked about? We would find that very helpful.

**Monica Kalia:** Yes, absolutely.

**The Chairman:** Thank you very much indeed. It has been a very helpful session. Thank you for keeping the language straightforward. Finally, you both used the term "disruptive" on a number of occasions. Could you just say in one word whether, in the way you used that word, it is a good thing, a bad thing or a neutral thing?

**Monica Kalia:** I think it is a good thing, in the sense that—

**The Chairman:** That is enough, thank you.

**Virraj Jatania:** I think it is a good thing.

**The Chairman:** You are using it in a positive sense. Thank you.

**Monica Kalia:** Except when it comes to children, when it is less positive.

**The Chairman:** Thank you very much indeed.

## **Non-Standard Finance PLC – Written evidence (FEX0055)**

### Introduction

1. The non-standard consumer finance market represents a significant segment of the UK's retail financial services sector. It provides both secured and unsecured credit to an estimated 10-12 million consumers that either fail to meet the lending requirements of high street financial institutions or that choose not to borrow from them. These consumers – which represent approximately 1/3 of the UK's adult population – include those that have no credit history, low credit status or that are in some way credit impaired.
2. Non-Standard Finance plc (NSF) was formed in February 2015 by a group of leading City figures to acquire and grow businesses in the non-standard consumer finance sector. Having raised over £280 million in new equity from some of the UK's largest fund management groups, NSF is now a leading provider of specialist financial products whose businesses are focused on providing credit to this section of the UK population. Listed on the Main Market of the London Stock Exchange, our operating businesses comprise Everyday Loans, the UK's largest branch-based provider of unsecured loans to customers with sub-prime credit ratings; Loans at Home, the UK's third largest provider of home collected credit; and TrustTwo, a high growth provider of guaranteed loans. Each is focused on serving the needs of sub-prime borrowers for whom access to appropriate financial services can be important in helping them manage the peaks and troughs of their income and expenditure.

### Definitions and causes of financial exclusion

#### **What are the causes of financial exclusion? What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation?**

3. Anything that bars or makes it difficult to access financial services undermines an individual's or household's ability to plan and manage their own financial security, something that could potentially damage their well-being. This is particularly true for those on lower incomes or that have limited options to fund unexpected expenditure or large outgoings.
4. We agree with the consumer group Which? that has stated that: "...it is quite true that the most vulnerable consumers in society are the most affected by financial exclusion and its associated disadvantages. However, we take the view that exclusion affects a much wider population of consumers on lower-median incomes."<sup>488</sup>

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<sup>488</sup> Which? evidence to the Treasury Select Committee inquiry into financial inclusion

5. Unlike a number of other financial lenders, NSF operating companies seek to adopt a more personal approach, one that requires that we meet the customer to get a more complete understanding not just of their needs but also their wider circumstances and their ability to afford the services we offer. Someone may be vulnerable financially because they are self-employed or on benefits, however we don't believe that this should automatically mean that they are excluded from being able to secure credit that they can afford. By building a relationship with our customers, mainly face-to-face, we strongly believe that we are then in a better position to make an informed decision on whether to lend or not. Personal contact and detailed knowledge about our customers also means that we are better able to accommodate any sudden changes in their circumstances, in particular their income. Sub-prime customers can often be more exposed to income fluctuations due to them working on zero hours contracts, or being engaged in part-time or shift work.
6. Someone may also be vulnerable because they are incapacitated in some way, but equally we believe that just because they cannot come to a banking branch or cannot labour through a complex online application form, that they should not be excluded from securing credit they can afford.
7. Financial exclusion can often arise as a result of a mismatch between potential customers' needs and easy access to appropriate financial products that they can afford. Ensuring the availability of financial products and services that are suitable for sub-prime customers is vital.
8. Reasons why customers may fail to meet the lending requirements of high-street financial institutions include: their income is too low or part of their income may come from benefits; they might be self-employed with variable incomes; they might be credit impaired; or they might not have a permanent address in the UK. Many customers also simply do not like the typical mainstream credit approach, having had previous poor experience, and seek a more personal, understanding and tailored service. We also find that our customers (both those on low as well as medium incomes) do not like the penalty charges that are often imposed by other non-standard lenders when payments are missed. They welcome NSF's approach that customers will never pay any penalties or hidden fees – this allows them to manage their budgeting more easily and helps them to avoid further stress at exactly the time when their finances may already be under strain.

### **What role does problem debt play in financial exclusion?**

9. Problem debt is clearly a contributing factor in financial exclusion. Lenders now have an obligation to make sure that they do not exacerbate problems for those with too much debt. However, there may be opportunities for finance providers to help those with problem debt where there is an opportunity to consolidate loans and reduce overall costs thereby easing their debt burden.

## Addressing financial exclusion

### **Are appropriate financial services and products available for those who are experiencing financial exclusion?**

10. Yes. While many of the mainstream lenders automatically exclude those with a poor or impaired credit rating, those that are self-employed or that perhaps have only recently arrived in the UK, the current regulated framework is working well and credit is available to such individuals through licensed firms within the strict regulatory framework set by the FCA.
11. Those most likely to be on the margins of financial services include people who are low paid, those with low credit status and the credit impaired. While a poor, or impaired credit rating requires that lenders price their loans to such customers accordingly, providers of such loans are prepared to make credit available to this large segment of the market while other more mainstream financial institutions are not. For such individuals that need access to credit, there are a number of options to choose from with a variety of providers offering their services.
12. The non-standard consumer finance market accounts for a significant proportion of the UK's retail financial services sector and seeks to provide secured and unsecured credit to the estimated 10-12 million consumers that either fail to meet the lending requirements of high street financial institutions or that choose not to borrow from them
13. While the demand for credit from consumers remains strong, supply was severely impacted following the financial crisis in 2007/8 because a number of providers were either forced to reshape their business models or chose to withdraw from the market altogether.
14. For example, management consulting firm L.E.K. estimates that approximately £5 billion was withdrawn from the non-standard finance market post the financial crisis in 2007/8, including the closure of up to 400 retail branches previously operated by unsecured lenders.<sup>489</sup>
15. As a result, the non-standard consumer finance landscape has changed significantly. Businesses operating in the sector are mainly non-bank finance companies, and the majority of these focus on the delivery of only a few financial products.
16. For example, there has been strong growth in sub-prime credit cards, car finance, guarantor and branch-based lending. Payday lending also grew

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<sup>489</sup> L.E.K. *Consulting Executive Insights Volume XVIII, Issue 10*; L.E.K. *analysis of company accounts*; Bank of England *Credit Union accounts*; Competition commission – *Home credit, 2013*; OFT *payday lending compliance review 2013*; FLA *News*

strongly until 2013 but has since declined rapidly following regulatory changes introduced by the FCA.

Accessing affordable credit

**What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion?**

17. Failures over short-term, high-cost credit (payday lending) were not representative of the consumer credit industry as a whole. We agreed that steps needed to be taken by the regulatory authorities to clean-up the payday lending sector.
18. While the FCA estimated that the introduction of the rate cap would reduce the number of customers that would otherwise access high-cost short-term credit by 11%<sup>490</sup>, based on data provided to us, we believe that the figure is significantly higher. The number of loans originated by payday firms has decreased substantially - from 6.3 million in the first half of 2013, to 4.2 million for the same period in 2014 and 1.8m in 2015<sup>491</sup>. We believe that the data 2016 will also show further decline.
19. While some of this demand can be expected to have been met through alternative loan products from other loan providers, it seems unlikely that all of it has been met. As a result, financial exclusion may have increased with the possible consequence that those excluded are forced to incur very high bank overdraft charges or seek alternative sources of credit that may include borrowing from illegal, unlicensed loan providers.
20. Based on evidence of the experience in a number of countries that have imposed interest rate caps, *The Economist* recently set out a clear argument against their use, highlighting the unintended consequences that can result:

*"Policy makers usually mean well: by controlling the cost of credit they may hope to improve access to finance. But rate caps often have precisely the opposite effect. The most expensive loans are pricey because they go to the riskiest borrowers: younger firms without collateral, poorer consumers without credit histories. If lenders cannot charge interest rates that reflect these risks, they may not lend at all."*<sup>492</sup>

It goes on to add:

*"A cap on payday-loan interest rates in Oregon, which became binding in 2007, increased the share of people reporting difficulties in getting short-term credit by 17-21 percentage points: many resorted to paying bills late*

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<sup>490</sup> *Proposals for a price cap on high-cost short-term credit – FCA Consultation Paper CP 14/10*

<sup>491</sup> *Speech by Tracey McDermott, Acting Chief Executive, FCA, delivered at the Credit Summit 2016 on 7 April 2016*

<sup>492</sup> *Interest rate caps: cut price logic – The Economist, 10 September 2016*

*instead. With fewer options to choose from some borrowers may instead turn to loan sharks. One study suggests that illegal lending was at the time more widespread in Germany and France than in Britain because of their penchant for price caps.*<sup>493</sup>

### **How can it be ensured that those in need of affordable credit can access appropriate products or services?**

21. The vast majority of the non-standard finance market is working well. Customer satisfaction rates are high, the sector is growing and we don't believe that the core customer base is over-borrowed given growth in their disposable income since 2007/8<sup>494</sup> and the fact that many of their core items of expenditure such as food and fuel have been falling in recent years<sup>495</sup>.
22. One of the industry's challenges is to manage an ever-increasing regulatory burden that drives up costs and forces operators to find ways to meet the new requirements whilst continuing to make credit available and provide a good service to consumers, as well as meet the demands of their own providers of capital for adequate risk-adjusted returns.
23. So far, as a well-capitalised enterprise, financed by blue-chip shareholders and lending banks, NSF has been able to enter the home collected credit, branch-based lending and guaranteed loans segments of the non-standard finance market and is meeting the regulatory requirements without any dramatic changes to its business models. While the market leader in home collected credit has chosen to reshape its business in recent years with the result that it has reduced its number of active customers significantly, this appears to reflect a shift in strategic direction rather than as a result of any regulatory pressures. At the opposite end of the scale however, we have seen some evidence through meetings we have held that some small, relatively poorly capitalised businesses may be struggling to cope with the increased regulatory burden following the shift in regulatory oversight from the OFT to the FCA.
24. However, the example of the payday lending segment demonstrates how a dramatic shift in the regulatory framework (in this case a cap on APRs and restrictions on re-lending to existing customers) can result in operators' businesses being rendered unviable and prompting a significant reduction in lending and the removal of available credit for many consumers.
25. We would ask ministers and regulators to ensure that they consider all of the potential consequences of further 'regulatory creep' and when considering new rules and procedures, to ask what harm they are trying to protect against? As we have said, the vast majority of the non-standard

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<sup>493</sup> *Ibid*

<sup>494</sup> *The poorest fifth of households were the only group whose average income did not fall between 2007/08 and 2012/13 and in 2014/15 the average income of this group was £700 (5.8%) above its 2007/08 value. Source: ONS – Household disposable income and inequality: financial year ending 2015*

<sup>495</sup> *Annual expenditure of household by income quintile – 26 January 2016, ONS*

finance market in the UK is working well. Through the application of new technology and better policies and procedures, we believe that things can improve further. But care needs to be taken when developing regulatory frameworks to ensure that the balance of risk and return remains appropriately balanced between consumers and providers. As noted by *The Economist* above, if swayed too far away from the providers there is a risk that many firms may decide to pack-up and leave, an outcome that would have a significant adverse effect upon many hundreds of thousands if not millions of UK consumers that may find themselves without access to credit.

26. One additional point is that, together with the Competition Commission<sup>496</sup>, we continue to believe that the requirement to use APR as a measure of cost is inappropriate for many financial products in the non-standard finance segment but especially for small, relatively short-term loans. It is not representative or easy to understand for many consumers. Many of our customers prefer to compare loan products using their week-by-week payment schedule, or the total cost of the loan, including all interest and fees, for example. For these reasons we believe that APRs should be de-emphasised as a standard measure as they often confuse customers.
27. Confusion and a lack of clarity exists with mainstream lenders too. Recent research into the charges levied by High Street banks on unarranged overdrafts has shown that they cause significant harm to some of the most vulnerable customers.<sup>497</sup>
28. Access to credit is a necessity for many on low incomes who typically seek to borrow relatively small sums of money and then to be able to make frequent, small regular repayments, enabling them to budget as well as manage the peaks and troughs of their income and expenditure.
29. However, it was recently reported in *The Times* that the vast majority of households, not just those on lower incomes, could not afford an unexpected bill for £500<sup>498</sup>. As a result, being able to access credit, sometimes at short notice, is something that all of us may need to do at some point.
30. While some sub-prime borrowers are able to access credit via mainstream lenders or even other lenders such as credit unions and community development finance institutions, we believe that capacity among such lenders to lend to sub-prime borrowers is limited with the result that the sector is unable to meet demand.
31. Furthermore, we do not believe that for sub-prime borrowers, credit unions offer a long-term solution as the cost of providing the loans and collecting them face-to-face as well as the cost of impairments mean that such organisations are poorly equipped to make good lending decisions and therefore provide the loans that such consumers are seeking.

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<sup>496</sup> *Home Credit market Inquiry: Provisional Findings Report*, Competition Commission, April 2006

<sup>497</sup> *Which? Review of unplanned overdraft charges levied by High Street banks in June 2016*

<sup>498</sup> *Third of middle classes too short of cash to pay a £500 bill – The Times, 7 June 2016*



- 32.NSF addresses this market by providing access to fairly-priced and appropriate financial services in non-standard lending – most customers in the non-standard finance sector are able to service their debt if products are tailored to fit their particular circumstances. We have extensive experience and are confident that we are delivering 'best in sector' regulatory compliance; lending responsibly; and treating customers fairly – together resulting in good customer outcomes.
- 33.According to the TUC's recent paper<sup>499</sup>, those on the lowest incomes have seen an improvement in their debt:income ratio versus the prior year. While the ratio in 2015 is marginally higher than it was in 2013, we do not believe that this customer segment is overly indebted and we believe that they have in fact been underserved since the credit crisis in 2007/8.

#### Government policy and regulation

**How effective has Government policy been in reducing and preventing financial exclusion? Does the Government have a leadership role to play in addressing exclusion? 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? What balance should be struck between regulations and incentives for financial institutions?**

- 34.Government plays a vital leadership role in shaping the framework within which licensed providers of consumer credit can operate, as prescribed by the FCA. We have welcomed the approach taken by the FCA and remain committed to seeking to offer a 'gilt-edged' service in terms of regulatory compliance and customer service. We have found the FCA to be pragmatic, sensible, and willing to listen to suggestions on how regulations might be more effective.
- 35.A well-regulated, trusted and sustainable credit sector is imperative for millions of customers as well as licensed operators that rely on strict enforcement against unregulated providers to protect their own franchise.
- 36.But, if a framework becomes overly burdensome then it is clear that the very objectives of the framework can themselves be compromised as regulated operators are forced out of the market and consumers are left with few alternatives other than to either go without credit, which for some may be unpalatable, or to seek credit from unregulated firms and providers. The regulatory burden can be particularly acute for providers of small loans as the associated costs represent a much more significant proportion of income received on each loan than for providers of much larger loans where the income is usually greater.
- 37.The FCA rightly expects businesses in the consumer credit market to promote, embed and enforce an appropriate business culture. A culture

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<sup>499</sup> *Britain in the Red - TUC and UNISON with the Centre for Responsible Credit*

where the interests of customers and the market are at the heart of the business, and where staff focus on delivering the right outcomes, not just meeting regulatory requirements. At NSF, the Company and its Directors are committed to lending responsibly. This philosophy lies at the heart of our focus to build sustainable businesses that each share a common approach on ensuring we deliver positive customer outcomes.

38. Regulatory reforms brought in by the FCA have significantly increased capital requirements and conduct-related obligations for the providers of retail financial services. In addition, the FCA has required all such firms to apply for the requisite licences to operate in their chosen field of consumer finance, a process that has affected over 50,000 businesses. This change in the licencing regime as well as the impact of additional regulations will impose substantial restrictions on certain elements within the non-standard finance sector – creating a potential increase in financial exclusion as providers have withdrawn from the market. We offer credit to consumers responsibly, complying with both the letter and spirit of the prevailing regulations, as well as our own internal rules and procedures.
39. Whilst we continue to seek ways in which we can improve, the regulated segments in home credit, branch-based lending and guaranteed loans are working well, as evidenced in particular by increasing demand and high customer satisfaction rates.<sup>500</sup>

*14 September 2016*

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<sup>500</sup> For NSF operating companies - in home credit 99% are very/quite satisfied, 95% would use the next time they need to borrow, and 75% of lending is to existing customers; in branch-based lending, we have a 'feefo' customer review rating of 99% (customer research undertaken by PCP Market Research among 400 customers; feefo service rating based on 2,258 reviews)

## **Oakham Ltd – Written evidence (FEX0064)**

Oakam Ltd. was founded by the CEO, Frederic Nze in 2006 and started to trade in February 2007 when the first store opened in Walthamstow, London.

Oakam Ltd. provides straightforward and simple financial services for people who find it difficult to borrow from banks. Our customers would meet the definition of financially excluded: recent UK migrants and UK nationals on a low income. We aim to accept, not reject by considering more than just the credit score.

We currently have stores across [London and the Midlands](#) on high streets to make them accessible to the communities we serve and an on-line based Virtual Store to serve the rest of the UK.

We welcome this opportunity to share our experience and express our views stemming from 10 years of business in a challenging, yet very rewarding environment.

Author: Florentina Nacu, writing on behalf of Oakam Ltd.

### **What are the causes of financial exclusion?**

There are several causes for financial exclusion. The banking system is firstly biased towards the more affluent population and secondly, it is driven by cost reduction and more reliable delivery of services. The adoption of technology in the banking system led to cheaper access to mainstream services. The computerization of banking created a gap based on credit score cards and “black and white” decisions which, in turn, led to a significant decrease in banks’ ability to service groups with particular needs.

Also, the products are designed and delivered in a way that can exclude segments of population. Although it is free to have a bank account, it becomes very expensive for those with low income in the form of penalties for a missed direct debit or overdraft are high and these penalties lead to over indebtedness and ultimately, to exclusion.

### **Who is affected by financial exclusion?**

Linked to low income and poverty, financial exclusion is an indicator of other problems people face in life. Research shows that the affected segments of population include singles, lone parents out of work, the elderly, ex-convicts, victims of domestic violence, young people not in education, training or employment, migrants, refugees and other ethnic minorities. 501 Each group experiences financial exclusion for different reasons and in different ways.

### **2.1 Do different sectors of society experience financial exclusion in different ways?**

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<sup>501</sup> Blake, Simon, and Esther De Jong. "Short Changed: Financial Exclusion: A Guide for Donors and Funders." *TAustinLocke*. N.p., 30 July 2013. Web. 14 Sept. 2016. p 15

A thorough analysis of our customer base shows that the financially excluded fall under two major categories: newly arrived migrants and the UK nationals living at the fringes of society; two segments different from the mainstream population, with different lifestyle, needs and circumstances. The migrants' main obstacles include language barriers, lack of information about the banking system, lack of credit history and documents issues (hence they are perceived as high risk). The UK nationals are those with bad credit history or those who did not had the chance to build it due to various circumstances. Most often, the two groups need a small loan to either settle in the UK, smooth out expenses, emergency buffer or a small business. One reason for this limited access is the perceived risk that these customers pose to the banks and, on the other hand, banks' inability to understand the particular needs and circumstances of these groups.

## **2.2 To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

While those living in remote communities may also experience reduced access, most financial exclusion in UK occurs in highly populated yet deprived areas of larger cities. While it appears there is a "bank at every corner", they in fact fail to service large segments of the population.

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

According to our observation after offering retail-based services, people with physical disabilities face additional difficulties in accessing mainstream banking services. Firstly, due to limited mobility, many will seek help from the nearest provider, even if it is a pawnbroker or payday lender. If some have sight problems, it is hard to get personalized assistance from the regular bank branch but have better chances of being helped by the micro-lender who takes the necessary time to explain everything. The people with mental health problems are not appropriately serviced by the banks because of the financial risks involved. However, as observed across Oakam stores, it becomes much easier when the branch adviser can observe the severity of impairment, explain in depth the terms and conditions and channel the customer to the Vulnerable Customers Services we provide. This is part of the contribution to financial access the relationship-based micro-lenders like Oakam can provide.

## **6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

The relationship between financial capability and financial inclusion is complex. The capability includes not only education and knowledge but also the motivation and confidence to act on the acquired knowledge. <sup>502</sup> Hence, as observed during numerous customer focus groups, the focus should be on the attitudes towards money which in turn, shape the motivation to act responsibly. We have worked with customers who want to live a normal life but need a

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<sup>502</sup> Aynsley, Helen. "Financial Inclusion and Financial Capability: What's in a name" 2011. Web. 14 Sept. 2016. p7

helping nudge forward and with customers having to deal with sudden shocks that life brings about. It would be unreal to say they don't understand the costs and repercussions because we make sure they do, but for many a high cost micro-loan is the best choice for them and their circumstances.

There are 3 basic capability building elements, essential to financial inclusion:

- financial management and planning of expenses based on income to reduce over borrowing and indebtedness
- understanding how to build a better credit score rating – if the payment behaviour is good and finances well planned, then the rating will increase
- learning to protect oneself against fraud, especially ID theft, which can have severe repercussions on one's access to credit.

### **7. What role should the concept of “personal responsibility” play in addressing financial exclusion?**

We strongly believe that personal responsibility is an essential element to financial inclusion. In all cases, people should intend to repay what they borrow. Both the affluent and the poorer segments can be affected by poor financial decisions, with difference that the latter benefit from the cushioning effect of other assets.<sup>503</sup> As a fairer financial market is hard to achieve, we preferred go back to the basics of human learning: by rewarding good payment behaviour and not punishing but understanding and assisting with poor behaviour.

### **8. Are appropriate financial services and products available for those who are experiencing financial exclusion?**

Considering the financial markets complexity and what financial exclusion means - limited or no access to mainstream financial services (banking, payments, credit, etc.)- there are not many services and products available for the particular segments; if there would be, we would not need to tackle financial exclusion. In our experience, the perceived appropriateness of a financial product is bound to personal beliefs, attitudes and needs and its meaning cannot be generalized.

#### **8.1 What role should banks play in increasing access for those most at risk of exclusion?**

The market offers a large range of financial products, but the terms may not always be favourable for the marginalized, which leads to further exclusion.

Banks, having a very low risk appetite, should partner up with organisations with a higher risk appetite to provide more access to otherwise excluded customers. Banks can act as a distribution channel to provide access by offering the product without the burden of underwriting it and taking the risk.

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<sup>503</sup> Aynsley, Helen. "Financial Inclusion and Financial Capability: What's in a name" 2011. Web. 14 Sept. 2016. p9

## **8.2 What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

The Post Office is a wide distribution network and it has more presence than any financial service provider in terms of branches. A similar partnership as mentioned above would reduce marginalisation. Firstly, if people would be able to use the Post Office to withdraw the loan received or pay loans would significantly reduce the cost related to the distribution. Also, the Post Office can support information circulation. Same assumption on appetite risk applies to the post office and partnerships with microfinance institutions would increase access to financial services, especially much-needed credit, in most remote areas. However, it is believed that ultimately the Post Office will face the same constraints as other financial institutions and will struggle to bear the cost associated with financially excluded customers.

## **9. What has been the impact of recent changes to the consumer credit market- such as the capping of payday loans- on those facing financial exclusion?**

Capping reduces the pricing of loans and people have access to cheaper product but the choice array is reduced because the lenders cannot sustain the margins required to be viable. Less risk is taken and access is limited as the approval rates diminish. We have seen this trend in the HCSTC market since 2015.

## **To what extent is the regulation of financial products and services in the UK tackling financial exclusion?**

The issue is not only linked to regulation- the basic systems used to provide access to credit are not functioning well. The credit scoring used currently works very well for the mid and upper range of customers but it is not suited for the marginalized segments of population. First, it costs the same amount or more to make a credit check for a small loan as for a mortgage therefore the customers at the fringes pay more for access to credit. Also, there is no specific category for micro-lending organisations in UK. Although they provide a viable alternative and works very well in countries from Sub-Saharan Africa countries and Latin America, in UK are muddled up with payday lenders and loan sharks. From a credit bureau perspective, there is no difference between a £300 loan to fix a washing machine and a £300 loan used to pay gambling debt. However, it is clear that the former is helping while the latter is hurting the consumer.

Secondly, the scoring provided by the credit bureau is insensitive to particular segments' realities. Research looking at the correlation between high-cost borrowing and borrower credit score reputation proves the lack of sensitivity and accurate predictability from the credit bureau. It was found that after taking a high-cost loan, the average credit borrower experienced a sudden drop in the credit score continued by a 12% drop in a year after taking the loan.<sup>504</sup> Taking up a high-cost loan automatically triggers a financial stress signal for both the

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<sup>504</sup> Liberman, Andres and Paravisini, Daniel and Pathania, Vikram Singh. " High-Cost Debt and Borrower Reputation: Evidence from the U.K." (June 17, 2016). <http://ssrn.com/abstract=2797383> p 13

average and low credit borrowers. This drop it is not explained by poor repayment behaviour, because taking up a high-cost loan actually improves repayment behaviour and the probability of default on short term credit. 505

### **13.1 Are alternative or additional regulatory interventions required to address financial exclusion?**

The government has a major role to play in working with the regulatory bodies to reduce the incumbencies and help differentiate between microfinance and payday lenders. The microfinance sector battles with a reputation issue, which limits its ability to advance financial inclusion for the marginalized segments. The financially “included” sectors of the society view with repugnance the services that the financially excluded need to use just to get-by. Products and services such as doorstep loans, micro-finance, hire purchase and pawnbrokers are perceived as “poor value” by regulators, leading to supply-restricting rules and regulations. At the same time, larger financial services providers exit these markets due to fear of reputational damage. Such restrictions further exacerbate the financial exclusion of those with low or no income and other particular groups because their choice array contracts even further. The long term repercussions of exclusion could include sub-optimal financial decisions leading to indebtedness and deeper poverty.

### **14. Does the Government have a role to play in ensuring that the development of financial technologies (Fin Tech) and data capture helps to address financial exclusion?**

The government has a major role to play in working with the regulatory bodies to reduce the incumbencies. A significant amount of the cost associated with serving the financially excluded is related to obtaining and analysing the information about the customer (credit bureau, transactional bank information). While this cost is a small amount of the revenue associated with a £10,000 personal loan or £300,000 mortgage, it represents a large revenue portion associated with a £300 loan. These costs are magnified for customers as they are incurred by both those approved and those declined for credit. Yet, a lender can only recover these costs from those who are approved. This, along with inherent risks associated with lending to the financially excluded are the fundamental reasons for high APR rates for small value, short-term loans. If data were more readily available, these costs could be slashed and savings passed onto consumers.

Additionally, as technology and data-gathering capabilities evolve, it is crucial to have information sharing with countries of origin of the migrant segment. This would improve access to mainstream financial services, better inclusion and less onerous on public money. Considering the explanation in the previous question, fin-tech has the capability to gather segment-specific insights, superior to banks. If a basic account is a gateway to more complex services, alternative micro-lending are a highly customizable gateway to mainstream credit. Ten years of

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<sup>505</sup> Liberman, Andres and Paravisini, Daniel and Pathania, Vikram Singh. “ High-Cost Debt and Borrower Reputation: Evidence from the U.K.” (June 17, 2016). <http://ssrn.com/abstract=2797383> p 18

serving customers has helped us identify good paying customers despite a low credit score. This type of rich data enabled us to complement the traditional risk-assessment tools and further customize the loans we provide.

We thank House of Lords Select Committee for considering our submission for the call for evidence on financial exclusion.

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1. Aynsley, Helen. "Financial Inclusion and Financial Capability: What's in a name" 2011. Web. 14 Sept. 2016.
2. Blake, Simon, and Esther De Jong. "Short Changed: Financial Exclusion: A Guide for Donors and Funders." TAustinLocke. 30 July 2013. Web. 14 Sept. 2016.
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*14 September 2016*



## **Ofsted and PSHE Association – Oral evidence (QQ 175-184)**

Evidence Session No. 18

Heard in Public

Questions 175 - 184

### [Watch the meeting](#)

Members present: Baroness Tyler of Enfield (Chairman); Bishop of Birmingham; Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook.

## Examination of witnesses

Jenny Barksfield, Deputy Chief Executive and Senior Subject Specialist, PSHE Association; Adrian Lyons, National Lead for Economics, Business and Enterprise, Ofsted.

Q175 **The Chairman:** If you are ready and settled, I will just go through the formalities and then ask you to introduce yourselves. Welcome to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the committee website, and you will have the opportunity to make any necessary corrections or amendments to that. For the record, could you begin by introducing yourselves and saying which organisation you are from, please? Adrian, do you want to start?

**Adrian Lyons:** My name is Adrian Lyons. I am one of Her Majesty's Inspectors at Ofsted, where I am the national lead for economics, business and enterprise.

**Jenny Barksfield:** I am Jenny Barksfield. I am deputy chief executive and senior subject specialist at the PSHE Association, the body that represents all professionals in personal, social, health and economic education.

Q176 **The Chairman:** Thank you. You are both very welcome. The topic this morning obviously is financial education, which is something the Committee has taken a particular interest in ever since this inquiry got going, so we are very pleased to have you here.

I will start off the questioning. The Committee has been told that the addition of financial education to the secondary school curriculum in England in 2014 has made little practical difference to the amount that the subject is taught in maintained schools. Could you say why you think this might be? Also, are you aware of good practice in financial education in schools that could be rolled out more broadly? Jenny, could you begin?

**Jenny Barksfield:** First, I think that is the case, and to understand why we need to look back a few years to the introduction of economic well-being and financial capability to the national curriculum as a non-statutory programme of study for PSHE in 2007. I was working in the field at the time, and economic well-being was a whole new programme of study, which we worked very hard to integrate into the PSHE programme. Some good work was done at that time, but obviously there was quite a high-profile campaign for financial education, rightly, to be a statutory entitlement for children.

In the 2014 national curriculum review, as I am sure you are aware, a small part of personal finance education was put into the citizenship programme of study at key stages 3 and 4, which was obviously a statutory subject. The inclusion of money in mathematics was increased, and it was given more weight in the maths curriculum. Finance education was then split between three curriculum subjects: maths, citizenship and PSHE. Of those three, PSHE was the non-statutory subject, and we were acutely aware of it being increasingly squeezed in the curriculum. I think it was a combination of

splitting it between those subjects and, in my opinion, it sitting most effectively in PSHE, although obviously not the mathematical elements of it—I would not claim to be able to teach maths.

The skills of managing and assessing risk and of decision-making, as well as peer pressure, which are so important in financial education, were therefore in the non-statutory subject, and we know there has been a 32% decrease in the time given to PSHE over the last four years. It is being squeezed into odd bits of tutor time or perhaps an odd day in the timetable once a year, and it is sort of being lost between these three subjects.

**The Chairman:** Can I just press you on that point? I think you said that 32% less time was being spent on PSHE over the last two or three years.

**Jenny Barksfield:** Apologies—I meant since 2011. There has been slightly less in the last four years.

**The Chairman:** What do you put that down to precisely? What is the reason for that?

**Jenny Barksfield:** It is a combination of things. Obviously if a subject is non-statutory, a school does not have to deliver it, and schools are under enormous pressure to deliver the core academic subjects, with Progress 8 and the increasing pressure on a fairly narrow number of academic subjects. With the best will in the world, it is not that head teachers do not understand the importance of it, but it is a nice-to-have rather than an essential in the eyes of some of them.

**The Chairman:** Are you aware of any good practice, perhaps where schools have tried to integrate it with another subject?

**Jenny Barksfield:** Yes, there are some obvious examples of very good practice, including in a couple of schools I have worked with. Newent Community School in Gloucestershire is a secondary school that has an hour a week for PSHE education, which it combines with citizenship and maths. It carries out a really interesting activity in year 8 and year 10, although it is obviously done slightly differently at each stage. For example, it has an afternoon to kick off its year-10 activity, and students are given a character. They are told what their job is, where they live and so on, and they research what their salary, their rent and their outgoings would be. They basically work out the economics for that character. That is then extended through lessons, so there is input from maths and from the taxation and fiscal policy side of citizenship. They look at the pressures on their decisions and assess the best way to spend their money through PSHE lessons. That is built in.

**The Chairman:** Thank you. Adrian.

**Adrian Lyons:** I agree with a lot of that. We usually find that in most schools there is some element of financial education going on, but its quality is variable. It depends on how it is delivered and who is delivering it, but the chief indicator is how important the head teachers think it is. As Jenny said, it is very rare to come across a conversation with a head teacher in which they say, "It's just not important". The question is whether it is important enough.

There are competing pressures on the timetable. In secondary schools, we do not really have a curriculum as such but a series of subjects, and although there is this notional national curriculum, when most secondary schools are

academies and are free from the national curriculum, the extent to which the word “national” can apply is quite debatable. Schools are free to do their own thing, and they will prioritise what they are being held accountable for, which is examination results and Ofsted gradings. Those are the drivers for most head teachers. That is what they tell us.

So we find a lot of variability. There are examples of good practice, and we have published such examples of good practice on financial capability. However, the fact that it is on the national curriculum does not seem to have had a huge impact on the quality of financial education in schools.

**The Chairman:** Can you show us your top example of best practice, as Jenny did?

**Adrian Lyons:** Can I write to you, because we have some clearly spelt out examples that are quite difficult to summarise in a few words?

**The Chairman:** That would be very helpful. We will pick up the points you have raised about accountability and how that might be sharpened, and indeed the role of Ofsted in that, as we move on.

**Viscount Brookeborough:** Very quickly, could you just tell us what Ofsted’s mission is? You have just said that this sort of thing may or may not happen. What is your mission, and where can you influence life in schools?

**Adrian Lyons:** Our mission is to raise standards and improve lives.

**Viscount Brookeborough:** But through what power?

**Adrian Lyons:** Our power is in carrying out inspections of individual schools. We have two functions, but the balance between them has changed over time. There is the day-to-day, week-to-week inspection of individual schools. We write a report about the school and grade its overall effectiveness, which seems to be a huge driver in what schools do to try to maximise their Ofsted grade. That is one function.

The other function is to advise Parliament on the state of the nation’s education. As our resources have been shrunk, we have had to prioritise the thing that has the most impact on raising standards, which is the inspection of individual schools. Does that answer your question?

**Viscount Brookeborough:** Yes, thank you.

**The Chairman:** You do a state-of-the-nation report to Parliament. Is that right?

**Adrian Lyons:** Yes.

**The Chairman:** How big is the section on financial education, typically?

**Adrian Lyons:** You probably know the answer to that before asking the question. One is coming out on 1 December, actually, which will answer that question.

**The Chairman:** Okay. To be specific and for the record, how much was there on financial education in the last one?

**Adrian Lyons:** I do not know the answer to that, but I would be surprised if there was any, to be honest.

Q177 **Lord Fellowes:** You have both said quite a bit about the variability of

standards of teaching. Does that extend right across the secondary sector: academies, free schools, foundation schools, and the independent sector?

**Jenny Barksfield:** My organisation works with all types of school all over the country, and in our experience it is completely variable across the piece. There is no way of saying that it is better in academies, state-maintained schools or independent schools. Each varies hugely, and I think Adrian is absolutely right that a lot of it depends very much on the priorities given by the school leadership team. However, anecdotally, we are working increasingly with the independent sector at the moment, and my feeling is that the Independent Schools Inspectorate, which operates under the auspices of Ofsted but only in independent schools, is increasing its focus on economic well-being, and we are getting a lot of independent schools looking for advice from us on how to improve their financial education. But that seems to be a direct result of an increased inspection focus in those schools. It is variable across maintained schools and academies.

**Lord Fellowes:** But if the independent sector were improving, that would probably have a marginally beneficial effect on the state sector.

**Jenny Barksfield:** I would love to think so, but to be honest there is little communication between the two. There does not seem to be a great awareness in state schools necessarily of what is happening in the independent school sector, and vice versa. I think that independent schools are much more aware of the national curriculum, for example. Although they are not bound by it, they are certainly influenced by it, as are academies. In the state sector, it is a case of focusing on what they are being judged and measured on and of trying to fit everything into an overcrowded curriculum. There are influences; we have seen them in things like character education and well-being, and even in the National Citizen Service—things that seem to have more of a hold in the independent sector and then gain a hold in the state sector.

**Adrian Lyons:** Our evidence is that no particular type of school does it better than any other. It is variable across the secondary range. The only observation I would make is that there is some evidence that independent schools see the young person in the round perhaps in a way that state schools do not always do.

**Lord Haskel:** I consulted a 12 year-old over the weekend about financial education at school. This child goes to an independent school, and he told me that the teachers do not do it at all. They do it through the eCadets. Apparently the eCadets will take the pupils through an advert on the internet that offers money and tell them how not to get into trouble over it. Would you consider that to be an example of good practice, or is it just the independent sector leaving it to some other organisation?

**Jenny Barksfield:** There are some excellent examples of peer education in all elements of PSHE in particular. There is sometimes an element in some schools of almost farming out sections of the curriculum to outside agencies, and there is a danger in that. All education needs to be developmental and progressive and build on previous learning, and it is very difficult to come in and do a one-off session and be confident that that will happen. Where it has been done well it has been planned into the programme by the teachers in consultation with the pupils. The more pupils have a voice in their education,

the better. In something that is well planned by the teachers, those young people's peers may well provide a voice that is very credible to them and that they will listen to, but it needs to be overseen and planned by a teacher. There are elements of this that should be taught by a teacher; I am thinking of some of the pressures on young people, whether online gambling, payday lenders or parental debt—things like that. Those things need to be handled very sensitively. But I think there are some very good examples of peer education being used well, and hopefully that is one of those examples.

**Adrian Lyons:** Peer education is great. Ofsted has no preferred way of delivery. We are interested in the results at the end of the day, in what works. There are a number of ways: using a range of people and resources to enhance the financial capability, or palming it off and getting somebody else to do it. Sometimes the line between the two can be thin. The important thing, as you say, is that the teacher has an overview and has managed and planned it.

One of the biggest barriers we find is that teachers themselves have very little confidence in teaching financial education. I do not know if you are going to come on to that. You may be. That often leads teachers to handing it over to somebody else: because they are a bit scared of it.

**The Chairman:** Yes, we will come on to teacher training later.

Q178 **Bishop of Birmingham:** I am after a bit more about Ofsted's common inspection regime and, as we understand it, the requirement to inspect financial education. We have heard about different subjects that might touch on that. We were also concerned about the rather damning comment by Demos in its *Banking for All* report, which says that it is a "bit-part subject. It isn't examined and Ofsted aren't that interested". What is your opinion on the inclusion of this subject in the various other subjects? How might the suggestions to make financial education prominent be implemented in your opinion?

**Adrian Lyons:** Our evidence is that, in mathematics, teachers are often very happy to use financial examples to illustrate the maths, but that does not work in quite the way it is intended to, because they are reluctant to use maths to explore financial capability situations that might end up in a discussion where there is not necessarily a right answer. They do not feel comfortable doing that, and if it is not directly relevant to boosting exam scores it will not happen. That is why it has not been as successful in mathematics as people might have hoped. Sure, if they are looking at percentages they will find an example—VAT or something—that involves calculating a percentage, but that is as far as it goes. The implications are not really discussed.

The other area is citizenship. It is in the national curriculum, but I rarely go into a school now that actually delivers citizenship, sadly. Very often there is something on the timetable—maybe a set of initials such as PSHEC or possibly even PSHECRE—and the PSHE curriculum, citizenship curriculum and perhaps even the RE curriculum are all trying to be delivered in 20 minutes a week. I have frequently suggested to head teachers that that is really not adequate, and they get quite angry, saying that otherwise we would complain about other things. Curriculum time is a really big issue. With Ofsted inspections we have to be realistic. Most schools have now been judged good schools, so they

get a short inspection—one inspector for one day—and there is a tight limit on what will be looked at.

**The Chairman:** Could I just pursue that point? Am I right in thinking that the current common Ofsted inspection framework does not include an assessment of financial education at the moment?

**Adrian Lyons:** Schools are judged on how well they prepare pupils for life in modern Britain, but that is about as close as it gets, to be honest.

**The Chairman:** Jenny, did you want to add to that?

**Jenny Barksfield:** Only—I will sound a little like a stuck record—that the time for PSHE is being reduced. Ofsted's new framework also has a much stronger focus on things like safeguarding. My impression from talking to teachers is that head teachers will recognise the importance of safeguarding in relation to their PSHE programme and will often prioritise that over other elements of PSHE, because they have so little time for it. Financial education might be one of the things that gets lost in that sort of, "We only have 20 minutes, and if we don't do something on sexual exploitation or online safety we're going to be in trouble over safeguarding". Sometimes I think that is prioritised when there is limited time.

**The Chairman:** Do you see a role for the exam boards? If they included financial capability in their syllabuses for subjects like maths, would that be another way of giving this greater focus?

**Jenny Barksfield:** If it were in maths, it would increase what Adrian described as using money as a context for doing maths. I cannot see how you would build this in. If a young person decides which trainers they want for Christmas or what want to spend their pocket money on, it is not their ability in maths or even their understanding of fiscal policy that will govern that; it is their understanding of peer pressure, their media literacy and so on. It is very hard to examine that in a maths GCSE, I would argue.

**Bishop of Birmingham:** Can I ask a question that you might not want to answer, as it may be outside this range? Clearly it will be difficult, it seems to me from what we are seeing, to make this a routine part of a very demanding timetable. Are there any other ways you might think of educationally in which a child at secondary school might be exposed to good financial behaviour at this very formative time?

**Jenny Barksfield:** It is really important that it is part of a whole-school approach. That is very hard to achieve without whole-school buy-in where you use the curriculum, and I would still say that without some sort of statutory component in the curriculum it will not happen at all. You also have to take other opportunities, such as focus days, assemblies or mini-enterprise activities. I have worked with a primary school in East Sussex—West Rise—that has some fantastic enterprise activities going on. The children enter enterprise competitions and set up their own mini-businesses—all those extra opportunities. It still needs a curriculum space to teach the skills element, but there are opportunities.

**Adrian Lyons:** Going back to your point about examination boards, I found this quite bizarre but I just discovered last week that the DfE insisted that the exam boards took financial capability out of GCSE economics. I know it is only

a minority subject, but you would think it would have that in it. I just pass that on.

**The Chairman:** Thank you for that. We are meeting the Minister in a couple of weeks, so we can pursue that.

**Adrian Lyons:** That is not a criticism obviously, just a piece of information I discovered.

**Viscount Brookeborough:** I was interested in your saying, I think, that schools are judged on how they prepare pupils for modern Britain. You are the judges in Ofsted. How important in your mind is financial education, when that is not being judged? Is it at the bottom of the list? You have said that it is not being judged, but I would have thought that modern Britain includes financial capability.

**Adrian Lyons:** So would I.

**Viscount Brookeborough:** So where does the blame lie, or will we come on to that later?

**Adrian Lyons:** The reality of Ofsted inspection is that it is very limited. The elements that we look at are the outcomes, as expressed in how good pupils' examination results are. Then there is how good the teaching and learning is that leads to them, as well as personal development, well-being and behaviour, which is where financial education would be addressed. It is true to say that if I am doing an inspection next week, I am more likely, because it is my area of passionate interest, to look at it than another inspector, who in turn may be more likely to look at other elements of personal development than I would. When we are inspecting, most of the inspection is determined by the school's self-evaluation—the things that it thinks it is strong at or that it needs to work on. Not every good school is exactly the same as another good school.

**Viscount Brookeborough:** So basically the problem is that the Government do not lay down that financial education is within the scope of what is judged in schools. It would be up to them to lay that down if it was to be so.

**Adrian Lyons:** It is about accountability measures.

Q179 **Viscount Brookeborough:** A number of evidence submissions to the Committee have suggested that financial education should begin in primary school as part of the maths syllabus. You have already spoken about that in relation to secondary schools, but I do not think that primary schools have been mentioned. If such education were introduced at a younger age, what form should it take and what challenges or difficulties do you foresee in implementing it? When we asked one of our witnesses about introducing financial education, they said that the teachers were frightened because they could not explain mortgages and so on. In primary schools, we are talking about playing games with money and moneyboxes; it is more about fun and games.

**Adrian Lyons:** Our experience and evidence is that it is often done very well in primary schools. There is a good-practice case study on our website of St Mary's Catholic Primary School in Falmouth in Cornwall, where enterprise and financial capability permeate the whole curriculum. It is well planned from reception to year 6, and the children operate a school bank. The



disappointment is that a lot of careful planning and progression are built in, but then the children go to secondary school and hit a brick wall. There are lots of good examples of effective work in primary schools. I visited a range of schools in Rotherham, where there is a borough-wide approach called "Rotherham Ready". The conceptual thinking of year 6 pupils in the primary schools was what I would normally find in perhaps a year-10 class in secondary school. There are high expectations of the sorts of thinking that pupils can do at a very young age. Obviously, the contexts used are more relevant to younger children, but the issues of choice and value for money can be well developed with younger pupils.

**Viscount Brookeborough:** Is not part of it ensuring that as children progress they do not become frightened and fearful of the financial consequences of doing things wrong? Therefore, if taking the fear out of it is happening in primary schools, it is important that secondary schools—even if they do not teach children about pensions, world interest rates or money laundering—are happy enough to talk about finance.

**Adrian Lyons:** I think there is a difference. We talked earlier about the sense of a whole curriculum. In primary schools, with the same teacher every day it is very easy to have a sense of whole curriculum—you do not have those silos of subjects—whereas when you get to secondary school, anything that you do has to come out of somebody's time. That is where the issue arises.

**Jenny Barksfield:** I totally agree that this must begin from the word go. Money is already a context in the maths curriculum in primary schools. It is already firmly in the PSHE curriculum. We have produced a programme of study for the whole PSHE education, which the DfE now signposts for schools. These are just 12 or 13 pages of our suggested scheme of work on financial education at primary.

**Viscount Brookeborough:** Does that take place in every primary school?

**Jenny Barksfield:** I wish it did. It is a non-statutory subject, so schools can choose whether or not to teach it, unfortunately. For example, in year 6 there is deciding what is value for money by comparing prices of different items and taking into account other factors such as usefulness, desirability, fashion and durability. It is about bringing in those elements and thinking about how choices in spending and saving can affect other people; it is about being a critical consumer. This is with 10 year-olds. We would start from early years. You are right that it needs to be a normal part of education. Adrian is right that it is easier in a primary school, where one teacher is with a class all day and can adjust their timetable, sometimes as they go along, to develop areas that are of interest. You are right that we have an issue where we transition to secondary school, where that learning is not necessarily built on. Sadly, no, it is not happening in all schools, because they do not have to, but it should be, in my opinion.

**Viscount Brookeborough:** Are we not passing the buck the whole time, including schools? Somebody says, "It is not in our subject", someone else says, "It is not PSHE"—

**Jenny Barksfield:** I think it is a PSHE subject.

**Viscount Brookeborough:** But whatever it is, it is not statutory, so everybody is avoiding the issue.

**Jenny Barksfield:** It is not statutory in PSHE, which is where I think it sits most comfortably. Obviously, the mathematical elements can be and will be taught in a good maths programme, and that is statutory. There are a couple of bullet points in the citizenship programme of study, which at key stages 3 and 4 is statutory, but as we know it does not necessarily happen, because it does not sit comfortably with the rest of the citizenship programme. It sits comfortably within PSHE education, but that is the bit that schools do not have to teach. That is where it should be and schools should be teaching it.

**The Chairman:** Adrian, you kindly said at the beginning that you would be able to let the Committee have a note about some of the best-practice examples that you have come across. It would be very helpful if you could include some from primary schools, like the ones that you have just mentioned, which were very interesting, as well as ones from secondary schools.

**Adrian Lyons:** Of course.

Q180 **Lord Northbrook:** To move on to the area of further education, the Money Advice Service's financial capability strategy has identified the ages of 17 to 18 as a "priority gap" area, in which it intends to carry out more research into what support systems exist for this age group and how they could be scaled up. How can further education colleges help to deliver financial education and develop financial capability? Are there any current examples of good practice that might be developed and applied more widely? Jenny, would you take that question first?

**Jenny Barksfield:** This is a crucial age. Obviously, we need to start teaching financial education from the word go, but it is from that age that it becomes very real and young people are making real financial decisions for themselves. There is a difference between school sixth forms and the further education context. We are about to publish a programme for PSHE at key stage 5, which includes economic well-being and financial capability. I have limited experience with FE colleges, because they tend not to have PSHE on their timetables. They might have one-off talks or tutorial sessions where financial capability could sit. I have very little evidence, because we do not work within those settings much, but schools sixth forms can do this well, particularly where they have student-led programmes, where students are able to talk about their own concerns. I was struck last week at the Youth Parliament debate here in the House of Commons by the fact that young people were again and again saying, "We need better financial education in schools. I'm about to go to university and I don't know the first thing about money". There is a real need. Sadly, I cannot off the top of my head give you a good practice example. I can try to find one to send you from our members on sixth-form provision in particular, but, as I say, I have limited experience with FE colleges, where I think provision is much patchier.

**Lord Northbrook:** Do you think that that is because exam pressures are even greater at that age?

**Jenny Barksfield:** Very much so. There is no statutory national curriculum at sixth-form level. It is very much what exam courses students are signed up for and then it is up to the individual school or college what else they provide. School sixth forms that do it well will still have a lot of time for pastoral input,

whether it is PSHE education or specifically financial education or careers education. But, again, it is inconsistent across schools and colleges.

**Lord Northbrook:** Adrian, do you have any thoughts on this?

**Adrian Lyons:** Post-16, there is the 16 to 19 study programme, which is common to sixth forms and FE colleges. All 16 to 19 year-olds should get a similar deal. In that programme, as well as young people doing the courses they have signed up for, the provider needs to be preparing them for the world of work. That would include, hopefully, financial education, but it is not specific. We did an enterprise survey early this year and visited 40 schools, most of which had sixth forms. The biggest criticism from the sixth-formers we spoke to of the experience that they had had in school was a lack of financial education—they volunteered that very often. I have to be careful here, because I am not promoting the idea that people need to do lots of extra exams, but we found that where schools were offering qualifications in financial capability, which seemed quite popular in the sixth form, they were very popular with students, because it gave them something tangible. We found that that also made the delivery quite structured. What was the IFS—it has just changed its name to the London Institute of Banking & Finance—has a suite of qualifications at various levels that are taken in schools. Where they are offered, they are very popular and they provide structure and coherence to financial education, which is often missing. But, as I say, I am not recommending that people do lots of extra qualifications.

**Lord Harrison:** Many decades ago, I was in the world of student union administration. Neither of you two has talked about student unions and welfare officers. Adrian, have you ever Ofsted-ed a student union?

**Adrian Lyons:** That would be outside our remit, I fear.

**Lord Harrison:** Would it? Often this is about the peer group in a further education college or a university. I have worked in both to advise the students how they might themselves manage to deliver to their peer group information about finance that was badly needed. Both of you have skipped that and very quickly taken refuge in sixth-form colleges and so on.

**Adrian Lyons:** That is because in Ofsted we do not inspect universities other than initial teacher training. Further-education colleges are inspected under a separate remit in Ofsted, with a separate set of inspectors, so my knowledge is limited to schools.

**Jenny Barksfield:** The same for me. PSHE as a subject does not exist in higher education. We do not have any members who are purely in higher education.

**Lord Harrison:** So who does that? Who deals with this world of financial information for people at the vulnerable ages of 17, 18 and a bit further on?

**Adrian Lyons:** That is—

**Lord Harrison:** Right. That is the answer.

**Jenny Barksfield:** Our new programme of study, as I say, goes up to 18, which is where our organisation's influence tends to end, because PSHE does not happen in universities. A lot happens pastorally in universities, but we work in schools specifically. We are a small organisation, so it is difficult to reach far beyond our remit, and our remit is schools. We go up to 18 and

provide guidance up to that age, but not in universities or higher education, unfortunately.

**Lord Harrison:** Or further education.

**Jenny Barksfield:** All our resources are available to further education colleges.

**Adrian Lyons:** I will try to get somebody from our further education remit to contact you.

**The Chairman:** That would be incredibly helpful. I am conscious that next week the Open University is giving evidence, which tends to straddle that critical age-18 boundary a bit, so we will see what other opportunities there are to introduce this issue. I know that FE often gets overlooked, not least because it straddles different sorts of remits and age ranges

Q181 **Lord Empey:** What do you think the education community in England can learn from the way financial education is delivered in the regions? Obviously there are particular challenges in applying learnings from Scotland, Wales and Northern Ireland to the English context, but do you see any examples of where you could benefit, or is it not applicable to the English regime?

**Jenny Barksfield:** My understanding of the English system is greater, because that is where PSHE operates, but from my understanding of the equivalents in Scotland, Wales and Northern Ireland, I think it is fantastic that finance education and some form of PSHE-related course are statutory in all three. My impression is there is currently a lack of clarity in how it will be in the new Welsh curriculum that is coming in, but it is absolutely right to make this statutory and for it to be a norm for them to have elements that we would teach in PSHE as a statutory part of the curriculum.

There is a slight danger in that their models are very much about financial education as a cross-curriculum theme. That has huge benefits in that you can pick it up in a lot of areas, but if there is no requirement for it to have its own discrete teaching time within a subject it can be lost and you can have a sort of everywhere-and-nowhere model where you map it all over the place.

**Lord Empey:** Does this all boil down to the fact that unless an exam is taken in it that counts, it will lose its importance and significance?

**Jenny Barksfield:** I am obviously coming from the perspective of a subject, PSHE, that is not examined. I am not necessarily a massive fan of the suggestion that the only way to do something is by examining it. Obviously there is an argument that things are suddenly taken a lot more seriously if there is an exam at the end. That is one way to get time on a curriculum, but I am not a particular fan of the idea of, say, a GCSE in PSHE education. It is too personal a subject. As Adrian said, there are qualifications related to financial capability, but my worry is that they will focus on the mathematical side and not the affective side. I am not sure that I have answered your question. I slightly lost my train of thought.

**Lord Empey:** Okay. I know in Northern Ireland that the inspectorate covers both schools and further education colleges, and of course further education colleges deliver A-levels and other qualifications. In some cases, they are picking up the failure of schools even to teach literacy, which is shocking. Are we missing something in the inspectorate? Clearly, there are discrete issues

for and differences between a further education college and a school, but at the same time further education colleges work increasingly with schools, and indeed in some cases end up teaching the same subjects. Where do you feel the gaps are, and are there any lessons to be learned from the regions for the way education is inspected?

**Adrian Lyons:** As you know, Ofsted's remit is England, so my knowledge of other national systems is limited. I have tried to make contact with somebody with a similar responsibility in Scotland but have been unsuccessful. A few months ago I gave evidence to the all-party parliamentary group on financial capability. Sitting next to me was somebody from Scotland who I thought was going to say, "It's all so much better in Scotland". Actually, he identified exactly the same problems and issues that we have in England. That is as much as I know, really.

**Viscount Brookeborough:** Very quickly, you said that this was because it was not examined, as we have heard on several occasions. The key to this as far as Ofsted monitoring standards are concerned would appear to be that there simply has to be an examination in order to bring it into scope. So long as there is no examination, it will not be in scope and will not even be mentioned in the state-of-the-nation report.

**Jenny Barksfield:** I am not sure. Adrian will correct me if I am wrong, but I think there are other unexamined elements of school life that are very much inspected. I mentioned safeguarding earlier, which is a huge aspect of school life that is very closely inspected. Pupils' personal development and well-being generally are very closely inspected. It is not so much a case of inspection looking only at examined elements—

**Viscount Brookeborough:** But the control there is that if safeguarding goes wrong there is a massive legal problem, whereas there is absolutely nothing controlling the other.

**Jenny Barksfield:** I am talking about inspection, which is not really my remit, but for the schools that I work with inspection is an incredibly strong influence, whatever that inspection is of. There are two measures. Obviously, one very strong driver for schools is the academic results of the school, and inspection is the other. I do not think that schools see inspections as looking just at their academic results, although obviously that is part of it, but things get lost when some things are not spelled out in an inspection framework in that way.

**The Chairman:** Do you want to add anything, Adrian?

**Adrian Lyons:** I just want to manage expectations, really. It could seem an easy solution to add financial capability to the list of things that Ofsted inspects, but I do not think it would be likely to happen in reality, because there are a large range of things that are desirable in school. I am being careful about how I express this, because we all feel that financial education in schools is incredibly important, but the financial burden on Ofsted and the burden of inspection on schools are the two things that have very much driven Ofsted to have a very streamlined inspection, in most cases lasting one day, and with one inspector now. I just want to manage expectations on that.

**Lord Kirkwood of Kirkhope:** This might be a slightly left-field question, and it might be unfair to ask you two, but the thought was just stimulated in my

mind by something Adrian said earlier. Do you think it is fanciful to expect credit agencies—widely defined, because they are developing—to give additional consideration to people who have passed an examination? If you took the trouble to get the examination in later life, you would always be able to refer to that if you were going to Experian or whatever. Is that idea worth contemplating?

**Adrian Lyons:** That is a very interesting idea, although I am not sure that Ofsted would have a view on it.

**Jenny Barksfield:** I have a slight view, I think, despite being in no way a financial expert. In thinking about financial exclusion, I think about some of the pupils I have worked with who are probably already on a path to the payday lender and the betting shop. They are probably the ones who would fail that exam no matter how much extra support and tuition they had. My worry would be whether we would further exclude some people from the financial support that they might get. I am not a financial expert, and I am not sure entirely how credit unions and so on operate, but my worry would be that we end up with two-tier access to financial services.

Q182 **Lord McKenzie of Luton:** I want to come on to the issue of training. What we have heard from you this morning very much describes the fragmented and unco-ordinated approach to financial capability, which is influenced by what happens locally in individual schools. I am not sure whether it was the All-Party Group on Financial Education for Young People that Adrian gave evidence to—

**Adrian Lyons:** Yes it was.

**Lord McKenzie of Luton:** You will be aware of the survey that said that one in five teachers currently teaching statutory financial education in secondary schools say that they are unconfident about teaching it. That is quite a stark statistic. What specific training is available in financial capability for new and existing teachers, and what gaps are there in the teacher-training system? Could more be done to train teachers? What is the value of services such as those offered by the Personal Finance Education Group—I am imagine you aware of that—and MyBnk, from which we have received representations in the past?

**Jenny Barksfield:** You are absolutely right about existing teachers, and our own member surveys and work with teachers bears out the fact that they hugely lack confidence. One of the issues, particularly at secondary schools, is that people teaching PSHE, and to a great extent citizenship as well, have had no specific training to do that. They might be a music teacher the rest of the week, but for an hour a week they teach PSHE and citizenship, with everything ranging from sex education to personal finance. That is a big ask if you trained as a music teacher or a geography teacher. There is an incredible shortage of training for existing teachers. We offer training ourselves for all aspects of PSHE, but we are a very small organisation and cannot, with the best will in the world, get around the whole country. You mentioned PFEG—the Personal Finance Education Group—which also offers training to teachers. I believe there is also Young Enterprise. I am sure there are other providers, but they are the main ones in personal finance.

Again, a lot of training for existing teachers is dependent on their being released from school to go for training or on having training in school, which obviously costs quite a lot. For a subject that, as we have said, is already squeezed and given a low profile, they are usually also at the back of the queue for the training budget. There is an issue with just having the access that they need to proactively go and look for that training. It is not automatically provided. There is a real gap in training for existing teachers.

On initial teacher training, again most teachers will qualify having had little or no input from financial education, PSHE or citizenship. I work with one university where we do a one-hour lecture, once a year, which is the most they can spare us for 400-odd trainee teachers who, on the day they qualify, will teach PSHE. They are lucky, as there are some who do not get any at all. Some places, such as Birmingham University and Southampton, have a much greater focus on these elements of the curriculum, but there is a big training shortage.

**Lord McKenzie of Luton:** That is a pretty bleak assessment.

**Jenny Barksfield:** It is. We train several hundred teachers a year, but there are 20,000-odd schools in the country. Training is one of the big issues.

You asked a second part to that question. Shall I deal with that now?

Organisations such as MyBnk, PFEF and Young Enterprise offer a tremendous service. There are some fantastic resources coming from them, and some like MyBnk go into and work in schools. The danger comes right back to the very first question, when we were talking about the extent to which sometimes that can be seen as, "Oh, that's job done. If we have somebody in for a day, we can tick off financial education for the next year". We know that in any subject a one-off piece of learning that is not embedded through follow-up lessons and so on will be lost. It might be a memorable occasion, but the learning is lost. They are at their best when their resources and their input in schools are part and parcel of a developmental programme in the school, where teachers are picking up on that learning and embedding that through follow-up lessons.

**Lord McKenzie of Luton:** To what extent would that training specifically encompass an understanding of the experiences of financial exclusion, say, rather than perhaps more mainstream teaching on currencies and exchange rates?

**Jenny Barksfield:** We are PSHE specialists rather than specialists in the individual topics. PFEF is the example that I point teachers to for much more specific training. Sadly, I do not know the full details of what it does, but it definitely approaches this very much from the angle of this not just being about being able to work out a budget mathematically but being very much about the pressures on young people and the sort of life-skill decisions they are going to have to make around money. It is definitely not just, "This is what a bank account is, and this is what compound interest is". It is much more than that.

**Lord McKenzie of Luton:** Thank you. Adrian, do you have anything to add?

**Adrian Lyons:** Yes. The lack of training leads to a real lack of confidence in teachers delivering financial education, which quite often leads to the reinforcing of misconceptions. I have seen lessons in which the teacher has

taught, in all good conscience, "Fact: debt is bad". Really? So you do not have a mortgage? Nobody is going to university here? I sit there thinking, "Think about what you have just said". Some training programmes are available. Jenny just mentioned PFEG, and our old friends the London Institute of Banking & Finance, which used to be called IFS, have recently established an in-service postgraduate certificate in teaching financial capability for existing teachers. Despite that, we are going to reinforce what each other says, because realistically the number of teachers this would have an impact on would, I imagine, be very small—maybe 20 a year.

**Lord McKenzie of Luton:** Could anything fundamental be done to change that?

**Adrian Lyons:** It would need a lot of money behind it. You would need to take the training to the school rather than having the model of the teachers coming out of school. In principle, if a school has PSHE, including financial capability, as part of the curriculum that everybody is going to be delivering—if it is taught through form tutors or whatever—it would be reasonable to have after-school training on that for the teachers. It would be expensive to replicate that around the country, but that would seem to be the main way of doing it.

To pick up on the models of delivery, again I agree with you, but the most common model of delivery seems to be by form tutors, so it could just be a music teacher delivering it. Another model is that you have a small specialist team to deliver all the PSHE, which seems to be more effective from our evidence, and somebody in that team could be the financial capability specialist. The third model is a drop down day. The problem with that is that some people will be away that day and miss the whole provision. It does not fit into any other subject. We look at revisiting the topics, building progression, checking that people have got it before you move it. That does not feature in a drop down day, where you bring in external experts.

A combination of those approaches seems to be effective, but the training is a dilemma. I inspect teacher training, and I know the pressures that teacher trainers are under. At the same time, one of the things we look at when we are inspecting teacher training is the extent to which trainees are prepared to be involved in the wider life of the school beyond delivering their subject, so their preparedness to be involved in the opportunities they have had during their training year to be involved in PSHE is one of the things that we would expect from a good provider.

**The Chairman:** Thank you. I am going to have to ask for fairly succinct replies to this, as we are slightly running out of time. Lord Holmes.

Q183 **Lord Holmes of Richmond:** We have been talking about financial education, so it is only right that we should talk about who should fund financial education in schools. Are current levels of funding sufficient? Is it appropriate to use pupil premium funds for this purpose?

**Jenny Barksfield:** On one level, you could say that this does not need funding, but is about helping the schools carve out the time to do it. Everything is there. The programme of study that we have written gives a very comprehensive programme for economic well-being. The citizenship curriculum is there; the maths curriculum is there. There are a lot of very



good resources: PFEG quality-assures resources, as do we. Organisations such as MyBnk are ready and waiting to go into schools to help with this.

Where any funding should go takes us back to the previous question. Actually, the funding is needed for training, more than for paying people to come and do this for us. For me it is much more a case of everything being there, but we have to convince schools of its importance, and that it is worth finding time for. Obviously, a statutory responsibility to do it helps with that very much. Obviously schools decide locally how they will spend pupil premium money on their pupils' needs, but there are things that can be offered. PSHE is a universal programme for all children and young people, but we know that children who are entitled to the pupil premium are probably those who are potentially most at risk of future financial risk-taking, which is one way of putting it. It would be a valid use if it added to or enhanced that programme, but for me it is much more about the fact that the money is needed for training teachers and the time is needed to implement what is already in place in a lot of schools and therefore in schools where it is not currently in place.

**Adrian Lyons:** I will be succinct: I agree with that.

**Lord Holmes of Richmond:** As is so often the case, we relearn this morning the two most important pieces of financial education: time is money, and that, in many of the examples you gave, young people should be able to recognise when someone is passing the buck.

**The Chairman:** Thank you very much. Final question, Lord Haskel.

Q184 **Lord Haskel:** We have covered a very wide area in financial education in schools and FE colleges. What is the one thing that you would like the Committee to consider recommending when we draw up our report?

**Jenny Barksfield:** I am sure you can guess what mine will be. We are keen and eager to deliver economic well-being in its broadest sense through PSHE, but we need a statutory entitlement to PSHE for all children and young people at primary and secondary school to make that achievable for schools. Statutory PSHE is absolutely crucial and long overdue, and Scotland and Northern Ireland give us an example of where it is the norm. But we also need a strong message from the Government that this is important. Adrian has given the example of citizenship, which is statutory but still not happening in many schools. So there is the statutory status, but also the strong message that this is a really crucial part of children's education, and it is as big a responsibility on the schools as getting the pupils through GCSEs.

**Lord Haskel:** The two go together.

**Jenny Barksfield:** I think they do.

**Adrian Lyons:** I can tell you what we would like to happen, because Ofsted has already published it. Back in June 2011, our last report on economics business and enterprise asked the Department for Education to promote the importance of "well-planned provision for enterprise education", including "the promotion of economic and business understanding and ... financial capability". We said: "Secondary schools and primary schools should ... ensure they provide a coherent programme to develop the economic and business understanding and enterprise and financial capability of all children and young people", and, "in the case of secondary schools, make the most effective use

of the expertise of their economics and business specialist teachers in delivering these programmes; and in both primary and secondary schools, ensure that all teachers involved in delivering these programmes have access to appropriate professional development". That is what we have been talking about really, and we asked for it several years ago.

**Lord Haskel:** How would you make sure it is done?

**Adrian Lyons:** Perhaps your Committee has more clout than we do.

**Lord Haskel:** Oh come, come.

**The Chairman:** Thank you very much indeed, both of you. It has been a very interesting session. As I say, I am sure the Committee will want to think long and hard about what it has to say in this area, because it has been such an important area to us.

Open Data Institute, Lloyds Banking Group and Tinder Foundation – Oral evidence (QQ 168-174)

## **Open Data Institute, Lloyds Banking Group and Tinder Foundation – Oral evidence (QQ 168-174)**

[Transcript to be found under Lloyds Banking Group](#)

## **The Open University, True Potential Centre for the Public Understanding of Finance (PUFin) – Written evidence (FEX0009)**

### **Summary**

S1. This response has been prepared by Jonquil Lowe, William Brambley, Janette Rutterford and Martin Upton, all members of PUFin. It draws on, but is not confined to, recent research into financial exclusion conducted by members of PUFin<sup>506</sup> in collaboration with the Financial Conduct Authority (FCA) and published as an FCA report<sup>507</sup>. Throughout this evidence, we refer to this report as 'Collard et al (2016)'.

S2. The research focused on exclusion from access to financial products and services through the lens of major technological and social trends affecting the UK: digital innovation; crime prevention, in particular regarding access to banking; automated processes for credit; increasing segmentation in insurance markets; and ageing population, for example in relation to access to mortgages. The research has informed our answers to this call for evidence as follows:

- We found that the scope of financial exclusion is wide, affecting many millions of UK citizens –including people with disability and in rural communities – in diverse and often multiple ways (Questions 1, 2, 3 and 4).
- Our analysis enabled us to sort the causes of financial exclusion into eight categories (Question 1).
- Each category of cause maps to different types of solution. Most require a coordinated response from multiple stakeholders and there is a key role for Government in bringing these stakeholders together (Questions 7, 8, 9, 10, 12).
- Some causes of exclusion cannot be solved by the market and require changes in social policy. In addition, the Government and the FCA are in a position to take steps to identify potential causes of exclusion and foster solutions (Questions 13 and 14).
- Financial education in schools needs to be salient: basic mathematics is a fundamental building block for financial capability: and education does not replace the need for relevant guidance at key life-stages and events (Questions 5 and 6).

### **About PUFin**

P1. The True Potential Centre for the Public Understanding of Finance (PUFin) was established at The Open University (OU) in 2013, with a mission to improve personal financial capability in the UK through the provision of free online education to the public and research into policy initiatives that could both improve financial decision making and make financial products more accessible and intelligible.

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<sup>506</sup> Professor Sharon Collard and Jonquil Lowe.

<sup>507</sup> [Access to Financial Services in the UK](#)

P2. PUFin is a provider of financial capability education and delivers flagship, rigorous, and impactful projects that provide evidence of what works in financial capability. It is the only provider of financial education in the UK that is also a research centre, with ongoing programmes dedicated to the impact of financial education and testing interventions to improve consumer financial outcomes. We have a particular expertise in behavioural economics.

P3. With nearly 174,000 students, The Open University is the largest university in the UK and operates across all four UK nations. Through academic research, pedagogic innovation and collaborative partnership it seeks to be a world leader in the design, content and delivery of supported open learning. The establishment and activities of True Potential PUFin have been made possible through the support of True Potential LLP. The views expressed in this evidence are those of the PUFin academics not True Potential.

**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?**

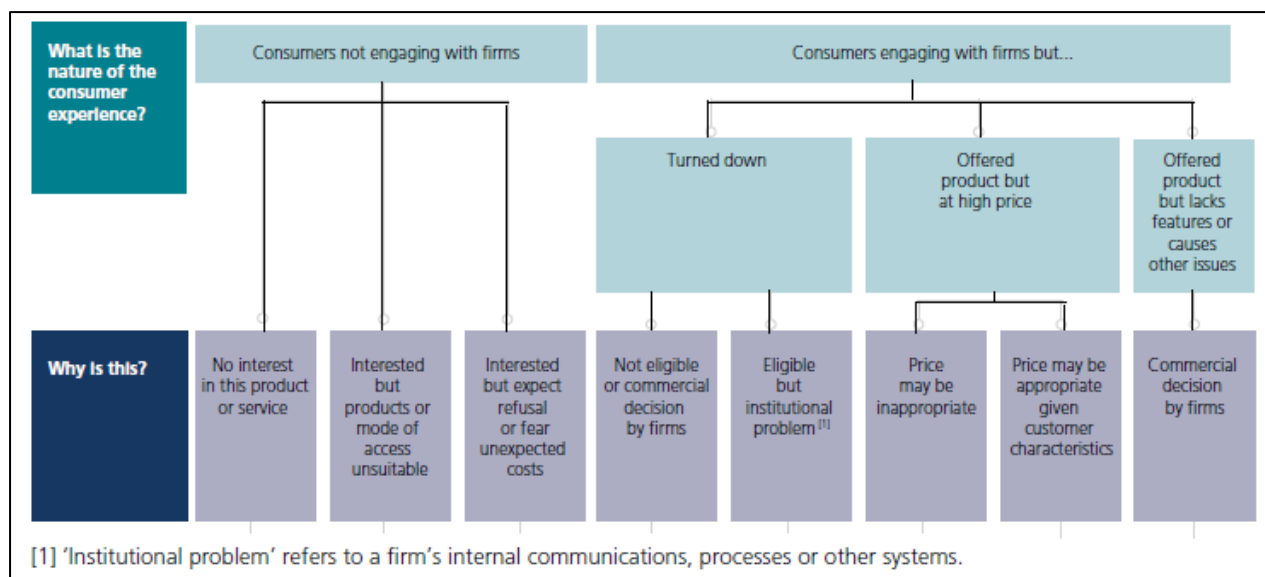
1.1 Financial exclusion is not simply the inverse of financial inclusion. There is no single accepted definition of either term and, in many countries, 'financial inclusion' still refers primarily to access to banking or alternative transactional services<sup>508</sup>. However, our preferred definition is wider: '*A financially inclusive society is one in which financial services are accessible to all, easy to use and meet people's needs over their lifetime. Financial inclusion also means that people have the skills and motivation to use financial services, and to benefit meaningfully from them*'<sup>509</sup>. While financial exclusion could be seen as the inverse of this, there is a practical distinction. Financial inclusion tends to be a set of goals and policies that are *actively* pursued, while financial exclusion tends *passively* to arise out of the way society is organised, firms conduct their businesses and the choices consumers make, and also as a side-effect of some types of regulation. As a result inclusion tends to be visible, while financial exclusion may be hidden.

1.2 In Collard et al (2016), the authors divide the causes of financial exclusion into eight distinct categories. This is shown in Figure 1, with categories graduated from left to right from the lowest levels of consumer engagement to the highest. Although the categorisation was designed in the first instance to focus on access issues, it can readily be extended to include skills and motivation. For example, where consumers have no interest in a product or service, an access example might be choosing not to embrace new technology, such as the internet. However, it may also include consumers who are unaware, or reject the relevance to them, of a product or service due to low skills or motivation (for example, contents insurance as discussed in Question 8 below).

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<sup>508</sup> World Bank (2016) 'Strategy' in [Financial Inclusion: Overview](#) (at 9 August 2016).

<sup>509</sup> FIC (2015) [Improving the financial health of the nation](#) (at 9 August 2016).

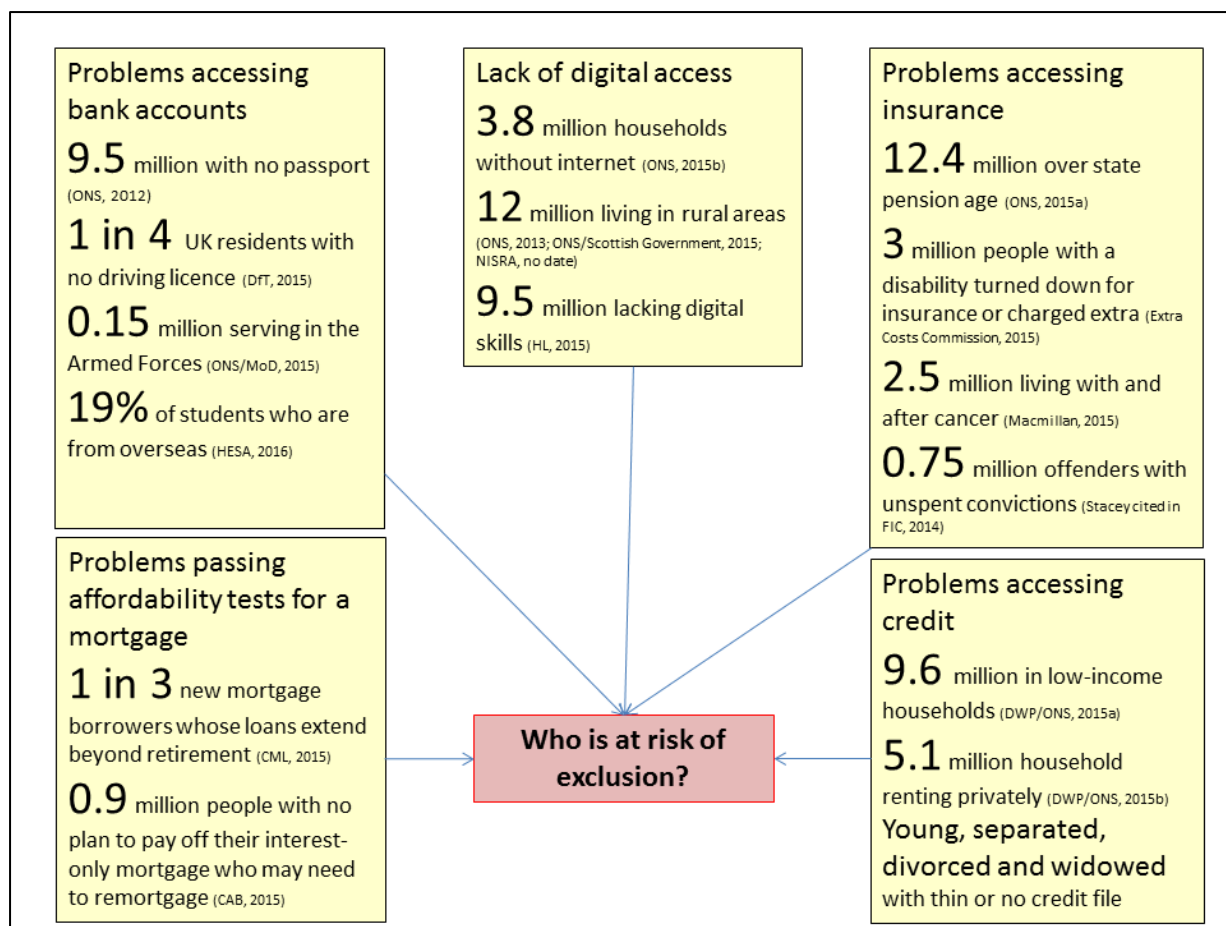


**Figure 1: A categorisation of the causes of financial exclusion** (Source: Collard et al, 2016, p.124)

**Question 2 Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

2.1 Collard et al (2016) found that financial exclusion potentially affects millions. Traditionally, exclusion has focused on the proportion of the population lacking access to a bank account, which still stands at 1.5 million adults in the UK<sup>510</sup>. Access to bank accounts is essential not just to facilitate most day-to-day transactions, but also as a gateway to other household and financial services. However, Collard et al (2016) looked at exclusion from a wider range of essential financial products and services, resulting in the identification of the at-risk groups shown in Figure 2.

<sup>510</sup> Rowlingson, K. and McKay, S. (2015) [Financial Inclusion Annual Monitoring Report 2015](#) (at 25 February 2016).



**Figure 2: Who is at risk of financial exclusion?**

Data sources:

**Problems accessing bank accounts:** Office for National Statistics (ONS) (2012) *2011 Census: Key Statistics for England and Wales, March 2011* (at 21 December 2015); Department for Transport (2015) *National Travel Survey for England 2014*. Statistical Release (at 1 February 2016); ONS/Ministry of Defence (2015) *UK Armed Forces Quarterly Personnel Report 1 April 2015* (at 21 December 2015); Higher Education Statistics Authority (HESA) (2016) *Non-UK domicile students* (as at 19 March 2016), Table 1.

**Problems passing affordability tests for a mortgage:** Council of Mortgage Lenders (2015) *Retirement borrowing: reality, perceptions, projections and potential* (at 28 January 2016); Citizens Advice (2015) *1 million mortgage holders have no plan on how to repay* (at 28 January 2016).

**Lack of digital access:** ONS (2013) *2011 Census Analysis - Comparing Rural and Urban Areas of England and Wales* (as at 21 December 2015); NISRA (no date) *Population change 2001-2011* (at 24 February 2016).

**Problems accessing insurance:** ONS (2015a) *National population projections for the UK, 2014-based Statistical Bulletin* (at 21 December 2015); Extra Costs Commission (2015) *Driving down the extra costs disabled people face. Interim report* (accessed 2 February 2016); Macmillan Cancer Support (2015) *Statistics Factsheet* (at 2 February 2016); Financial Inclusion Commission (2014) *Minutes of evidence taken before The Financial Inclusion Commission, Tuesday 25 November 2014. Mr Christopher Stacey and Mr Matt Cullen* (at 2 February 2016).

**Problems accessing credit:** Department for Work and Pensions (DWP)/ONS (2015a) *Households below average income* (at 19 March 2016); DWP/ONS (2015b) *Family Resources Survey United Kingdom, 2013/14* (at 30 January 2016).

2.2 The totals in Figure 2 cannot simply be added together, because some households fall into multiple groups. For example:

- **Low-income households** are often excluded from mainstream credit because their low income increases their risk rating. They are also less likely to have the documents and stable address required to pass the anti-money laundering checks required even for a basic bank account<sup>511</sup> and may self-exclude from insurance products because the payment terms and cover are inappropriate to their circumstances<sup>512</sup>.
- **People affected by disability or cancer** may face particular problems getting any type of insurance (including travel cover) that has a health-related element<sup>513</sup>. However, they are also more likely to be in low-income households because of the impact their health issue has on ability to earn and extra expenses incurred<sup>514</sup>. While digital innovation undoubtedly helps many with disability to access banking and other financial services, others lack the physical or mental capacity to access services this way and so may be excluded from the best deals. Moreover, price comparison websites and automated forms often do not cater for non-mainstream circumstances<sup>515</sup>.

2.3 Collard et al (2016) found that rural communities are at particular risk from exclusion when branch-based services, such as traditional banking, are closed down because of patchy public transport to rural centres and poor access to digital alternatives. For example, compared with just 8% in urban areas, 48% of rural premises do not have access to broadband speeds of at least 10 Megabits per second (Mbps)<sup>516</sup>, which is the government's proposed universal service obligation (Hirst, 2016). In addition, only 31% of rural premises have indoor mobile coverage, compared with 91% in urban areas<sup>517</sup>.

### **Question 3 What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

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<sup>511</sup> Citizens Advice (2015) *Intelligence to the FCA on money laundering and banking*. Unpublished response to FCA request for information; Joint Money Laundering Steering Group (JMLSG) (2014) *Guidance, Parts I and II* (at 5 January 2016).

<sup>512</sup> Dayson, K., Vik, P. and Ward, A. (2009) *Developing models for delivering insurance through CDFIs – opportunities and risks* (at 2 February 2016).

<sup>513</sup> Extra Costs Commission (2015) *Driving down the extra costs disabled people face. Interim report* (accessed 2 February 2016); Macmillan Cancer Support (2015) *Statistics Factsheet* (at 2 February 2016).

<sup>514</sup> Coppack, M., Raza, Y. Sarkar, S. and Scribbins, K (2015) *Consumer Vulnerability. Occasional Paper No. 8* (at 24 February 2016).

<sup>515</sup> FIC (2014) *Minutes of evidence taken before The Financial Inclusion Commission, Tuesday 25 November 2014. Mr Christopher Stacey and Mr Matt Cullen* (at 2 February 2016).

<sup>516</sup> Ofcom (2015) *Connected Nations 2015. Concise summary* (at 31 March 2016).

<sup>517</sup> Ibid.



3.1 Collard et al (2016) did not specifically explore this issue, but did note some areas where financial exclusion caused disadvantage in other areas of life. For example:

- **People with unspent criminal convictions** are typically unable to get most types of insurance. This can affect job prospects, if driving to and from work or during work is required, self-employment prospects if liability insurance is needed and mortgage prospects because of lack of access to buildings insurance. This can also extend to people living with someone who has a conviction. Moreover, insurance application forms are often worded in such a way that they elicit information about spent convictions, which legally should not have to be declared.
- **Where people affected by disability or cancer** are unable to obtain travel insurance, they are excluded from activities, such as taking a holiday, which most people in the UK take for granted.

3.2 Regarding problem debt, Collard et al (2016) found that lenders tend to interpret using payday loans as a negative factor when assessing creditworthiness, making it difficult for low-income consumers in particular to escape the cycle of squeezed budgets and high-cost credit. However Gathergood et al<sup>518</sup> have argued that successfully managing payday loan repayments should be interpreted as positive information and so enable progression to more mainstream (and cheaper) forms of borrowing.

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

4.1 Collard et al (2016) found particular issues exist for these groups in obtaining health-related insurances. There were indications of seemingly arbitrary distinctions being used to determine whether premiums should be loaded or not (such as 10 years in remission for people who had been treated for cancer), suggesting a possible lack of granularity in the data being used to assess the risk.

4.2 A spokesperson for the Association of British Insurers<sup>519</sup> has described a trade-off in insurance markets between low-cost models which group applicants together in large, standardised pools, often simply excluding unusual risks, and higher-cost, niche models which use more granular data to assess risk more finely. More granular models require reliable statistical data (which possibly health charities might be able to help provide), but would also have the effect of improving access (and cheapness) of insurance for some people with health problems, while pushing up the price for others who might even become uninsurable if left to market forces. In that situation, whether or not people should be guaranteed access to some level of cover becomes a social policy decision – and an example of this is where the Government brokered an agreement with the insurance industry over the use of genetic testing<sup>520</sup>.

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<sup>518</sup> Gathergood, J., Wildman, A. and Papamanci, L. (2014) [Climbing the credit ladder](#) (at 15 August 2016).

<sup>519</sup> Cullen cited in FIC (2014) *Minutes of evidence taken before The Financial Inclusion Commission, Tuesday 25 November 2014*, Op cit.

<sup>520</sup> Association of British Insurers (ABI) / HM Government (2014) [Concordat and moratorium on genetic testing](#) (at 15 August 2016).

**Question 5 Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

5.1 Teaching personal finance is now compulsory in schools across the UK. However, a recent report<sup>521</sup> has found that, in England, one in five secondary school teachers lack confidence delivering this topic and the time available in the curriculum is limited. The report calls for personal finance teaching to start at primary level and more training for teachers.

5.2 The PUFin team have experience in delivering personal finance training to adults. This includes a suite of free Massive Online Open Courses (MOOCs):

- *Managing My Money*, which introduces financial capability across the broad spectrum of personal finance, including budgeting, debt and saving
- *Managing My Investments*, which has detailed content on investments, pensions and using financial advice
- *Managing My Financial Journey*, which includes topics such as understanding and comparing charges for products and consumer protection.

5.3 *Managing My Money* (which has trained 37,000 active adult learners since its launch in May 2014) could be particularly suitable for training teachers and other trainers and intermediaries engaged in cascading financial education.

5.4 Members of PUFin have also previously worked with Money Advice Service and its predecessors on a wide variety of projects, including embedding the MINDSPACE principles (see Table 1) into resources. MINDSPACE is a checklist of behavioural techniques that can be embedded into financial capability initiatives to make them more effective, and they are as relevant to schoolchildren as to adults. One of the key limitations in delivering personal finance education in schools is 'salience'. There is a limited range of topics that are directly relevant (salient) to school-age children (such as choosing between mobile devices, basic money management and starting to save), and teaching less-salient topics (such as mortgages and pensions) may be better left until later life-stages. Moreover, some experts<sup>522</sup> are critical of general financial education, pointing out that emotional biases take over at the point when financial decisions have to be made and that the pace of innovation in financial products and services means prior learning rapidly dates. They argue that face-to-face financial counselling and advice at the point when needed are likely to be more effective.

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<sup>521</sup> All Party Parliamentary Group on Financial Education for Young People (2016) [Report](#) (at 15 August 2016).

<sup>522</sup> For example, Willis, L.E. (2008) *Against financial literacy education*, Public Law and Legal Theory Research Paper Series Research Paper No. #08-10, Philadelphia, University of Pennsylvania Law School.

**Table 1: Behavioural techniques that can improve financial capability initiatives**

Messenger	We are heavily influenced by who communicates information
Incentives	Our responses to incentives are shaped by predictable mental shortcuts such as strongly avoiding losses
Norms	We are strongly influenced by what others do
Defaults	We 'go with the flow' of pre-set options
Salience	Our attention is drawn to what is novel and seems relevant to us
Priming	Our acts are often influenced by sub-conscious cues
Affect	Our emotional associations can powerfully shape our actions
Commitments	We seek to be consistent with our public promises, and reciprocate acts
Ego	We act in ways that make us feel better about ourselves

Source: Consumer Financial Education Body (CFEB) (2010) *Transforming financial behaviour: developing interventions that build financial capability* (accessed 12 August 2016), page 11.

5.5 However, our experience at the OU of teaching personal finance courses to undergraduates does suggest a high value in ensuring that school-leavers have relevant basic mathematical knowledge and skills, such as percentages and compounding, since these building blocks are fundamental, later on, to understanding and evaluating many financial products, services and decisions.

**Question 6 How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

6.1 To maintain and develop capability over a lifetime, building on our comments above about salience and other behavioural nudges, ideally adults should have access to information, guidance and help at the points in life – such as starting work, having a new baby, reaching retirement – when they need to start engaging with particular areas of finance and/or make specific financial decisions. Calls for this type of national financial guidance service led to the establishment of the Money Advice Service and we have yet to see whether the proposed changes<sup>523</sup> from 2018 to the public financial guidance services, and intended greater reliance on private services for general money guidance, will improve access, take-up and decision-making.

**Question 7 What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

7.1 The categorisation of causes of exclusion developed by Collard et al (2016) points towards different solutions, depending on the type of access issue/cause of exclusion as shown in Figure 3. It suggests that relatively few of the causes can be addressed simply by consumers taking 'personal responsibility'. Indeed, the authors pointed towards the risk of consumers being placed in a 'Catch 22' situation where they are required to take personal responsibility for their own

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<sup>523</sup> HM Treasury (2016a) [Public finance guidance review. Proposal for consultation](#) (at 15 August 2016).

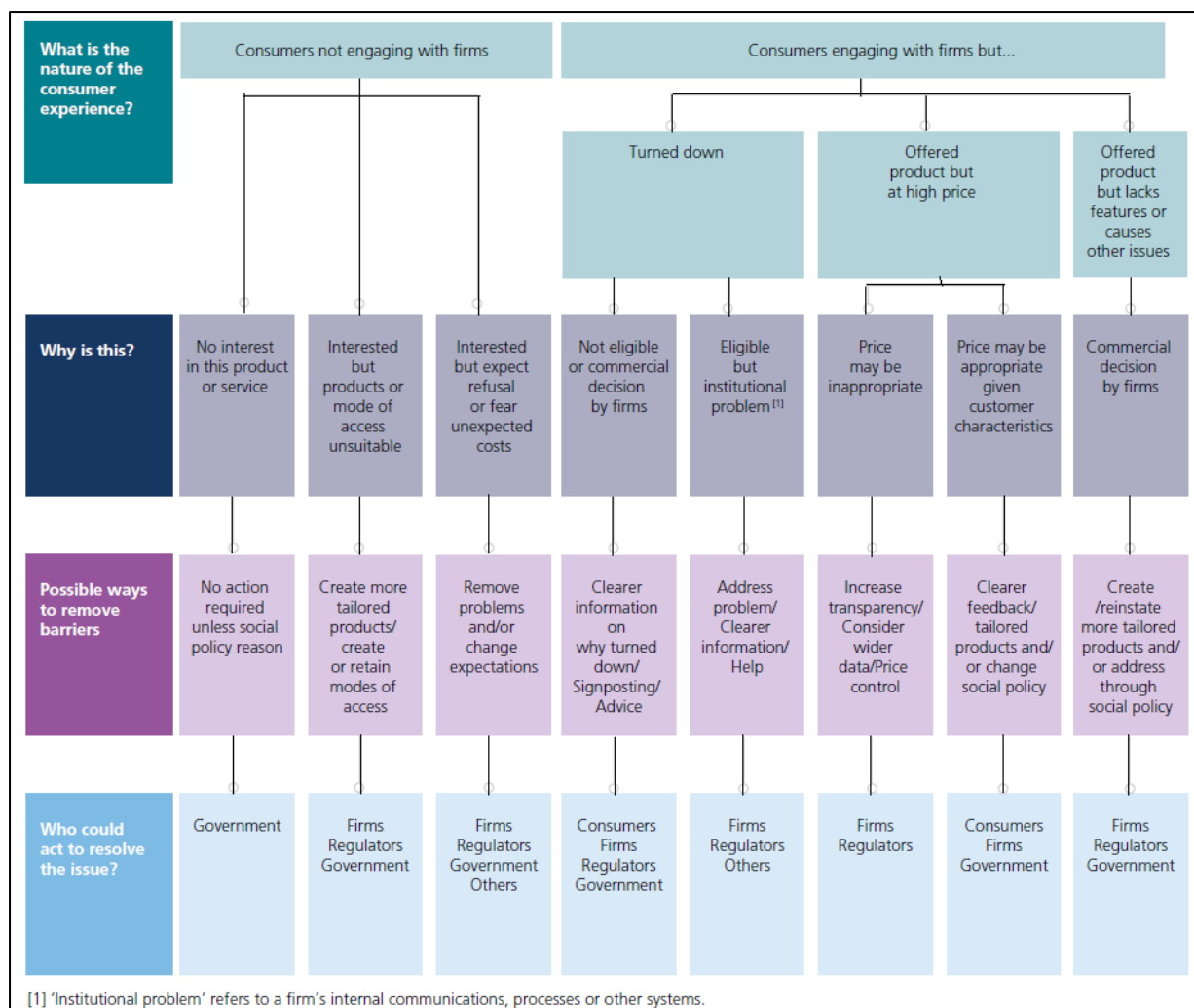
financial welfare but are denied access to the financial products and services that would enable them to do this. Moreover, in the UK's highly deregulated financial markets, commercial practices often actively 'load the dice' against consumers excluded from mainstream products and services through more costly products and an insufficiently discriminant supply of high-cost credit. It is hard to claim that consumers should take personal responsibility unless this goes hand-in-hand with a more supportive approach from industry. Support might take the form of lenders checking affordability, discussing possible cheaper alternatives (such as credit unions) and signposting to debt advice.

7.2 Figure 3 highlights how the solutions and therefore the role of the Government, the charitable sector and businesses varies depending on the causes of exclusion. In addition:

- Government and regulators may be reluctant to act to address exclusion if there is a lack of hard evidence to suggest that an issue is widespread, which may leave those who are excluded without appropriate support. The authors suggest that consumers and the bodies representing them often lack the resources to capture and analyse statistics about their users, so that gathering such evidence is part of the exclusion problem that needs to be addressed. In the absence of a national consumer advocacy and policy body (such as the previous National Consumer Council/Consumer Focus), the Government could place a requirement on regulators automatically to include a consideration of potential access/exclusion issues as part of any market review.
- Some access/exclusion issues arise as the side effect of other policies. For example, the affordability tests introduced by the Mortgage Market Review, which must take into account known future changes, are making it more difficult for some borrowers to obtain mortgages that extend beyond retirement<sup>524</sup>, exacerbated by the Pension Freedom and Choice changes which make it harder to forecast whether someone will have a secure income in retirement. This might be addressed by automatically including a prompt to consider possible wider access/exclusion effects in the impact assessments that accompany new regulation and policy proposals.
- Some types of exclusion (for example, where consumers choose not to engage with a market at all, or where some groups would be excluded on commercial grounds based on their personal risk factors) might require a social policy response from the Government, if it is considered important that these consumers are included.

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<sup>524</sup> See, for example, Financial Ombudsman Service (FOS) (2015) [Just a number. Age, complaints and the Ombudsman](#), Insight Briefing.



**Figure 3: From access and financial exclusion issues to solutions**

Source: Collard et al (2016, p.124).

7.3 Collard et al (2016) also noted that there is a tendency for each stakeholder to look towards others for a solution but that progress in addressing the issues will often require multiple stakeholders working together. There is an important role for Government in promoting and facilitating stakeholder collaboration.

**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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

8.1 In some cases, appropriate products and services do not appear to be available. For example:

- **Contents insurance for low-income households.** As discussed above, standard contents insurance usually requires annual or monthly premiums, starts at quite high levels of cover and may include compulsory

excesses<sup>525</sup>. Some insurers, for example, Aviva, have worked with housing associations to develop products that are more suitable, for example accepting weekly premiums (payable alongside rent), low level of cover and no excess. However, take-up of the insurance has been disappointingly low at only 12% of eligible households<sup>526</sup>. This suggests that the cause may straddle more than one of the categories in Figure 1, with lack of suitable products being just part of the problem and low-income households also lacking motivation to engage with this product given other priorities.

- **Alternatives to digital.** Both Government and the financial services industry have a strong cost incentive to engage with consumers digitally rather than by physical means. For example, the Government has said that its 'digital by default' policy is 20 times cheaper than delivering services by phone and 30 times cheaper than post<sup>527</sup>. Many consumers prefer digital interaction, but some do not. Government data show that overall 14% of households do not have internet access, rising to 50% of single-person households aged 65 and over<sup>528</sup>. Table 2 shows the reasons that households without access give for not being online. It is fast becoming a question for social policy as to whether non-digital households should be encouraged, cajoled or forced to embrace the technology or whether some form of physical alternative mode of access should be maintained.

**Table 2: Reasons households give for not having an internet connection, 2015**

Reason	Proportion of households giving this reason % of households
Don't need internet	53
Lack of skills	31
Equipment costs too high	14
Access costs too high (broadband, phone)	12
Have access to internet elsewhere	7
Privacy or security concerns	5
Physical or sensorial disability	5
Other reason	14

Source: ONS (2015) *Internet access – households and individuals*. Table 25: Internet connection by household composition; Table 27: Reasons for households not having internet access.

8.2 The Post Office network is already seen by Government and the industry as a physical alternative to closed bank branches, with 25 banks having agency

<sup>525</sup> Dayson, K., Vik, P. and Ward, A. (2009) *Developing models for delivering insurance through CDFIs – opportunities and risks*, Op cit; FIC (2015) *Improving the financial health of the nation*, Op cit.

<sup>526</sup> FIC (2015) *Improving the financial health of the nation*, Op cit.

<sup>527</sup> GOV.UK (2013) *Government digital strategy: December 2013* (at 19 February 2016).

<sup>528</sup> ONS (2015) *Internet access – households and individuals*. Table 25: Internet connection by household composition; Table 27: Reasons for households not having internet access (at 6 September 2015).

agreements with the Post Office to provide counter transactions<sup>529</sup>. However, the number of Post Office branches has halved to 11,500 over the last 30 years. The Post Office has an agreement with the Government to ensure that the majority of the population should be no more than three or, in some cases, six miles from their nearest Post Office outlet<sup>530</sup>, which could still leave people in some rural areas excluded, though mobile Post Offices are used in some places<sup>531</sup>. Around two in five bank customers still use a branch at least once a month and the most common reasons are to pay in cheques, pay bills, check an account balance and the sort of tasks that could readily be done through a Post Office. However, of those who regularly use a branch, over a quarter want to discuss other products and two in five have some issue with their account.<sup>532</sup> These more complex issues probably extend beyond the service that Post Office counter staff would want to offer, but Post Offices could (as some bank and building society branches do) have video terminals to link customers to appropriate experts at their bank.

8.3 Some banks, such as Barclays and Lloyds offer support to help customers and non-customers alike develop their digital skills. However, as Table 2 shows, lack of skills is not the only reason holding consumers back from going online. Low-income households, those in socio-economic groups C2DE and adults with a disability are among those least likely to be online<sup>533</sup>. For those on a low income, cost is likely to be an issue and this needs to be understood in the broadest terms. For someone on a tight budget, it may be feasible to find the fixed sum needed to buy computer hardware or a mobile device; it may be less easy to budget for ongoing, sometimes variable costs of subscriptions for an internet connection and appropriate security software. Moreover, there are hidden costs, such as regularly updating hardware when the software demands become too great for the original hardware or a mobile battery dies. Government may, at some stage, need to consider whether its own 'digital by default' policy should be supported by cross-subsidised free internet access for households who cannot afford it.

**Question 9 What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans – on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

9.1 Debt problems facing some of those who are financially excluded have most likely worsened following the capping of payday loans, since, as reported by the National Trading Standards<sup>534</sup>, the combination of the cap on payday loans and

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<sup>529</sup> Post Office (2015) [Branch Personal Banking Services](#) (at 30 January 2016).

<sup>530</sup> Watson, C. (2015). [Post Office Numbers. House of Commons Library Briefing Paper CBP02585](#) (at 22 December 2015).

<sup>531</sup> Post & Parcel (2014) [Post Office rolls out 40 mobile post offices for rural areas](#) (at 15 August 2016).

<sup>532</sup> GfK NOP (2015) [Personal current account investigation. A report for the Competition and Markets Authority by GfK NOP](#) (at 15 August 2016).

<sup>533</sup> Ofcom (2015) [Internet use and attitudes. 2015 Metrics Bulletin](#) (at 25 February 2016).

<sup>534</sup> National Trading Standards (2015) 'New opportunities for loan sharks' in [Consumer harm report 2014-15](#) (at 15 August 2016).

expansion of Universal Credit together are risk factors that illegal money lenders are expected to exploit.

9.2 However, there is a tension in the question: ‘how can it be ensured that those in need of affordable credit can access appropriate products or services?’. As Collard et al (2016) noted, unless legislation states otherwise, there is no obligation for firms to supply products and no absolute right of consumers to receive them. In the case of loans, it may be irresponsible to lend to some households, however great their need in the short-term. Therefore, ultimately, this becomes a question for social policy and the answer might be that the Government has to expand the availability of, say, Budgeting Loans and Advance Payments or look to supporting greater access to affordable loans through credit unions. Longer term, households’ finances will be more robust if they have built up some savings and so reduced the risk of having to fall back on short-term high-cost credit. The Government’s proposed Help-to-Save scheme for benefit claimants may be a step in the right direction, although its own data suggest take-up is expected to be low<sup>535</sup>. Behavioural devices, such as MINDSPACE (see Question 5 above), might be useful in promoting take-up.

**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 exclusion?**

10.1 Some areas of Government policy have been successful (such as facilitating basic bank accounts and brokering access to insurance regarding genetic testing and flood cover), but, as Collard et al (2016) demonstrate, exclusion is diverse, widespread and changing, with considerable numbers of UK citizens at risk of being denied the financial products and services they need.

10.2 As discussed above, in our view, the Government does have a leadership role to play. Collard et al (2016, p131) state: ‘most solutions require collaboration between different agents’ and the Government is best placed to bring stakeholders together and foster this joined-up approach. We have also noted that, for some areas of exclusion – in particular, where consumers are not interested in a socially-desired outcome or market forces mean that some consumers are forced out of the market for what is deemed to be an essential product – solutions may require social policy change and so fall directly within the Government’s ambit.

**Question 11 What has been the impact of recent welfare reforms on financial exclusion?**

11.1 We have not conducted specific research in this area.

**Question 12 How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance**

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<sup>535</sup> HM Treasury (2016) [Budget 2016](#) (at 15 August 2016). The Budget estimates that 3.5 million households will be eligible for Help-to-Save. If they all signed up on Day 1 and could all claim the maximum bonus of £600 after two years, the cost to the government would be £2.1 billion; instead the cost pencilled into the Budget Red Book is just £20 million.



## **and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

12.1 Coordination across Government is not an area we have investigated. However, as noted above, Collard et al (2016) suggest the solution to many financial exclusion issues requires collaboration between multiple stakeholders. Local authorities may often be best placed to co-ordinate solutions at the local level, but we are concerned that the squeeze on their budgets may mean they lack the necessary resources. Financial inclusion measures, particularly unrelated to welfare reform, may not be seen as a priority.

### **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? What balance should be struck between regulations and incentives for financial institutions?**

13.1 The fact that the Financial Conduct Authority was willing to commission the research reported in Collard et al (2016) shows a welcome interest by the regulator in access and exclusion issues. However, the FCA is constrained by its remit and how this may be interpreted:

- The clearest reference to exclusion is in the FCA's Competition Objective<sup>536</sup> which gives the FCA the right but not the duty to consider access to the financial services available in the market.
- The Consumer Protection Objective<sup>537</sup> tends to focus more on the suitability of products, rather than initial access to them.
- Treating Customers Fairly<sup>538</sup> focuses mainly on the consumer experience when already engaging with firms and does not directly address consumers who are turned away or put off engaging.
- Finally the FCA is subject to the Public Sector Equality Duty<sup>539</sup> which requires it to consider the impact on those with protected characteristics when developing its policies and so is relevant to exclusion in so far as it affects these groups. However, financial services are exempt from some provisions of the Equality Act and may, for example, use age and disability as factors in risk-pricing.

13.2 Applying these elements of the FCA remit to exclusion issues is a matter of legal interpretation and not clear-cut. The Financial Services Consumer Panel<sup>540</sup> has called for a change to legislation to require firms to have a specific duty of care towards consumers which might strengthen the ability of regulators to intervene on exclusion issues. However, we reiterate that there is no general obligation for firms to supply all consumers. Some aspects of financial inclusion must be matters for social policy (Government remit) rather than market-based solutions (regulatory remit).

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<sup>536</sup> Financial Services and Markets Act 2000, section 1E(2).

<sup>537</sup> Financial Services and Markets Act 2000, section 1C(2).

<sup>538</sup> FCA (2015). [Fair treatment of customers](#) (at 6 September 2016).

<sup>539</sup> Equality Act 2010.

<sup>540</sup> Financial Services Consumer Panel (FSCP) (2015) [Incorporating a Duty of Care into the Financial Services & Markets Act](#) (at 24 February 2016).

13.3 As discussed in Question 7 above, there are also situations where the regulator itself may create unintended financial exclusion. An example is the Mortgage Market Review, where the affordability test makes it more difficult for some borrowers to obtain mortgages even though they could most likely afford the repayments – for example, screening out borrowers whose loans would extend beyond retirement<sup>541</sup>. This might be addressed by automatically including a prompt to consider possible wider access/exclusion effects in the impact assessments that accompany new regulation.

**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?**

14.1 As Figure 3 above shows, the solutions to a financial exclusion issue are likely to vary depending on the cause of the exclusion. Financial technology may be part of the solution in some cases and the FCA already fosters this. For example, it held a TechSprint event in spring 2016, bringing together a wide range of organisations and IT developers. The event was characterised by spontaneous collaboration and attention to consumer problems and concerns, particularly around control of data and identity (Collard et al, 2016).

14.2 On the other hand, there can be a tension between consumer needs and FinTech aspirations. For example, the recent Pensions Dashboard white paper<sup>542</sup> (which reports progress on a project to enable individuals to view in a single place their state and private pensions from all sources) proposes that initially this is to be available via just one user interface, at first from a single source and subsequently embedded in multiple sources. The decision was based on qualitative research which found that consumers trusted this model and found it simple to use. However, at the launch event for the white paper, some FinTech providers were disappointed that multiple interfaces would not immediately be allowed, since these firms are ready to go with their own customised smart-phone apps that they feel will maximise user experience.

14.3 Therefore, the role for Government might not simply be fostering the development of financial technology (as it does now, through promoting open architecture and verification services), but also keeping a watching brief on the balance between innovation and wider consumer needs and concerns, and being prepared to step in if required.

9 September 2016

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<sup>541</sup> Financial Ombudsman Service (FOS) (2015) *Just a number. Age, complaints and the Ombudsman*, Op cit.

<sup>542</sup> Oix (2016) [Creating a Pensions Dashboard. Pensions Finder Alpha White Paper](#) (at 15 August 2016).

The Open University, True Potential Centre for the Public Understanding of Finance – Oral evidence (QQ 193-202)

## **The Open University, True Potential Centre for the Public Understanding of Finance – Oral evidence (QQ 193-202)**

Evidence Session No. 20.

Heard in Public

Questions 193 - 202

[Listen to the meeting](#)

Members present: Baroness Tyler of Enfield (The Chairman); Bishop of Birmingham; Viscount Brookeborough; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord McKenzie of Luton; Lord Northbrook; Lord Shinkwin.

## Examination of witnesses

Jonquil Lowe, Senior Lecturer in Economics and Personal Finance and Member, True Potential Centre for the Public Understanding of Finance, Open University; and Martin Upton, Senior Lecturer in Finance and Director, True Potential Centre for the Public Understanding of Finance, Open University.

Q193 **The Chairman:** Please have a seat and make yourself comfortable. While you are doing that, I shall run through a couple of formalities. First, we welcome you to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. This meeting is being broadcast live by the parliamentary website. A transcript of the meeting will be taken and published on that website, but you will have the opportunity to make any necessary corrections or amendments. Could you start, please, by introducing yourselves: who you are, your role and who you represent?

**Jonquil Lowe:** Thank you, my Lord Chairman. I am Jonquil Lowe, senior lecturer in economics and personal finance at the Open University, and a member of our research centre, the True Potential Centre for the Public Understanding of Finance.

**Martin Upton:** Hello, my Lord Chairman. I am Martin Upton; I am senior lecturer in finance and director of the True Potential Centre for the Public Understanding of Finance, which is the longest job title I have ever had. It is in a fairly small font on my business cards. The True Potential Centre has been funded for five years, between 2013 and 2018, by the financial services company, True Potential, and our mission is to develop public financial capability and public financial education. Financial education is being delivered by the three courses, details of which are in the submission.

Q194 **The Chairman:** Thank you very much. It is very helpful to clarify that point about your funding. What are the key features of your online courses on financial capability that you believe make them successful, and how do you market those courses so that people find out about them? Finally, could you tell me what evidence you have amassed about the effect they have on people's real-world financial capability?

**Martin Upton:** In terms of what makes the courses successful, we took a lot of care when it came to the design of the courses. We have mixed up the teaching assets; we have a variety of different types of assets: videos, audios, quizzes, text, interviews and discussion steps. That is important, not just to create variety, but because we know from our research that people like to learn in different ways. Some people do not want to watch videos; some want text, and some vice versa. Possibly, with me in the videos, I can understand why they might want to look at text instead. We mix up the assets, and that is important.

Secondly, the design of the courses is meant to make them not daunting. Each week, or session, is divided into a small number of steps, snippets of learning that are very digestible. People who are busy and doing other things can do two or three steps, go away and do something different—watch something on TV or have their dinner—and come back to the course, without feeling they have had to stop halfway through something important. We mix

information with skills. If we are developing personal financial education for the lifetime of people, we need to develop skills as well as information about products, because information about products changes over time. We were very attentive to the level, which is what I call level 1, which is pretty much sixth form or first year undergraduate, so it is very accessible. The tone is not preaching, patronising or judgmental; it is informative and, one hopes, develops people's skills.

We are also, I think, quite canny in how we deliver it, because we deliver it on two platforms, FutureLearn and OpenLearn. On the FutureLearn platform people can engage with other learners, as they are called, in discussions as they go through the course. This develops a community of learners who are mentored by Open University staff. Through those discussions people can sometimes learn solutions from each other, or at the very least gain comfort that the financial problems they have are shared elsewhere—they are not alone.

On the OpenLearn platform, you study on your own. For people who like to do that, that is ideal, and the OpenLearn platform is open all the time; you can study whenever you want. FutureLearn courses are run on specific dates, so there is a designated period during which the course assets are mentored. You can put together very good products, but when it comes to a product working there has to be a demand for that product. Some 65,000 people have become active learners across the presentations of the three courses, which are detailed in the submission, so there is a demand there. The demand, to a degree, is personal interest, when people do not have financial problems but want to become better educated. Then there is also a demand because people have problems with some of the basic aspects of personal financial management and some of the more complex ones. So we are meeting a demand.

You ask about how we advertise the courses. The Open University has a huge reach, so we use social media, including Facebook, Twitter and LinkedIn, and we also have a huge audience in terms of alumni and our students—we still have 173,000 students. So we have a good base on which to expose and advertise our products. Additionally, each of the three courses which are detailed in the submission had a big PR launch. For the first two, Managing My Money and Managing My Investments, I did a huge number of radio interviews. For Managing My Money I went through 26 radio interviews in one day. That, again, broadcasts what we are doing.

FutureLearn now has 5.2 million learners across the world, so when it comes to advertising its courses and promoting not only the ones which PUFIn has put together but all their other courses, it has a good base with which to work.

How do we measure effectiveness? During the course of this year we have done a survey into the effectiveness of Managing My Money, which provided some very interesting conclusions. We surveyed just over 800 people and, as well as finding out about the demographic, we were interested to see how their behaviour had changed with money as a consequence of studying Managing My Money. The findings are quite interesting. To pick out two or three of the findings, we asked the question, "Do you feel stressed out about your financial situation?" Before Managing My Money, 31% said yes; after

studying *Managing My Money*, it was down to 18%. We asked, “Do you feel confused by financial products?” Before *Managing My Money*, 41% said yes; after *Managing My Money*, it was only 19%. Clearly, we have not covered all the products in the course, but we made some progress. On the basic question, “Do you set a budget?”, before the course, 44% said yes, while after the course it went up to 52%.

There is evidence of good behaviour changes, but we have to be careful. The people who answered the survey were self-selected, so it is likely that they probably wanted to give us, in certain cases, responses we would like to hear, and possibly give themselves a bit of a halo-effect as well. We need to do more there, and the good news is that we can and will be doing more in the very near future, because we are on the verge of sorting out an agreement with the Money Advice Service under their “What works?” programme. We have a four-pronged initiative to look at the impact of studying *Managing My Money* among four different groups. Three of those groups, it would be reasonable to expect, would contain or include people who may be currently financially excluded to a greater or lesser extent. We are going to test people who are working with Milton Keynes’ community action programme, along with a group of social housing tenants and college students and a group of credit union customers. We are going to test how they behave financially before and after studying *Managing My Money*. It will be robust and it will, I hope, reinforce what we have already found through our first study in 2016.

**The Chairman:** Thank you. That was very helpful. Jonquil, do you want to add to that at all?

**Jonquil Lowe:** I would underline, perhaps, two things that Martin has said. One is that, because learners choose for themselves to sign up to these courses, it is likely that they are very salient. Most of the learners say they are doing it out of personal interest. It could be that they come to the courses because they are at that life stage when they are looking at pensions or buying their first home, for example. It could be that we are going with salience. The problems with financial capability are to do with consumers’ bounded rationality. We have all become very familiar with “nudge” initiatives that try and work with those behavioural biases and the desire to use heuristics, but there is another approach, called Think. That is about creating safe spaces where people can publicly debate issues and possibly change their own views as a result. Perhaps the forums on FutureLearn are providing that, but I have to say we have not tested that yet. Those are some theories that might underpin the success of what we are doing there.

**Lord McKenzie of Luton:** Martin, on the good behaviours that you instance, do you have any evidence about the sustainability of those changes?

**Martin Upton:** No, we do not have any evidence about sustainability. This comes back to one key point about financial education: it should continually be reinforced. It is not good enough to say that you do financial education once—say, just do *Managing My Money*—and then hope that in 10 years’ time the skills you have learned will be there without decay. They will have decayed anyway, because the information about products will have changed, but in the interim even the skillset you have may have decayed and become intruded on by behavioural forces which impact upon financial behaviour. The one message that we want to get across is that we want to see personal

financial education not only in schools but at all stages throughout life, and at each key point when you are making key financial decisions it should be accessible and free.

**The Chairman:** We have covered that point now. Viscount Brookeborough.

Q195 **Viscount Brookeborough:** We are going back to schools, which is not your responsibility or your main mission. In your written evidence you mentioned there is a range of opinions on how effective financial education in schools can be. What are the difficulties of running effective financial education in schools, and have you seen or created any solutions? What are your views? In considering financial education, what balance needs to be struck between issues of numeracy and broader financial and social awareness, such as might come under the PSHE curriculum?

**Martin Upton:** I will kick off on this one. All I have is anecdotal evidence about how personal financial education in schools is going, and the evidence I have is that it is patchy and there is a shortage of teachers with the right personal financial knowledge to deliver the education. Let us be fair about this, for England it is still early days. Personal financial education on the curriculum only kicked off in September 2015. It was earlier elsewhere in the UK. In addition, we have to take into account that the curriculum is very crowded. To deliver the teaching but provide sufficient time is tricky. To be fair, good work is being done by various organisations. PFEG, part of Young Enterprise, is doing great things and an organisation called MyBnk is doing good work in schools as well.

One exciting thing, which I can also announce, because the ink on the paper dried this week, is that PUFin is in receipt of funding for the next three years from the Chartered Accountants Livery Company to develop a Managing My Money product targeted at 16 to 18 year-olds. Given that personal finance on the curriculum is focused at up to 16, and given that a lot happens for people between the ages of 16 and 18—at 18 they are hitting a key life stage of going to university or going into a job/apprenticeship or leaving home—we felt at PUFin we had to do something to address what we think is a gap. We have funding from the Chartered Accountants Livery Company to support this project. It has a working title of Managing My Money - Youth but, hopefully, by the time the project goes live it will have something a bit more exciting and buzzy than that, targeted at 16 to 18 year-olds.

**Viscount Brookeborough:** You talk about the curriculum—but financial education is not mandatory on that curriculum.

**Martin Upton:** No.

**Viscount Brookeborough:** Secondly, there are different types of schools, whether they are free schools or other schools, some of which do not teach it at all. We heard that at primary school children are encouraged to play around with money and play games, but from then on there is a severe lack of it. What is your view on whether it should be mandatory, and what should be done to encourage it more?

**Martin Upton:** My view is that it should be mandatory up to 18. I do not think it is realistic, given other considerations which come to bear in resourcing schools and in the time they have available. If we are serious about the view that we need to have financial education for life, to not do

much between 16 and 18, I think, is being slightly negligent. We now know that a lot of people who are getting into financial trouble are those in younger age groups. StepChange has said that the fastest growing problem area for people in debt is in the under-25s.

**Viscount Brookeborough:** Therefore, all pupils should leave school with a basic level—whatever that level is—and you know where to go in order to pick them up.

**Martin Upton:** Absolutely. If they cannot get it through the schools, with the CALC project they will have these assets available to do the study free of charge outside the school. The CALC project—the Chartered Accountants Livery Company project—is two-pronged. We will deliver assets into the school so that teachers can use them, if they have time, in citizenship classes. But it is a standalone study as well, which can be downloaded on to mobile phones or tablets to study in a way that not just youngsters but virtually everybody tends to study these days, engaging with the media.

**Jonquil Lowe:** I have a slightly different view, I guess. If you look at the academic literature, there are some academics who question whether financial education in schools can work at all, because when people come to engage with financial services their behavioural biases may overwhelm what training they have had. Also, what you teach in school may very quickly become out of date, because of the fast pace of innovation in financial services. In 2013, the National Endowment for Financial Education in the United States sponsored a very large study, a meta-analysis, which looked at 87 evaluations of financial interventions, and 101 surveys trying to measure financial capability. I mention those to show this was a very large attempt to try to see what the effect of financial education would be. They found that the effect was significant. It was positive, but it was tiny; 0.1% of the variation in subsequent financial behaviour could be attributed to financial education.

What has come out of those kinds of studies is the suggestion that education works better if it is just in time, at the point when you have a financial decision to make, and that counselling might be better. If you look back to school, it is not so much about teaching financial knowledge; factors such as numeracy, confidence in shopping around, a propensity to plan and a willingness to take investment risks are more likely to have an enduring effect. That suggests to me that teaching in schools should not focus too much on product knowledge but should be looking more at developing those skills, perhaps through role play and gaming. The LifeSavers project, bringing savings banks back into schools, is an example. Even things such as the Fiver Challenge, which we think of as being an enterprise initiative—running a small business for a fiver—is also teaching children about cash flow, balance sheets and taking risks. Trying to develop those kinds of skills and confidence seems to me more important than, perhaps, financial knowledge.

**Viscount Brookeborough:** I thought that was basic financial education. I was not considering that they should be taught about pensions at the age of 13. This gives them a table to work from.

**Jonquil Lowe:** Yes, I would agree.

Q196 **Bishop of Birmingham:** To continue this theme, we come to an area we are very concerned about—young people who are in further education, rather



than in schools or higher education, and those in adult education. Could you extend your theme to that sector? Are you saying the same things about that sector as you have said about schools, or are there any other opportunities, particularly in terms of salience, as people get older and are facing decisions?

**Jonquil Lowe:** Yes, indeed. As young adults move into their adult life and start to engage with the workplace, taxation and their need to budget their salary and, one hopes, are starting to save, they will be bombarded with offers of credit, so financial education becomes much more salient. That is the point at which you probably need to bring in current product knowledge, using tools to engage with those decisions. That would seem to me an even more important point at which to have financial education.

**Martin Upton:** I would agree. I am sure you are aware of the All-Party Parliamentary Group on Financial Education for Young People. They published a report back in 2012, *Financial Education in Further Education*, and they found, as I am sure you know, that institutions did not have curriculum time, there was a shortage of tutors who could teach financial education, or who were interested in being taught to teach financial education. There was a lack of interest among some students at level 1 and entry level, and also resistance by staff, who perhaps felt they were overloaded. Those issues were exposed in 2012, and there is little evidence to suggest that things have changed radically since then.

**Bishop of Birmingham:** How much would you welcome support for a further project, following your accountants-supported project, for 18 to 25 year-olds?

**Martin Upton:** That would be great. I would certainly welcome that. At the very least, the education institutions making available the current courses, Managing My Money in particular, could do a lot for people in further education and adult education. It is all there and free, so why not use it?

**Bishop of Birmingham:** Have you done any thinking about the connection between completing a course, a period of study or a learning experience and credit ratings, as people enter into the financial borrowing market?

**Jonquil Lowe:** We have not, but that is an interesting thought. Credit reference agencies are expanding the kind of data they are looking at. I was particularly impressed by the project between Experian and the Rental Exchange, bringing into the data social housing tenants' successful paying of their rent on time. Possibly there could be some kind of collaboration, because the credit reference agencies would want to see statistical evidence that the training did have some impact and relevance. But I think that is a really interesting idea.

**Martin Upton:** It is an interesting idea, indeed. We have already started to draft what is going to go into the 16 to 18 year-old financial education piece. Part of it will be managing your credit rating, but you have to start managing it when you are 18.

**The Chairman:** Martin, can I make sure I understand something you have been saying? It is about the links with further education colleges. Do you currently have any collaborative projects or arrangements with the FE sector, or is it that the new venture you are talking to us about is going to give you the scope, perhaps, to do that?

**Martin Upton:** PUFin does not have any current arrangements. The Open University, as you would expect, has very good network relationships with schools, colleges and other universities. When we develop the Chartered Accountants Livery Company project for 16 to 18 year-olds, we will use that network. If we were to have a product which is aimed at people in further and higher education, we would use that network as well to broadcast its availability.

**The Chairman:** Thank you very much.

Q197 **Lord Northbrook:** Moving on to the area of government leadership and co-ordination, what do you think should be the role of a successor to the Money Advice Service in tackling financial exclusion? What good practices would you like to see continue? What changes in approach or practice would you like it to take on board? Jonquil, as you worked for the Money Advice Service, would you like to start?

**Jonquil Lowe:** Yes. I have worked with the Money Advice Service and its successor bodies for about 20 years. Over that time one of the projects that I thought was most effective was the "Parents' guide to money", a file of resources and a suite of interactive tools for use by parents expecting a baby. I think that was particularly successful for two reasons. Its reach was huge; it is still available and reaches about 700,000 parents a year. The evaluation work that was done suggested that half the parents took some action as a result of the resource. It was a particularly good resource, to go back to that point about salience, is to do with relevance—it targeted people at a very specific point in their life, when they had a need for particular elements of financial guidance. As you might expect, the resource covered things such as budgeting, which is obviously under strain with a growing family or a new baby on the way, as well as benefits that might be claimed. It also provided that opportunity to deliver education around things that people might not have been thinking about, such as the impact on eventual retirement income of decisions made now about taking time off work. Salience, I would say, is absolutely crucial to any resource.

The other aspect that I thought was very good about that resource was that it was, to a large extent, reaching parents through trusted intermediaries—midwives, health visitors and Sure Start centres. So there was this sense of not just trusting the messenger but cascading information. I have worked on cascading projects as well with Macmillan Cancer Care, where we have produced resources that train Macmillan nurses who then, as they deliver their nursing care, can also answer questions that people affected by cancer often have about financial issues around having a terminal disease. With the Women's Institute, I have also done some cascading work whereby we worked with the leaders of the county organisations who then went away and cascaded their knowledge down through their local organisation. The church, through the credit champions network, has been doing a similar thing. That seems to me a very effective way of delivering financial capability. I would particularly like those two elements to still run through the work of the successor body.

The other things that are valuable are the phone-based and web chat services, particularly with The Pensions Advisory Service arm of the successor body. I have been so impressed by the material I have seen about TPAS

advisers. When they get on the phone with people they are not talking to scripts; they are usually volunteers who have great pensions expertise, and they can talk to people and get to grips with the issues, which sometimes are multiple. Life is messy, and using a website or a script can take you so far, but at some stage people need someone who can talk to them about their own specific circumstances. I would like to see something of that ilk continue.

**Lord Northbrook:** Martin, do you have anything to add?

**Martin Upton:** Only that the evidence that the pensions work is needed is clear-cut. From the feedback and questions which we have from people who study the financial courses we have put together for PUFIn, we know that, overwhelmingly, the big financial issue when people have major issues and do not understand matters is pensions. It is not debt so much, surprisingly, or investments or budgeting or insurance, although of course there are questions on those. Overwhelmingly, 80% of questions and concerns are about pensions. It is a big area for the successor body to MAS.

**Lord McKenzie of Luton:** Can I pick up that last point before I go into my set question? Is the particular issue around pensions at retirement about what to do with the options or levels of saving?

**Martin Upton:** Where do I start? First, people who are getting to the age of 50 or 60 and have not started to plan a pension, so they are asking, "What do I do?". People do not understand what is happening to state pensions; they do not understand that a flat rate state pension is not really a flat rate state pension, because it does not get into the detail. Then there are people who do not understand fully the new freedoms they have and are sometimes possibly even scared about exercising those freedoms, because they see the stories in the media about scams. I could carry on for another half an hour on that question. Sometimes there are very harrowing stories of people who have worked overseas and then come back to the UK but do not have a national insurance record. What happens to them now, when they are 50 to 60 years-old?

Q198 **Lord McKenzie of Luton:** My substantive question was around advice and guidance. In the written evidence you have presented to the Committee, you expressed concern about intended greater reliance on private services for advice and guidance. Could you expand on that a little and say more specifically what your concerns are?

**Jonquil Lowe:** Christine Farnish's report on MAS noted that there are lots of other websites that the public use and trust, and they are not necessarily impartial. I think her words were, "That's not an absolute requirement". I think I agree, up to a point. People get information and guidance from a wide range of sources, and it is often very good, but I think it is important that the public should be able to access impartial guidance, and distinguish between partial and impartial. They should be aware, if they are going to a site, say, from a provider or an intermediary, that there might be some spin and there might be follow-up sales calls. It is about people knowing what they are dealing with.

I am also rather concerned that a free-for-all might make scams easier. When Pension Wise was first set up, there was a copycat site. It was closed down fairly quickly—but will scams persist longer in a kind of private delivery

system? It seems to me, possibly one answer would be to have some kind of quality mark, so that websites that are impartial, such as the Citizens Advice, Money Saving Expert and Which?, could have some kind of badge that would tell consumers, "Okay, you are dealing here with an impartial site", so they can distinguish and understand where the advice is coming from and how it might perhaps be framed as a result.

**Martin Upton:** I do not have anything to add to that.

**Lord McKenzie of Luton:** I should say, I think, the Government have just announced proposals to focus on scams and to seek to tackle cold-calling and all that.

**Jonquil Lowe:** Which is very welcome.

Q199 **Lord Haskel:** You have both told us quite a lot about surveys and how robust they are. What is your opinion of the Money Advice Service's financial capability survey? Maybe you worked on it.

**Jonquil Lowe:** Not on that one.

**Lord Haskel:** Does it provide up-to-date information on financial inclusion? Is there anything you would change? How reliable do you think it is?

**Jonquil Lowe:** I have not examined the methodology in detail, but I would assume that the MAS has the statistical number-crunching correct. Financial capability is always a construct; it is framed by the economics and politics of the day and the aims of financial capability. Not only will these change over time but they are not necessarily shared by all. One of the things that I noticed in the Money Advice Service survey is one of its possible indicators of reasons for a lack of financially capable behaviour might be that people are not happy to bank online. That is definitely the direction of travel we are in, but at the moment about half of over-65s do not engage with the internet, and they might be rather surprised to see that they are being told they are financially incapable as a result. In fact, the data show that older people tend to be more financially capable.

Another aspect I noticed was that financially capable behaviour includes shopping around for household and financial services. I have done some survey research recently, looking at 12 different services that people use on a regular basis, and whether they shop around for all of them. My research found that they shopped around for just over half of them, on average. Probing that further, I found that if people were to shop around for all those services—on average they would take about two hours for each service—that would mean spending perhaps two days a year. Coupling that with some other work that was done by Ofgem, which looked at how much people would expect to gain from shopping around, it seems that people are maybe putting quite a high value on their time, possibly as much as £120 an hour. That sounds very high, but we are talking here about people's leisure time, and the fact that people do not choose to spend all their leisure time looking for a second job suggests that we do value leisure time very highly. Surveys like this do not necessarily take into account that there is an opportunity cost to some of these financially capable behaviours. Quite rationally, people may wish to spend their time doing other things and, possibly, saving on their cognitive effort as well. Perhaps they would rather do a crossword than shop around.

These surveys are always rather framed by the current thinking on what financial capability is. They need to change these surveys as time goes on, as those views shift. Interestingly, with shopping around, I noticed the other day that there is now a fintech company called Trussle, which is a mortgage intermediary. For people who take out a mortgage through that organisation, it will do continuous shopping around and alert them on a regular basis to when it might be in their interests to switch. Technology may overtake us; perhaps we will not need to put any effort into shopping around in future, and surveys will need to change to reflect that. As surveys change, though, it means that it is not so easy to use them to say, “That was the baseline then—look, financial capability has improved”, because the concept is shifting over time. These surveys are tricky beasts.

**Lord Haskel:** Martin, you said you are going to do another survey with the Money Advice Service.

**Martin Upton:** We are indeed, yes.

**Lord Haskel:** Are you going to avoid these pitfalls?

**Martin Upton:** With Jonquil on hand, I am sure we will.

Q200 **Lord Shinkwin:** Your written evidence identified people for whom markets may not be able to produce supportable solutions—for instance, in the insurance and short-term credit sectors—and for whom a social policy response might be necessary. My question is in three parts. First, could you give us examples of potential responses that you feel would meet the needs of such people? Secondly, how should these responses be paid for? Lastly, how could existing initiatives targeting these groups achieve greater uptake?

**Jonquil Lowe:** To start with some examples from insurance, there are two main examples where the Government have brokered solutions that the industry was, possibly, not going to come up with itself. The first, I would suggest, is the moratorium on genetic testing for life and health insurance. This is where the insurance industry has agreed that the results of predictive genetic tests will not be used at all for life insurance up to £500,000, critical illness cover up to, I think it is, £300,000, and income protection insurance up to £30,000. Above those limits, the tests will be used only if an independent panel has said that that is okay, and only one test has so far been approved.

The other example is the recent Flood Re insurance scheme. The Government did broker an agreement back in 2000, I think, with the insurance industry to make sure that houses at risk of flooding could still be insurable, but the cost of the insurance has often been high. More recently, with the passing of the Water Act 2014, there is the Flood Re scheme which enables insurers to reinsure the risk of those flood-risk houses with the Flood Re scheme, financed by a levy across the industry. The levy most likely is being passed on to customers in higher premiums. In both those examples, the larger pool of insurance customers are cross-subsidising those higher risks. Those are schemes that the Government brokered. Presumably, the Government saw wider social issues. With genetic testing, it is not in the interests of society as a whole to have a disincentive to taking predictive genetic tests if it might, for example, save passing on the genes. The same with the flood risk, which has a knock-on effect on the housing market. That might be one indicator of where there is a role for social policy—that it is not just an individual issue but

there is this bigger social issue. With insurance, there has not been a need to incentivise people to take part, because the consumers are all covered anyway.

You asked also about short-term credit. There has been an issue with the very welcome cap on payday lending and the far less welcome squeeze on benefits through the universal credit system, which National Trading Standards has cited as factors that might lead to an increase in loan shark activity. I notice that the Government said in the autumn financial statement that they will put money into an initiative to increase credit union membership in communities that are at particular risk from loan sharks, and that is being funded out of the proceeds of bringing loan sharks to justice. However, even if that money were not available, once we have identified this as an issue, it is an issue that should probably be funded. There is hypothecation going on here—a certain pot of money is available—but if the cause is just it would seem that it needs funding.

I am not sure I can take it much further. You asked whether these cross-subsidies should exist. That is a normative question, and there is no objective way to answer that. If society thinks an issue is important and conveys that to Parliament, it would seem right that social policies should step in.

**The Chairman:** Martin, do you want to add at all?

**Martin Upton:** I want to reinforce the point about what is happening with payday loans and the new regulations which have applied there. Clearly, while we welcome that initiative, there is the concern that by cutting off this source of credit for people, unless they have access to credit unions, they will fall foul of unregulated lending. I believe there has been research in Australia which has identified this as an issue, and I think we need to be alive to it.

Q201 **Lord Fellowes:** I wonder if you could expand a bit. What does your research tell us about how people could be encouraged to save more? How can any proposals arising from this research be put into place?

**Martin Upton:** PUFin did some research on this for the British Bankers' Association a relatively short time ago. To start off, we found that 32% of UK adults have no savings at all. It is not a case of, "Can you save more?" but, "Can you even start to save at all?".<sup>543</sup> You have to wonder if the impact of changes to government benefits may increase that group of people who cannot afford to save at all.

The other problem is that for people who are on slightly higher incomes, who have some scope to save, the availability of credit is an alternative, which means if you get into problems and you need some money to pay for work on the house or for new white goods, or whatever, you can use a credit card or a bank loan. There is a borrow-to-spend culture within the country and, as a consequence, the availability of funds which you can borrow acts as a disincentive to build up your own savings. In trying to be more positive on what could be done, should we explore more closely whether we should have automatic enrolment into workplace ISAs? That is one measure of developing savings—something which can nudge behaviour towards putting money aside

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<sup>543</sup> Note by witness: The UK figure is in fact 27% (2014); 32% relates to the average for 13 European countries.

at the start of the month rather than waiting to find what you have at the end of the month and save that. By the time you get to the end of the month, you have probably spent it anyway. Possibly development around that area could help.

I have to say that the Government have done a lot in recent years to try to encourage savings behaviour, with the tax breaks on ISAs, which are substantial, and the introduction of Help to Buy ISAs, as well as the new LISAs provide sufficient encouragement and bonuses for people to save, although LISAs are directed towards first-time house purchase and pensions. So long as there is this availability of finance in multiple forms of credit, and so long as the majority of people who are homeowners have equity of some sort within their property, they will say, "If I need to get hold of money I have a credit card, I can get a bank loan or I can make use of the equity on my property, so why do I need to save?". I have heard people say in the last few weeks, "My house is my pension". I think they are slightly naive about how that would translate into a pension, particularly if you look at annuity rates, but that is what they are saying and what they are thinking. Therefore, that will impact on savings behaviour adversely.

**Jonquil Lowe:** It is important to distinguish between the non-savers who can afford to save and the non-savers who cannot. We have heard a lot recently about the "just about managing" households who, by definition, are spending 100% or 101% of their income. The Resolution Foundation thinks that is 6 million households, which is an awful lot. The Government's Help to Save scheme is great—it is a matched-saving scheme—but their own figures suggest that 3.5 million people are eligible, and the way they have costed it suggests that they think very few will take up the scheme. I am concerned that people are not put in a Catch-22 position where they are told that they must take responsibility for their own financial security when they do not have the means to do that.

**Martin Upton:** We need more education about the different ways in which you can save. If you save currently into a cash account, given where inflation is, you are losing money. If people can be encouraged to take a long-term view on their investments, they could be encouraged into investments which will produce real returns over term.

**The Chairman:** Can you clarify the source of the 32% figure you quoted? I think you said "of households"?<sup>544</sup>

**Martin Upton:** I would have to go back to the evidence which we provided.

**The Chairman:** Would you? Thanks very much. Bishop of Birmingham, did you wish to come in?

**Bishop of Birmingham:** No, that is fine.

**The Chairman:** Could I ask, Lord Holmes, if there are any questions of any description you would like to ask?

**Lord Holmes of Richmond:** No, thank you. A lot of what you have covered has chimed with our previous sessions, and it was very good to have received your evidence today.

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<sup>544</sup> See earlier note by witness (Q201).

Q202 **The Chairman:** Thank you very much. If there is one thing you would most like this Committee to focus on and make a key recommendation on when drawing up its final report, what would that be? What is top of your wish list?

**Jonquil Lowe:** Top of my wish list—and this comes out of the access to financial services in the UK research that we did with the Financial Conduct Authority—would be that Governments and regulators in impact assessments and market studies should be automatically required to include consideration of the impact of policy on financial exclusion, whether it is negative or positive, who is affected, how many and in what way. That would do a lot to raise the visibility of the issues, which has to be the first step to tackling them.

**Martin Upton:** My one thought is that there should be one body, not necessarily a new body, which has responsibility for drawing together and co-ordinating all the initiatives aimed to reduce financial exclusion. We know from the work that we have done and the evidence that we have put forward that there need to be multiple solutions by a number of different bodies. If there is no co-ordination, the risk is things will slip between fingers.

**The Chairman:** It has been a very interesting and wide-ranging session, so thank you very much indeed for your time.



Pockit and Neyber– Oral evidence (QQ 159-167)

## **Pockit and Neyber– Oral evidence (QQ 159-167)**

[Transcript to be found under Neyber](#)

## **Post Office Limited – Written evidence (FEX0101)**

### 1. Introduction

We are pleased to submit information as requested to the Financial Exclusion Committee. This submission provides a brief background to the Post Office explaining its unique geographic and demographic accessibility across the UK and the financial products and services it offers. Areas of our work that overtly support financial inclusion are explained further: banking, Post Office Card Account and other services such as bill payments, money transmission and budget cards. Finally the development of financial services at the Post Office is considered.

### 2. Background to the Post Office

The Post Office is a critical part of the financial services landscape of the UK and it has a long history of supporting accessibility and inclusion dating back to the 19th century (with the Post Office Savings Bank, the first to make accounts widely available including to low income customers, launched in 1862). The current network of over 11,600 Post Offices provides a unique nationwide infrastructure which is complemented by cash provision and distribution capabilities. This unique physical presence is supplemented by comprehensive online and telephone access. 95% of the population of the UK will visit a Post Office in the course of year. Almost 17 million say they visit a Post Office in a week. As such it is a significant enabler of financial inclusion within the country.

Recent research commissioned by the Department for Business, Energy and Industrial Strategy identified the 'social value' to UK households of accessibility to certain 'Services of General Economic Interest' via Post Offices. It estimates the value relating to pensions and benefits, bill payment, basic banking and personal banking services as being over £2.9billion per year.

The provision of financial service across the entirety of the population is consistent with the values and approach of the Post Office. However, the capability to do this does remain dependent on the Post Office (and its network) itself being financially sustainable as it operates in fast changing and commercial markets.

Since 2010 the Government has made a commitment to maintain the Post Office network to ensure access to essential services for customers in communities across the UK. It has made funding available for the period to 2018 to modernise the Post Office network and to support the largest transformation programme in its history.

Consequently, in a changing economy with evolving customer needs, the Post Office has improved its financial position, invested in and modernised the network, while maintaining its unique size and accessibility and continuing to

support social and economic value in communities across the UK. At the same time it has reduced its dependence on Government subsidy year on year and is heading towards financial breakeven. This progress, and its continuation, is the necessary condition for the Post Office being in the position to maintain its role in the financial inclusion infrastructure within the UK.

### 3. The Post Office today

- The Post Office is publicly owned, fully separate from the Royal Mail since 2012
- 11,643 branches across the UK
- 95% of the population say they use the Post Office at least once a year – with millions of customers and small businesses visiting every day.
- Operates in commercially competitive and fast changing markets - the retail mails, banking and financial services, government services and telecoms. 97% of post offices are operated in conjunction with local businesses, increasingly alongside convenience retail
- Essential services are provided for people throughout UK – mails, banking, pensions, bill payment, and Government services. Post Offices enable unique levels of cash accessibility in local communities.
- Research shows that communities want a post office, bank and shop to survive and thrive. Post Offices are increasingly providing all three services under one roof.
- Post Office financial services (mortgages, insurance, travel) grew by 19.7% last year
- The Post Office is the number one provider of travel money in the UK
- Provision of banking services for customers of other banks is now running at over 100m transactions a year.
- Post Office leads the market in the provision of 'identity services' through the Government's 'Verify' initiative.
- Post Office is handling around £60bn each year in payments and receipts through its network - playing a major role in cash distribution into local economies.
- Post Office offers widespread service provision with over 6000 branches in rural areas and over 1300 in urban deprived areas and continues to develop sustainable and innovative service arrangements such as mobile Post Offices or partnerships with community run shops.
- Social Value - Recent independent research shows that the Post Office delivers social value in the range of over £4bn to £9bn each year to people and businesses throughout the UK.
- Provides unique physical accessibility across the UK - the Post Office continues to maintain the size of its network and meet all the Government's accessibility criteria

#### Network size

End of March	Post Offices
2013/14	11696
2014/15	11634
2015/16	11643

#### Accessibility performance

Criteria	Total population in 3 miles	Total population in 1 mile
Minimum requirement	99%	90%
Performance	99.7%	92.9%

**Note** the network is further supplemented for cash access by c2,000 'free to use' external cash machines (ATMs) across the UK

#### 4. Modernising the network

Investment has been made in almost 7000 branches to improve customer environments and integrate the post office more effectively into the host retail and enable extra opening hours. Customer satisfaction with these developments is around 95%. Over 200,000 extra opening hours per week have been added across the network. 4000 branches are now open on a Sunday. The Post Office network is now more "time accessible" alongside its unique geographical accessibility to meet evolving customer needs.

#### 5. Financial and Banking Products & Services offered by the Post Office

A list and description of the wide range of financial services available through the Post Office is given at Annex 1.

These services are underpinned by the Post Office's cash distribution capabilities and service infrastructure which ensures that Post Offices can take in and give out cash in all parts of the UK. This brings accessibility and control to households (for example through cash payment of pensions, benefits or through access to cash from bank accounts) and supports further economic activity in the immediate local community (a third of small businesses visit the Post Office weekly for financial and postal services).

The combination of unique physical accessibility, financial/cash handling capabilities and product availability means the Post Office offers significant access promoting financial inclusion within the United Kingdom.

#### 6. Access to Banking

The Post Office is establishing arrangements with UK banks which mean;

- 99% of UK personal bank accounts can be accessed at all Post Offices throughout the UK
- Given 92.9% of the UK population lives within a mile of a Post Office, opening hours are typically longer than bank branches and 4000 Post

Offices are open on a Sunday – this is a significant extension of accessibility

- All basic bank accounts are accessible at Post Offices under these arrangements
- Every bank can offer every customer access to their accounts through every Post Office.

This framework builds on prior disparate commercial arrangements Post Office had with UK banks to create a single common and standardised set of services which enables customers and account holders with those banks to use Post Office branches to deposit and withdraw funds, gain balance enquiries etc. A list of relevant banks and services available is given at Annex 2 of this submission.

As a result over 99% of UK personal account holders can use the local Post Office to access their accounts. This includes access to all Basic Bank Accounts (BBA) offered by UK banks.

Those communities across the UK without a bank branch but with a Post Office therefore have access to standardised day-to-day cash banking facilities. Communities where there may be bank branches nearby now have potential access over longer opening hours as the Post Office is also available as a point of access for the account holders of that bank.

Public awareness of these capabilities has historically been relatively low – a point that was emphasised in the recent Griggs Report commissioned by the British Bankers Association. The report recommended that UK Banks and the Post Office should actively market and advertise services available at the Post Office more comprehensively than in the past. However, despite this relatively low awareness, the service is being increasingly used with 110 million transactions being performed last year (a 6% increase). The establishment of a framework now gives the Post Office and Banks an ideal platform and a clear opportunity to further make their customers aware of these enhanced facilities.

A further service related to the Post Office's agreements with the banks is the ability of Post Offices to cash pre- approved cheques for customers who, for a variety of reasons, are unable to use automated facilities. This helps to promote inclusion for those who have difficulties with automated approaches.

## 7. Other services supportive of financial inclusion

The Post Office offers a full range of bill payment services (including utility key recharging services) on behalf of a wide range of clients such as utility companies, local authorities and government departments. The decision to use the Post Office for these purposes is made by the client. The Post Office offers these Clients a full service offer – and, due to its accessibility, trust and convenience – it can facilitate the use of these payment options by the widest range of societal groups.

In addition, the Post Office offers a budget card which enables small scale ad hoc saving onto a card to enable later spending – helping customers to both save conveniently for future events and to have the potential to use online purchasing

The Post Office also offers a full range of financial services as would be the case with a bank – from bureau de change, through insurance services, life cover, savings, loans through to mortgages. These products meet all regulatory requirements – and are conveniently accessible either via the network of Post Offices or through convenient online or telephone channels. They offer additional choices to customers in the Financial Services marketplace.

## 8. Post Office Card Account

The Post Office network (supplemented by its ATM network) is a convenient point of access for those who wish to collect state benefits or pension payments in cash. This can be done via the capability for UK bank account holders to withdraw cash from those accounts at Post Office (as outlined above). It can also be done via the Post Office Card Account – which is provided to individuals by the Department of Work and Pensions and which is also available to those who do not have their benefits or pension paid directly into a bank account.

The functionality of the Post Office Card Account is specified by, and provision of the service through the Post Office commissioned by, the Department of Work and Pensions. The functionality of the Account is limited to the receipt of benefits and pensions and to the withdrawal of those benefits in cash at Post Offices and associated ATMs.

There are currently about 2 million Post Office Card Account holders undertaking over 100 million transactions a year. Being able to access benefits and pensions in cash (to the exact amount) at nearby Post Offices is important to these customers and the way they manage their financial affairs. Their local Post Office provides a facility that enables them to easily access other financial services after they have obtained cash via their Post Office Card Account– for example making utility or rent payments, money transfer or budget card savings. In turn this is an important customer base for Post Offices and the retail locations in which they are situated and it plays its part in the economics of a sustainable network.

Development of the functionality of the Card Account is dependent on the specification required by the DWP. The Post Office operates the accounts (and pays postmasters for the handling of transactions under the account) in a manner consistent with its operation as a commercially sustainable company. Development of the Account would need to be agreed with DWP first to ensure that any development in provision was economically sustainable for the Post Office and its network to offer into the long run.

## 9. Developments and Initiatives

The Post Office is committed to the development of its overall financial service facilities and capabilities. It expects this to be an important area of growth which will help to support the sustainable future of the Post Office and its network of Post Offices. In doing this it seeks to be as inclusive as possible to enable provision across its customer base whilst working within the appropriate regulatory requirements.

The arrangements to enable the use of the network by other financial parties (as seen in the banking framework) further enhance the capability of the Post Office to support widespread access to financial services. As is the case with Basic Bank Accounts, should banks develop products supportive of financial inclusion, the Post Office is in place to help ensure the widest accessibility to those products subject to appropriate arrangements being made that help ensure that the finances of the Post Office and its network remain sound.

It is important to emphasise that, whilst the Post Office is committed to being able to continue and develop its role as an important part of the financial infrastructure which provides a conduit to financial inclusion, the necessary condition for it to be able to do so remains the future financial sustainability of the organisation and its network of Post Offices.

The Post Office has made important strides in creating a stronger future financial position in recent years – modernising and stabilising its network. Government funding over recent years, combined with the ability to win and retain commercial contracts from clients who wish to put transactions through the network, have been essential to this development. The current funding arrangements with Government run until March 2018, and discussion about appropriate arrangements thereafter have commenced. The forward strategy of the Post Office is to invest in the developments that will ensure the future finances of the business and the network are secure and the conduit to financial inclusion is therefore robust and sustainable.

## 10. Conclusion

The Post Office is commercial business which is proud of the social value that it provides to the UK through its network and through the services of general interest that it provides. By combining its accessible network, its cash handling capability and the products it offers itself and on behalf of others, the Post Office constitutes a critical infrastructure for the UK. One of the benefits of this infrastructure is its important role in enabling financial inclusion – providing widespread access to products and services.

The Post Office sees itself as developing its role in finance in the UK and maintaining and developing this critical infrastructure. This approach should be of general benefit to financial inclusion across the country. In order to do this it is critical that it secures a sound future itself through investment, efficiency and innovation. This means that it needs to be appropriately commercial in its approach and continue to have access to appropriate investment funding to develop. It can then be in a position to further enhance the potential of its business and its network. In so doing it can continue to play an important role in promoting financial inclusion.

Annex 1 Financial Services Products available at the Post Office

Service	Availability	Description of service
<p><b>The Post Office offers a range of financial services products and products that support financial inclusion including banking, foreign exchange, bill payment and savings and investment products.</b></p>		
<p>Personal banking and Business banking</p>	<p>All branches</p>	<p>Post Office offer a range of core services – cash deposit, cash withdrawal, change giving and cheque handling – in a standardised and sustainable manner, to Personal bank customers of virtually all the retail banks in the UK (serving their full-service accounts as well as Basic Bank Account customers) and Corporate customers of a number of business banks. All these services are provided through a 'Banking Framework' which has been established to ensure continuity, standard service and consistent operational provision to every bank.</p>
<p>Cash machines</p>	<p>Selected branches</p>	<p>Around 2,600 free-to-use cash machines are available at Post Office branches nationwide.</p>
<p>Bureau de Change</p>	<p>All branches</p>	<p>A wide range of commission free currencies and American Express travellers cheques, 1,600 branches offer a range of currencies on demand. An additional 2,500 branches offer Euro and Dollars on demand as well as Turkish Lira in the Summer with a further 5,400 offer Euros on demand. Currencies can be pre-ordered in any Branch or Online for collection at any branch</p>
<p>Travel insurance</p>	<p>Selected Branches</p>	<p>Single Trip, Annual Multi-Trip Product and Backpacker iterations available in circa 8,500 branches. The Post Office website and Travel Insurance Contact Centre offers the full product range (Super Economy, Economy, Standard, Premium and Premium Plus. Cover available for customers up to the age of 85 (75 for AMT). Health screening is currently available via the contact centre and online.</p>



Travel Money Card	Selected branches	Post Office Travel Money Card Plus offers the security of travellers' cheques with the convenience of plastic making it a secure, convenient way to carry foreign currency. Available in eight currencies – including Euro, US Dollar and Sterling – it is a pre-paid chip and pin card that customers can load with currency and can be topped up in any branch, Post Office website or over the phone via the call centre.
Moneygram	All branches	International money transfer service, customers can send up to £5,000 to over 200 countries, with the cash available in just 10mins worldwide. Funds can now also be sent directly into overseas bank accounts in selected countries.
International Payments	Online and large values via call centre	International account to account money transfer service. Amounts from £50 and with no upper limit can be sent securely and with no fees applied.
Automated bill payments	All branches	Acceptance of payment and pre-payment towards a variety of bills including gas, electricity, water, phone, council rent, mail order and insurance. (Some schemes available on an area basis as agreed with local authorities.)
Paystation and charging of electricity and gas meter tokens	All branches	To charge electric keys, Quantum Gas Cards, and mobile phone top ups. (Stocks of electricity tokens for meters are also available in selected branches based on local schemes.)
Current Accounts	Selected branches	As part of the on-going pilot, Post Office Current Accounts can be opened in a number of branches across Great Britain. The accounts (Standard & Control) are simple and transparent offering customers the convenience of local banking through our 11,500 strong branch network. The accounts also have full online, phone and mobile servicing and now come with a Visa Debit card.

Mortgages	Selected branches, online and via the phone	Post Office has 100 Mortgage Specialists in Branches across the country. A range of fixed and tracker mortgages for residential (including Help to Buy) and buy to let customers are available via these branches, online or by phone. All products are available for first-time buyers, home movers and re-mortgages (not Help to Buy).
Credit Card	Information in most branches, online and via the phone.	The Post Office Money Credit Cards offers a range of credit cards offering balance transfers and unique benefits for those travelling abroad. Information is available in the majority of branches and customers can apply online, by phone or in branches with a specialist via online application.
Personal Loans	Online only	The Post Office Money personal loan offers flexible borrowing between £2,000 and £25,000 with fixed monthly payments.
Online Saver	Online only	The Online Saver offers easy access with no notice and no penalty and unlimited withdrawals.
Online Bond	Online only	The Online Bond offers 1, 2, 3 year terms with a guaranteed fixed return.
ISA	Most branches	The Post Office offers a fixed rate (1 & 2yr terms) and variable rate (with 12 months' bonus) cash ISA: applications by phone, post or at main Post Office branches. A Junior ISA is also available, which is a stocks and shares Junior ISA: applications on-line or by phone.
Growth Bonds	Most branches	Fixed term bond product offering 1, 2 & 3 yr terms. Apply by post, phone or at main Post Office branches.
Reward Saver	Most branches	Variable interest rate product with a bonus for the first 12 months. Free withdrawal by providing 30 days' notice. Apply by post, phone or at main Post Office branches.
Instant Saver	Most branches	Easy access variable rate product with a bonus for the first 12 months. Apply by phone, post or at main Post Office branches. Access to over 60,000 LINK cash machines

Car Insurance	Selected branches, online and via the phone	Car Insurance can be purchased in Crown branches on-line and over the phone. Quotes can be obtained in Main Post Office branches with other branches holding information to introduce customers either face to face, over the phone or online. Information and quotations are also available via price comparison websites.
Home Insurance	Selected branches, online and via the phone	Home Insurance can be purchased on-line and over the phone. Branches hold information to introduce customers either over the phone or online. Information and quotations are also available via price comparison websites.
Van and Motorcycle Insurance	On-line and via the phone (Information available in branches)	Van and Motorcycle Insurance can be purchased on-line and via the phone. Post Office branches hold information to introduce the service to customers. Information and application is also available via price comparison websites.
Life Insurance and Over 50's Life cover	Selected branches, online and via the phone	Term Life Insurance can be purchased, on-line and via the phone. Other branches hold information to introduce term life insurance and life cover to customers.
Pet Insurance and Business Insurance	On-line and via the phone (Information available in branches)	Pet Insurance and Business Insurance can be purchased on-line and via the phone. Post Office branches hold information to introduce the service to customers.

<p>Post Office Budget card plus</p>	<p>All branches</p>	<p>Customers can take control of household budgeting by putting a little money aside regularly to cover household bills and spread the cost of Christmas and other gifting occasions. Customers save what they can between a minimum of £2 and maximum of £250 in multiples of £1 up to the annual limit of £3,000 every year – the card can then be used to pay for selected Post Office services like car tax, telephone bill or One4all Gift Cards and can also be used in selected High Street stores and on line.</p>
<p>Post Office Card Account</p>	<p>All branches</p>	<p>A basic account for customers who are in receipt of state pensions, benefits or tax credits. Payments are made into the account by the paying department and customers can withdraw cash at all Post Office branches or the Post Office cash machine network.</p>
<p>Local council services</p>	<p>Local Area based</p>	<p>The Post Office provides services on behalf of over 300 local councils covering a wide range of applications and payment services both from and to residents and customers. Services include cash collection from residents for rents, rates, council tax, parking fines and licence fees, payment services including asylum seekers allowances, emergency welfare payments and rebates; form checking including benefits, planning and concessionary travel applications and identity checking and verification services.</p>
<p>Identity checking services</p>	<p>Selected branches</p>	<p>Customers who need to have photocopies of identity documents certified (for example when applying for a mortgage, bank account or new job), can have original documents checked and photocopies certified at the Post Office.</p>
<p>GOV.UK Verify service</p>	<p>On-Line only</p>	<p>Customers seeking access to services on GOV.UK are able to do so via Post Office’s Verify service. The Post Office is one of eight companies offering this form of identity assurance. Once verified customers are able to use a single username and password to access a growing number of services across government. The service is only available online.</p>

Annex 2: Bank account services available at Post Office branches

<b>Bank / Building Society</b>	<b>Cash withdrawal (with card and PIN)</b>	<b>Balance enquiry (with card and PIN)</b>	<b>Cash deposit (with card, barcoded slip or with personalised paying-in slip from your bank, depending on your bank)</b>	<b>Cheque deposit (with personalised paying-in slip and deposit envelope from your bank)</b>
<b>Personal and BBA accounts (If appropriate)</b>				
<b>Advanced Payment Solutions (APS)</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>
<b>Bank of Ireland</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Bank of Scotland</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>Barclays</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>cahoot</b>	<b>No</b>	<b>No</b>	<b>Yes</b>	<b>Yes</b>
<b>Clydesdale Bank</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Danske Bank</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes N. Ireland only</b>
<b>First Direct</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>First Trust Bank</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>Halifax</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Handelsbanken</b>	<b>No</b>	<b>No</b>	<b>Yes</b>	<b>No</b>

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<b>HSBC</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Lloyds Bank</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Metro (business customers)</b>	<b>No</b>	<b>No</b>	<b>Yes</b>	<b>Yes</b>
<b>Nationwide Building Society</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>NatWest</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Santander</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Smile</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>The Co-operative Bank</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>The Royal Bank of Scotland</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Think Money</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>TSB Bank</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Ulster Bank</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Virgin Money</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>
<b>Yorkshire Bank</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

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*13 January 2017*

## **Dr Rajiv Prabhakar – Written evidence (FEX0001)**

### **Controversy about the meaning of financial inclusion and exclusion**

1. This written submission relates to the first set of questions in the call for evidence, namely the definitions and causes of financial exclusion and financial inclusion. This submission concentrates on the term financial inclusion as this term tends to be used more widely in current policy debates. There has been a recent Financial *Inclusion* Commission (2015) and this builds on the work of the Financial *Inclusion* Taskforce (2011).
2. The aim of this submission is to alert the Select Committee of an on-going academic controversy about the meaning of financial inclusion and that it is important to address these concerns in any discussion of the future of this agenda.
3. Much of the debate about financial inclusion within the policy community is about the details of specific policies and the ways in which government, private companies or other bodies might improve financial inclusion and cut financial exclusion. This focus can be seen in the call for evidence that has been issued, which asks questions about financial education and capability, government policy and regulation and financial technology (fintech).
4. Although these specific issues are important and there is much that can be learnt that builds on reviews conducted previously by the Financial Inclusion Taskforce (2011) and the Financial Inclusion Commission (2015), there is also a wider critique of the whole financial inclusion agenda that is often overlooked in policy debates (Prabhakar 2013; Marron 2013; Berry 2015).
5. Within the academy, a 'financialisation' critique has emerged that casts doubt on the desirability of any financial inclusion policies (Prabhakar 2013; Marron 2013; Berry 2015). Financial inclusion is thought broadly to refer to steps to encourage greater individual involvement within the financial system. Of course, this broad definition is ambiguous as greater involvement might mean efforts to widen the access to mainstream financial services from those excluded from this system; expanding the financial choices that those people have to make who are already within the financial system; or some mix of widening or deepening involvement.
6. The financialisation critique claims that the financial inclusion agenda ultimately amounts to a transfer of roles from the state to financial markets. In particular, financialisation means that people are shifted from the collective security provided by the welfare state to the risks associated with financial markets. One example of this is a so-called 'great risk shift' in public pensions. This trend means that people are increasingly moved from publically funded and provided pensions into private defined contribution pension schemes. In a defined contribution pension, the size of the final pension pot depends on individual contributions as well as the



performance of the investments over the term of the pension. The performance of individual investments are thought therefore to expose people to the risks within financial markets.

7. The figure of the 'investor-subject' is seen by critics as being at the heart of financial inclusion. Investor-subjects are expected to make investments to avoid poverty. This might involve 'borrowing-to-invest'. For example, people might borrow on mortgage markets to invest in property. Critics implicate the financial inclusion agenda in the rise of personal indebtedness prior to the 2007-2008 financial crisis. The investor-subject is contrasted with the figure of the welfare citizen that has social rights provided by the welfare state.
8. The literature on financialisation therefore adopts a critical stance towards financial inclusion and these policy efforts are seen as hollowing out the welfare state. This literature also links financialisation with the spread of free market thinking within public policy. Neoliberalism stresses the role of free markets. Financial inclusion is thought by some to belong to neoliberalism as it is seen as supporting the spread of financial markets within public policy.
9. This submission does not provide an in-depth assessment of this financialisation critique. Rather, the aim is to highlight the importance of addressing the questions and concerns raised by the financialisation critique. It is easy when concentrating on the detail of specific issues to ignore the wider issues. Addressing the wider critique is important for building support for financial inclusion within the academy and allaying the fears of those that insist that this agenda ought to be resisted.
10. One point that might be made is that it is possible to unpick financial inclusion from neoliberalism. There is an alternative view of financial inclusion in much of the policy literature that stresses the importance of financial inclusion as a way of reducing a 'poverty premium' faced by vulnerable groups excluded from mainstream financial services. For instance, those without a transactional bank account cannot take advantage of cheaper deals on fuel bills available to those who can pay by direct debit.
11. The neoliberal and poverty premium strands of financial inclusion are not mutually exclusive and it is possible to combine these strands in different ways. Therefore, financial inclusion and exclusion can have multiple meanings and it is possible to develop hybrid versions of financial inclusion. Examining the different possibilities is important for addressing the definitions and causes of financial exclusion.
12. A key recommendation is to consider the way that financial inclusion or exclusion is framed. This needs to embed financial inclusion within a discussion of other concepts such as welfare citizenship, neoliberalism and equality.

13. The framing of financial inclusion is significant then as this can shape the general direction of specific policies as well as the particular questions that are a suitable topic for discussion.

## References

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26 July 2016

## **Provident Financial Group – Written evidence (FEX0038)**

1. Established in Bradford in 1880, Provident Financial Group is a specialist lender with 2.4m customers in the UK and Ireland. We have been regulated by the Financial Conduct Authority and the Prudential Regulation Authority since 2014 (before this date by the Office of Fair Trading and the Financial Conduct Authority.)
2. Four fundamental attributes differentiate us from other providers. These also explain why we have a sustainable business model which delivers both for customers and shareholders.
  - 2.1 We focus solely on serving the non-standard credit market, providing access to credit for those who may have limited financial options or those for whom mainstream products are not designed. Our customers can be sure that when they borrow from us, they are dealing with a business with a genuine understanding of their needs, informed by our knowledge and experience in this sector. Our awareness of customer preferences is also the reason why we offer relatively small scale lending and options on how loans can be accessed and repaid.
  - 2.2 We lend responsibly, meeting the specific needs of consumers in the non-standard market. We offer simple and transparent products with no hidden charges. Our manageable weekly or monthly payments ensure that our products are affordable.
  - 2.3 We have a tailored business model to serve non-standard consumers. We maintain close contact with our customers throughout our relationship with them. This takes the form of a weekly home visit by an agent for our home credit customers, the welcome call in Vanquis Bank for credit card customers or through our various contact centres. If customers get into difficulty, we have active and personalised approaches to helping them get back on their feet, including a range of forbearance measures.
  - 2.4 Our funding is robust, coming from a range of sources. This ensures that we are not overly reliant on one funding source and that we will be able to serve our customers through the economic cycle.

### **The non-standard market**

3. The non-standard market may either refer to:
  - 3.1 a subset of financial services providers;
  - 3.2 or the services they offer;
  - 3.3 or the customers whose needs those services are intended to meet.
4. Mainstream financial services match up best to customers with 'average' or 'core' characteristics and predictable behaviours. Historically, a

sizeable proportion of providers have been wary of serving customers who appear to have variable characteristics or behaviours.<sup>545</sup> This wariness has variously been attributed to:

- 4.1 a lack of provider expertise of customer circumstances;
  - 4.2 an inability to flex or adapt standardised eligibility criteria and processes; and
  - 4.3 'reputational concerns', seemingly linked to the level of APRs required to serve the market sustainably.<sup>546</sup>
5. Wariness over provision can also stem from regulatory requirements, where non-standard products and services may be considered higher risk, consequently leading to relatively higher regulatory costs.
6. Whatever the reasons, the result is that when a customer has a 'non-average' profile, lacks certain characteristics, or their record (in regards to how they have used financial services) is mixed, they are less likely to find as many financial services firms willing to serve them as a 'mainstream' individual. Whereas providers in the non-standard market are more likely to have a dedicated proposition available and suitable for their needs. In addition, because of the mismatch between non-standard needs and mainstream provision, some consumers self-exclude as a result of poor experiences and outcomes.<sup>547</sup> Research has shown how mainstream products can be both high cost and high risk for non-standard customers, leading to the risk of debts spiralling to unmanageable levels.<sup>548</sup>
7. The points of difference in a non-standard financial service are generally intended to correct the mismatch between a 'mainstream' product and the profile of the non-standard customers who would like to access it. In the case of credit, typical features of non-standard financial services can include:
- 7.1 bespoke underwriting;

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<sup>545</sup> For a perspective on mainstream financial services providers' appetite for serving lower income customers see:

**Home Credit Market Investigation, Final Report and Appendices and Glossary, Section 4: Competition from other forms of lending**, Competition Commission, 2004.

[http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep\\_pub/reports/2006/fulltext/517\\_section4.pdf](http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep_pub/reports/2006/fulltext/517_section4.pdf)

pp4-19 – 4-20

<sup>546</sup> A study by the Joseph Rowntree Foundation found that even with favourable assumptions and costs of funding excluded, a home credit service on a not-for-profit basis would require an APR of 123%. See: **Is a not for profit home credit business feasible**, Kempson, Ellison, Whyley, Jones, JRF, 2009. <https://www.jrf.org.uk/report/not-profit-home-credit-business-feasible>

<sup>547</sup> For an explanation of the challenges lower incomes customers articulate around finding appropriate savings products see:

**Towards a nation of savers, Finney and Davies**, PFRC, 2011, pp39-42.

<http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc1105.pdf>

<sup>548</sup> For customer experiences of moving into banking, see: **Realising banking inclusion: the achievements and challenges A report to the Financial Inclusion Task Force**, Ellison, Whyley and Forster, Policis, 2010

<https://www.policis.com/pdf/banking/HMT%20Newly%20banked%20and%20unbanked%20research%20final%20report%20090810.pdf>

- 7.2 differentiated or additional delivery and collection channels;
  - 7.3 enhanced product information provision;
  - 7.4 a higher level of customer support; and
  - 7.5 all-in pricing – rather than variable pricing where the initial cost is increased if a customer misses a payment or pays late.
8. Arguably, thinking of financial services markets as separated into 'mainstream' and 'non-standard' components is artificial. Over the course of their adult lives, individuals are certain to experience changes in their personal circumstances and likely, from time to time, to experience some degree of financial instability. So, in reality, the range of financial services an individual can access can both increase and shrink as his or her circumstances change.
  9. Taking this into consideration it becomes easier to understand why in the UK at present the non-standard credit market comprises around 12 million people.
  10. While a relatively low income or a thin credit history are recognised as factors that limit individuals' access to mainstream credit providers, it has more recently come to be understood that exclusion can be the result of a much wider range of factors: unsuitable product design; a lack of information; geography; technology; disability; and even culture may contribute. As a result it has also become more widely acknowledged that access challenges are not necessarily the preserve of the vulnerable.<sup>549</sup>
  11. The latest (2016) FCA-commissioned analysis suggested that there are three broad components to contemporary financial exclusion: physical and digital barriers to accessing financial products; difficulties in navigating and understanding the financial services market; and challenges of satisfying the process or eligibility requirements for given products or services.<sup>550</sup>
  12. In 2015 the Financial Inclusion Commission analysis suggested that the categories of individual most likely to be excluded from financial services are: those with low or unstable incomes; lone parents; recent migrants; single pensioners; those with disabilities; and the long term unemployed.<sup>551</sup>

### **Weighing up access vs exclusion**

13. The challenge for policy makers and regulators is ensuring that consumers have access to as wide a range of products as possible, while also ensuring that providers treat them fairly and lend responsibly. Inevitably, there is a trade-off between regulation and access. For example, price controls on credit can bring down the cost to some consumers, but will

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<sup>549</sup> **FCA Occasional Paper No 17, Access to Financial Services in the UK**, 2016

<sup>550</sup> Ibid

<sup>551</sup> **Financial Inclusion, Improving the Financial Health of the Nation**, Financial Inclusion Commission, 2015

lead to others being excluded from the market when they cannot be lent to profitably and therefore sustainably. If the policy objective is for the maximum number of people to have access to legal credit in order that they can smooth their income when needed, a cautious approach to regulatory interventions is required.

14. Particularly for individuals who have to live on a low income for the longer term, access to small sum credit is essential to alleviate financial pressure and bridge gaps in household expenditure.<sup>552</sup> Demand of this nature will persist and for many their need for credit is significant enough that, if it cannot be met by the legal credit market, they will turn elsewhere.<sup>553</sup> Ensuring a wide and deep market of legal consumer credit should therefore be an important policy and regulatory objective.
15. The groundbreaking work conducted in Great Britain to better understand the nature and prevalence of illegal loan sharking established that the availability of regulated non-standard credit can act as a bulwark preventing wholly illegal, unregulated lending gaining a foothold and devastating the lives of those in the most deprived communities.<sup>554</sup> Thankfully illegal lending is an extreme outcome which fortunately only a minority of individuals are exposed to, not least because of sustained work by the specialised illegal money lending unit since 2007. However, this extreme outcome crystallises the enduring challenge for regulators and broader society: how do we ensure individuals benefit from accessing regulated credit markets and what kind of provision should be in place for those who cannot?
16. In the UK consumer credit is a highly regulated market. Essentially providers, customers and wider society accept this regulation because it provides guidance on what constitutes acceptable product design, borrowing and repayment terms, and what behaviour is expected by the parties entering into a contract.
17. But ensuring that fewer individuals are financially excluded requires that society as a whole recognises this challenge and is prepared to make wider efforts to resolve it. We concur with the perspective of Christopher Woolard, FCA Director of Strategy and Competition, who commented earlier this year: "*Financial inclusion is a vast topic and one where the actions of the regulator alone cannot possibly address all the potential issues.... Resolving this is complex. Ensuring that consumers who would be*

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<sup>552</sup> **Meeting the need for affordable credit**, Alexander, White and Murphy, CarnegieUK Trust, 2016, pp7-8.

<http://www.carnegieuktrust.org.uk/carnegieuktrust/wp-content/uploads/sites/64/2016/02/pub14550114201.pdf>

<sup>553</sup> <http://www.telegraph.co.uk/finance/comment/11324621/Pay-day-lending-has-been-reformed-but-the-sharks-are-still-out-there.html>

For an assessment of the growth of unregulated online lending in the US see: **The Future of Illegal Lending: Interim Findings**, Policis, 2014.

[https://policis.com/images/iml2014\\_2/5/illegal\\_lending\\_presentation\\_171214.pdf](https://policis.com/images/iml2014_2/5/illegal_lending_presentation_171214.pdf)

<sup>554</sup> **Illegal Lending in the UK**, Collard, Ellison and Forster, DTI, 2006, pp25-32, p77

<http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc0707.pdf>

*turned away in the normal course of business have access to services can create other challenges, such as requiring cross-subsidy from public funding or other customers. So interventions must be considered carefully.* <sup>555</sup>

## Technology

18. The rise of new technologies has widened access to products and services across a range of sectors. In credit markets, the development of data sharing and credit scoring systems has significantly extended the number of consumers able to participate. Increasing access to the internet and the prevalence of mobile phones also means that greater numbers of consumers are able to engage with a wider number of products and suppliers. However, technology of itself cannot address the drivers of exclusion, which are multifaceted. While technology can drive down the costs of provision and give consumers greater control, the fundamental economics of credit markets - a function of funding costs, the economic climate, regulatory requirements and other factors - will still primarily determine which consumers present an acceptable and appropriate risk to providers. And where self-exclusion or a lack of financial capability or confidence exists, the reasons for it need to be addressed before the advantages that technology offers can be accessed.

## Challenges for third sector credit providers

19. Credit is also available to lower income borrowers from not-for-profit providers, such as credit unions or community development finance institutions. Some suggest it is more appropriate for lower income borrowers to use providers such as credit unions, who have statutory limits on the interest they can charge. Not-for-profit lenders are certainly a useful option for lower income borrowers but their models of provision can be quite distinctive. What is more, despite support from successive governments, not-for-profit lenders still have limited geographic coverage and have found it challenging to become financially sustainable. Research has shown that these lenders struggle to attain the 'reach' or the financial sustainability to replace private sector lenders.<sup>556</sup>
20. Back in 2008 New Philanthropy Capital identified what may well be a persistent challenge for third sector providers, namely conflicting expectations of what their core mission should be: *"Underpinning the challenges of scale and impact are some ambiguities about what third sector lenders are trying to do... A key question is whether lenders are trying to solve a problem of competition or social justice...."* Then, as

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<sup>555</sup> **FCA Occasional Paper No 17** op cit

<sup>556</sup> **Mainstreaming Financial Inclusion, Planning for the future and coping with financial pressure: access to affordable credit**, Financial Inclusion Task Force. 2010, pp7-13.

[http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/fit\\_affordable\\_credit.pdf](http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/fit_affordable_credit.pdf)

Kempson, Ellison, Whyley and Jones, JRF, 2009, op cit, p42. [www.jrf.org.uk/publications/not-for-profit-home-credit](http://www.jrf.org.uk/publications/not-for-profit-home-credit)  
[Alexander, White and Murphy, CarnegieUK Trust, 2016, op cit, pp18-23.](#)

now, it may be overly ambitious for third sector lenders to try to solve both problems. And unless an organisation is clear about its core mission, trying to achieve both goals may make it harder for them to solve either. *"The part that is trying to fix a broken market is a social enterprise, needing start-up and growth funding to prove its model or scale up. And the part that is trying to address unfair circumstances, which exclude people from the mainstream, looks more like a charity."*<sup>557</sup>

14 September 2016

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<sup>557</sup> **Short Changed**, New Philanthropy Capital, 2008, p79.  
<http://www.thinknpc.org/publications/short-changed/>



PSHE Association and Ofsted – Oral evidence (QQ 175-184)

## **PSHE Association and Ofsted – Oral evidence (QQ 175-184)**

[Transcript to be found under Ofsted](#)

Rees Foundation, National Youth Agency and Young Scot – Oral evidence (QQ 69-78)

**Rees Foundation, National Youth Agency and Young Scot  
– Oral evidence (QQ 69-78)**

[Transcript to be found under National Youth Agency](#)

## Responsible Finance – Written evidence (FEX0005)

### Introduction

1. The need for everyone to have access to a comprehensive package of appropriate and affordable financial products has never been more pressing. The last decade has seen significant changes which make it more essential than ever for people to have better money management skills and tools and access to appropriate financial services. These include shifts in employment patterns, with more people becoming self-employed or employed on insecure contracts, an expectation that people will take on more responsibility for managing their finances, such as pension freedoms, and changes to the UK benefits system. Over the same period, the financial services sector has become more complex and harder for people to navigate. And eight years on from the global financial crisis and recession with scandals such as PPI fresh in people's minds, trust in the financial services sector remains low.
2. However, despite a raft of recent legislation and regulation to encourage competition, the UK banking sector remains highly concentrated and uncompetitive.
3. Certain groups of society, mainly those on low incomes, are either poorly served or not served at all by the main high street banks. As profit driven institutions, it is unlikely that these banks will ever provide a range of appropriate and affordable financial products for those on low incomes. These markets are not sufficiently profitable to incentivize them to do so.
4. This and the previous government have relied on increased competition from challenger banks, FinTechs and new players such as P2P lenders to address financial exclusion. While this has improved choice for those already financially included, so far it has done little to address those that are excluded.
5. To achieve financial inclusion for all, which should be seen as bedrock of economic growth and social inclusion, alternative providers such as responsible finance providers need long term commitment and financial support to scale up and improve reach. Other members of the G20 and the EU benefit from this type of support. For example, in the USA, the Community Reinvestment Act and the CDFI fund, offer long term stability to the CDFI / responsible finance sector.
6. The UK rightly claims to be a world leader in financial services. It should also aspire to become a world leader in tackling financial exclusion. To do this it needs a more strategic and joined up approach backed by political leaderships and a commitment to investment in those providers that have the skills and understanding to tackle financial exclusion at a community level.

### About the responsible finance sector

7. Responsible Finance is the trade body for responsible finance providers (formerly known as community development finance institutions (CDFIs)). Responsible finance providers provide loans and support to businesses and individuals who find it difficult to access finance from commercial banks. Responsible Finance's mission is to support the development of a thriving and sustainable sector that provides finance for underserved communities and, as a result, contributes to the increasing economic growth and prosperity of these communities.
8. Over the last 10 years, Responsible Finance providers helped 216,000 people save £20 million in repayment to high cost lenders and tackled 2% of the UK's problem debt. In 2015, they lent £22 million to 45,000 people, providing financial capability support to 31,000 people.
9. For more information about what we do and the impact we have, read our [annual industry report](#).

### Definitions and causes of financial inclusion

10. Financial inclusion is the process of ensuring access to appropriate financial products and services at an affordable cost in a fair and transparent manner. Financial inclusion is a key enabler to reduce poverty and boost prosperity. Financial exclusion is the lack of access to appropriate financial products.
11. In 2014, the Community Investment Coalition (CIC) launched a [community banking charter](#). This said that every household, adult and business should have access to a basic package of financial services to support financial inclusion. The charter was reinforced by the Financial Inclusion Commission which said a financially inclusive United Kingdom means:
  - Every adult is connected to the banking system, through having access to – and the ability to make full use of – a transactional account of his or her own;
  - Every adult has access when necessary and appropriate to affordable credit from responsible lenders;
  - Every adult is encouraged and enabled to save, even in small or irregular amounts, to show the importance of a common savings culture, to build up resilience against financial shocks and as an additional resource for retirement;
  - Every adult has access to the right insurance cover for his or her needs, at a fair price; every adult has access to objective and understandable advice on credit, debt, savings and pensions, delivered via the channel most suited to that individual;

- Every adult and child receives the financial education he or she needs, starting in primary school and carrying on throughout life and into retirement.

12. Financial exclusion is a lack of access to these products and services.

13. Many people experience some type of financial exclusion. A 2008 report by the Joseph Rowntree Foundation details which groups are most likely to experience financial exclusion, those on low incomes, with disabilities and living in rural areas. A recent report from the FCA, 'Mind the gap' also highlighted barriers to financial inclusion.

#### Financial education and capability

14. In 2016, CIC hosted a round table that considered how best to support adults to improve adult financial capability. Conclusions reached were that employers have a key role to play in supporting adult financial capability and benefit from improved work place productivity as a consequence. The Chartered Institute of Payroll Professionals has done significant work in this area. Its research shows that sickness absence cost UK businesses £11.5 billion in 2014 or £380 per employee. The third largest cause of sickness absence is stress and mental health problems, which can be triggered by poor financial health.

15. But there is a key issue about the complexity of financial services and products and a need for transparent pricing, plain English terms and conditions and alerts when changes are made to these. Integrating money management tools into products and services is one option, for example, Frees and the Change Account both allow customers to manage their money more effectively. Responsible finance providers have a key role to play in supporting customers to improve their financial capability skills while also providing access to appropriate financial products and services.

16. Many responsible finance providers provide bank account and credit facilities such as:

1. Increasing access to finance – serving customers not supported by mainstream lenders
2. Mission-driven –re-investing profits to deliver economic and social benefits
3. Treating customers fairly – clear and transparent about the costs of borrowing, lending only to those who can afford to repay and ensuring customers get the best deal and the best outcome
4. A personal service – a supportive approach, with decisions made by people for people

17. Quality-assured and professional – meeting all Financial Conduct Authority requirements and complying with the Responsible Finance Code of Practice.

### **A responsible finance provider in practice – Scotcash, Glasgow**

Scotcash is a Community Development Financial Institution (CDFI) which opened its doors to Glasgow citizens in January 2007. Initially supported by Glasgow City Council, as part of its financial inclusion strategy, in addition to other partners including Glasgow Housing Association, Glasgow Community Planning Partnership and The Royal Bank of Scotland (RBS). Scotcash now operate as a successful social enterprise; recycling money again and again into communities.

Their aim is to complement, not replace, the role of credit unions and other forms of high street finance; providing an affordable credit alternative for people who are not yet in a position to engage at a more mainstream level. They develop relationships, not solely around lending offers, but through holistic and impartial welfare, money and / or debt advice to increase people's longer term financial independence.

Scotcash have found partnership referrals to be a more successful way to engage with communities than sophisticated marketing campaigns. The main vehicle for spreading the message on what Scotcash has to offer is word of mouth. Key features of their model include:

- Accessible shop-front location in the heart of Glasgow City
- 3 in-house loan advisors authorised to approve instant access flexible repayment loans starting from just £50 or, signpost customers to Glasgow Credit Union network and / or other high street finance.
- 'Trusted partner' status with RBS. This means staff are able to accept the necessary photographic and address ID to process the opening of RBS basic bank accounts.
- A working relationship with Glasgow Credit Union allows Scotcash customers to open a credit union savings account alongside their initial loan. This is offered initially on a 'rounding up' basis; say £6.50 to £7.50 per week with £1.00 saved. This is used as a hook to engage people in basic savings; a step towards financial stability.
- 2 full-time Citizens Advice Bureau staff on site, offering money management advice.

### Addressing financial exclusion

18. There has been an increasing trend of placing responsibility on individuals to tackle their own financial exclusion or seek more appropriate financial products and services. For example, the recent CMA [investigation into retail banking markets](#) recommendations made clear the onus was on individuals to drive competition by 'shopping around'. But there is an asymmetry in the availability of information about financial products and services, with larger players no longer having the capacity to make nuanced decisions about risk as well as becoming more risk averse since the banking crisis. As mentioned above, many financial services and products are not transparent in terms of clearly setting out fees and charges, having plain English terms and conditions and alerts when these change. Placing more responsibility on individuals without placing more responsibility on service providers to become more transparent will only lead to more people taking out inappropriate products and services and so further fuel the decline of trust in the financial services sector.

19. The lack of trust in the financial services sector remains a significant issue, as a [2015 report by the FSCS](#) shows. This creates a disincentive for people

to approach the main financial service providers. For example see this article in the Mirror about insurance claims:

<http://www.mirror.co.uk/money/525000-peoples-claims-rejected--7249128>

Are appropriate financial services and products available for those who experience financial exclusion?

20. The FCA's recent occasional paper on access to financial services effectively documents the problems people face in accessing appropriate financial products. Not only do the appropriate products not exist, a lack of transparency and poor financial capability skills make it difficult for people to find the right product.

Accessing affordable credit

21. There is a significant and growing research gap on all financial exclusion issues. While think tanks and universities try to counter this, this cannot replace the systematic development and monitoring of a clear evidence base. While the FCA is responsible for regulating the pay day lending industry, so far as we are aware, it is not doing any monitoring on the impact of this regulation on availability of credit and where consumers are now going for access to short term credit. It is essential that there is a clear evidence base in order to find effective solutions. This could be provided by creating a financial inclusion research fund or tasking the FCA to build and monitor the evidence base under its duty to 'have regard' to accessibility.

Government policy and regulation

22. There is no clear strategic approach to tackling financial exclusion from the UK government. Instead there is a patchwork of initiatives that are usually reactive to external pressures and events. For example, Wales has a financial inclusion strategies as do many other countries. Scotland doesn't have a specific financial inclusion plan but activity falls under a number of strategies addressing poverty and inequality. The soon to be published Fairer Scotland Strategy will include specific reference to financial exclusion. You can read the strategy for Wales [here](#). The World Bank had a collection of national strategies which are available [here](#).
23. The government has placed a lot of expectations on competition to improve access to financial services. New challenger banks, FinTech and new players such as P2Ps are all rightly credited with creating competition in the financial services sector. However, the evidence so far shows that, with a few exceptions in the FinTech sector, these new players are mainly targeting those already financially included, rather than those currently excluded. The costs of entering the financial services markets are significant, so it is hard to see how, without any incentives, new players would provide services to financially excluded groups who are often (although not always) higher risk. Those FinTech companies which are developing products and services

appropriate to those on low incomes have yet to reach scale to provide a universal solution or to demonstrate their own sustainability.

24. A clear UK or country level strategy with targets would help to clarify the UK's ambitions for tackling financial exclusion; allow effective monitoring of progress; ensure a more streamlined approach to tackling the issue; and clarify expectations of different providers, for example banks, in tackling financial exclusion. If this strategy was owned by a single government minister and department, it would help to ensure a joined up approach to meeting agreed targets.
25. The FCA does have a remit to consider access to financial services. While considering the effectiveness of competition, the FCA may have regard to: (a) the needs of different consumers who use or may use those services, including their need for information that enables them to make informed choices; (b) ***the ease with which consumers who may wish to use those services, including consumers in areas affected by social or economic deprivation, can access them***; (c) the ease with which consumers who obtain those services can change the person from whom they obtain them; (d) the ease with which new entrants can enter the market; and (e) how far competition is encouraging innovation. The FCA has made some progress in this area. This includes working with HM Treasury on the recent Financial Advice Markets Review (FAMR), our efforts to simplify consumer communications and our work on making shopping around easier and clearer in annuities and cash savings. However, it is unclear how much priority is given to dealing with this issue compared to other regulatory issues. It would be helpful if the FCA could give regular reports on how it is meeting this objective, whether this is part of a strategic programme or a series of reactive initiatives and what impact this is having.

#### Welfare reform and financial exclusion

26. So far as we are aware there is limited evidence base on the impact of welfare reform on financial exclusion. Please see comments above on the need for a more robust evidence base.

#### Recommendations

27. To ensure the UK becomes a world leader in financial inclusion, we would recommend the adoption of the following actions:
  - **CDFI Fund:** Under-capitalisation of the responsible finance sector has long been identified as a significant constraint to growth. The creation of a dedicated government-backed Responsible Finance Fund – in the region of £150m – would unlock significant private sector investment (typical leverage is 1:3, which would equal a total of £600m). In the US, the government invests \$200m annually into a CDFI Fund. The CDFI Fund has been an important force in allowing CDFIs to operate sustainably by providing them with equity and is cited as one of the major milestones in achieving their \$45bn loan book.



- **Duty on large employers to provide financial capability for employees:** A healthy and scaled up supply side for affordable credit is important for consumers and businesses that cannot access finance from the mainstream. However, financial education and literacy plays a big role as well, ensuring that consumers are informed and understand their options before entering into any credit agreement. Although efforts have been made to incorporate financial literacy into early education, [evidence indicates](#) that there is a financial literacy gap among UK adults. To tackle this we suggest a duty on large employers to provide financial capability and literacy training for their employees.
- **Banks 'duty to serve':** We recommend drawing on the USA's Community Reinvestment Act, which would (a) require banks to disclose their lending (which some [do now](#) on a voluntary basis) and be held to account by an independent regulator as to whether there is discriminatory lending activity; (b) require banks to invest in responsible finance providers as a way of demonstrating they are reinvesting into communities in which they take deposits.
- **High cost credit levy:** A levy should be introduced on forms of high cost credit on payday lenders, such as payday lenders, retail store cards, home credit, white goods, etc., which will fund financial inclusion activity.
- **Banking governance:** We recommend requiring regulation to be appropriate and proportionate. Small social lenders – such as responsible finance providers and credit unions – are regulated by a regime that is designed for mainstream banks. Parts of this regulatory burden, such as the Approved Persons Regime or the Senior Managers Regime, can be disproportionate and are a barrier to growth in the sector.
- **Financial inclusion:** According to the Financial Inclusion Annual Monitoring [Report](#) from 2015, 1.5 million people are unbanked. Requiring disclosure of lending data would help to identify exclusion in particular geographic markets.
- **Reform of UK payments:** Access to the UK payments system should be widened to ensure more competition in the financial services sector.

#### Combined authorities and metro mayors' role in financial inclusion

28. Our experience indicates that combined authorities and metro mayors are in a unique position with local knowledge that can help inform local policy. We have found that localities with a clearly defined access to finance or financial inclusion strategy have a more robust and coordinated community finance sector, and subsequently their residents have greater access to affordable credit. Examples of this include:

- **Sheffield Money:** A partnership of responsible finance providers, credit unions, advice agencies and FinTech firms set up to tackle the use of high cost credit in Sheffield was launched by Sheffield City

Council as part of their Fairness Commission. While [this initiative](#) is still in its early days, it is an innovative model bringing together existing organisations in a strategic way.

- **Glasgow:** As part of Glasgow's financial inclusion strategy, the council developed [Scotcash](#), a responsible finance provider, to provide an affordable alternative to dependence on high cost credit in Glasgow. Since launching in 2006, Scotcash is now an independent and sustainable organisation tackling financial exclusion in Glasgow.
- **New York City:** An international [example](#) of the city government creating an incubator for a range of organisations that tackle poverty, which together provided a "triage" of interventions. As a result, New York City was one of the only cities in America to reduce its poverty rate since the year 2000.

29. The case studies above demonstrate the potential for mayors and local authorities to tackle financial exclusion in their communities when they are given a wide ranging remit and leadership opportunities. This combined with bank lending disclosure data can give local areas the ability to understand local need and respond with an effective strategy.

*6 September 2016*

## SalaryFinance – Written evidence (FEX0034)

### Definitions and causes of financial exclusion

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?

Financial exclusion is more a relative than binary concept. As such, there are different degrees of exclusion in relation to the level of access to financial products available to different segments of the UK population.

The most extreme form of financial exclusion is where individuals have no access to a bank account, estimated to be around 1.5 million UK adults<sup>558</sup>. Another form of financial exclusion that impacts a significant portion of the UK population relates to the 'credit restricted'. These are individuals who cannot gain access to credit provided by mainstream banks / lenders at reasonable / affordable interest rates. In the most extreme form, an estimated 1.1 million people on low incomes are unable to borrow in UK<sup>559</sup>.

**SalaryFinance Evidence:** SalaryFinance estimated based on the credit score classification of a representative sample of 200,000 UK borrowers that 49% were 'credit restricted' and would therefore find it challenging to gain access to mainstream credit products, while 74% were likely to pay a premium for access (*Evidence Points 5A, 5B, Appendix*). Moreover, 42% of the borrowers in the sample were identified to be paying an APR rate greater than 20% in at least one of their credit accounts, supporting the conclusion from Evidence Points 5A, 5B (*Evidence point 6A, Appendix*).

Additionally, it was found that the 'credit restricted' population were more likely to resort to high-cost Home Credit accounts and Payday loans to deal with their financial needs. 79% of the sample UK borrowers in the lowest credit score category had taken at least one payday loan and 24% opened at least one Home Credit account within 12 months after they were assigned that credit score category (*Evidence Points 7A, 7B, Appendix*). These evidence points suggest that financial exclusion can be manifested both in the price and type of accounts an individual is able to have access to relative to all other borrowers in the market.

The causes of financial exclusion are multifaceted, but typically link to an individual's credit history and score. Individuals with a low credit score – driven by either a lack of credit history on their file, or past negative indicators like missed repayments – increase the exclusion individuals have to mainstream products. The lack of access to mainstream products creates a negative spiral; for example, use of a payday is considered a negative indicator on an individual's credit file and once they have taken one payday loan, it makes it even less likely they will be accepted by a mainstream lender in future, meaning

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<sup>558</sup> Rowlingson & McKay, 'Financial Inclusion Monitoring Report 2015', Friends Provident Foundation.

<sup>559</sup> Ellison, A., Whyley, C., Forster, R., & Jones, P. A. (2011). Credit and low income consumers: A demand side perspective on the issues for consumer protection. Friends Provident Foundation.

they have no option but to continue with high cost (often 1,000% interest) payday loans.

**SalaryFinance Evidence:** In a sample of 200,000 UK borrowers, only 4% of those that had obtained a credit product with an APR of less than 20% had defaulted on a credit account in the past. Conversely, 66% of the UK borrower population that were paying >500% on at least one credit account had a history of at least one default on their credit file (*Evidence Point 11A, Appendix*). This means those who are financially excluded, tend to get more excluded, rather than improve.

In summary, financial exclusion can manifest itself in the types of financial products individuals can gain access to as well as the price they are required to pay relative to the rest of the borrowers in the market.

2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?

Financial exclusion impacts mostly the lower income population, the unemployed, the disabled and individuals with mental health problems<sup>560</sup>.

The biggest segment of the 'credit restricted' population are individuals in employment with either low incomes, unstable incomes and/or those with impaired credit history, who struggle to secure credit at reasonable interest rates and as a result have to resort to alternative very high-cost credit products. They are typically declined by mainstream banks / lenders and so have no choice but resort to high-cost lenders like payday loans.

Published research in the UK by DebtTrack indicated that the majority of payday loan users comprised of households with at least one adult in employment<sup>561</sup>. These are people who contribute to the labour, yet are still forced to pay a high premium.

Since the last recession, with the conditions in the labour market that followed, more and more households are finding it difficult to cope with life emergencies and saving for the future. More people are currently working on zero-hour, non-voluntary part-time and flexible working hour contracts relative to the pre-recession period of 2007. The Joseph Rowntree Foundation<sup>562</sup> has reported that nearly 1.7 million workers were on some kind of temporary contract during the first half of 2015, a 45% increase since 2007. Moreover, in 2014, 1.8 million were on zero-hour contracts<sup>563</sup>.

A recent survey has shown that a quarter of households interviewed were 'just about getting by' and one in ten were either finding it difficult or very difficult to

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<sup>560</sup> Simon Blake & Esther de Jong (2008), 'Short Changed: Financial Exclusion: A Guide for Donors and Funders', New Philanthropy Capital, 3 Downstream, London SE1 9GB

<sup>561</sup> BIS (2013) Credit, Debt and Financial Difficulty in Britain, 2012. London: Department for Business Innovation & Skills

<sup>562</sup> Joseph Rowntree Foundation (JRF) (2015), Monitoring poverty and social exclusion

<sup>563</sup> ONS (2015), Analysis of employee contracts that do not guarantee a minimum number of hours

manage, financially, in 2012/13<sup>564</sup>, while analysis from StepChange indicated that an estimated 13 million people in the UK do not have enough savings to deal with life emergencies or temporary loss of income<sup>565</sup>.

## **SalaryFinance Evidence:**

### **Ability to Access Mainstream Financial Products**

Evidence from our portfolio indicates that more than 80% of the applications of employees in full-time employment accepted through the SalaryFinance platform would have been declined by mainstream lenders.

### **Charged a Poverty Premium / Impaired Credit History Premium**

54% of the applications funded through the SalaryFinance platform were for debt consolidation. 6% of the applicants were looking to consolidate payday loans while 52% of the applicants wanted to clear high-cost credit card and overdraft costs. The average applicant on our platform has saved £925<sup>566</sup> by borrowing through SalaryFinance to repay their existing high-cost debt.

### **Thin Files**<sup>567</sup>

3% of applications received concerned individuals with thin files (files with limited or brief credit history or a very limited number of active credit accounts), which can be as detrimental as having impaired credit history. The average age of the applicant was 27 years and they have been at their employer for less than 3 years.

### **Geographical Location**

In our sample of 200,000 UK borrowers, it indicated that individuals living in villages and small towns had a higher credit score and therefore higher probability of gaining access to mainstream finance than individuals living in inner city and large towns (*Evidence Point 13A, Appendix*). This may be linked to the fact that the demographical characteristics of individuals living in villages and small towns have a higher concentration of adult population in retirement age and of higher average age than individuals living in inner city and large towns. Data from the UK borrower population has indicated that the higher the age of the borrower the higher their average credit score is likely to be and therefore the higher their probability of gaining access to mainstream financial products at market prices (*Evidence Point 8A, Appendix*).

### **Persistence of Impaired Credit History / Exclusion**

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<sup>564</sup> Sources: PRA unaudited quarterly figures for December 2015, and ABCUL

<sup>565</sup> StepChange (2014), *Life On the Edge*, London: StepChange

<sup>566</sup> This is estimated based on the debt consolidation loans on the SalaryFinance platform where borrowers were consolidating on average £2500 of debt on 24 months loan and switching between an average of 46% APR to a 7.9% APR through their SalaryFinance Loan.

<sup>567</sup> An individual's credit file that has limited or brief credit history or a very limited number of active credit accounts.

Traditional lending models are unforgiving to an individual's impaired credit history. Past defaults (missed repayments) and the use of high-cost credit products such as payday loans can persist on an individual's credit file for up to 6 years. As such, the opportunity to come out of financial exclusion is hindered by the negative indicators on their credit file which persist for many years and lenders remain unforgiving to (*Evidence Point 10A, 10B, 11A, Appendix*). These lead the credit excluded in a downward spiral.

### **No Safeguards against Loss of Income**

Data from the UK borrower population analysed by SalaryFinance, indicated that individuals who undergo a temporary loss of income or a life emergency are twice as likely to default on their credit responsibilities. However, current traditional lending models they do not take into account an individual's extenuating circumstances (*Evidence Point 12A, Appendix*).

Overall, it is very likely / almost inevitable that lower paid employees will be financially excluded at some point, and once they are, it is very difficult to become included, as the negative indicators (like use of a payday loan or a missed repayment) stay on their file for many years, and traditional lenders are unforgiving / unaware of extenuating circumstance.

### **Financial education and capability**

5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?

There is limited access to financial education, particularly in a form which engages people at the right time in their lives, as they go through different life stages and have different financial needs. Starting early is important, teaching budgeting in schools, about bank accounts, and credit reports, as examples, would be valuable and reduce the number of people that become excluded.

6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?

There is much scope for better financial education and arguably this responsibility should be shared by all lenders in the market as well as employers and educational bodies.

Financial education could be an integral part of all financial products. Lenders being explicit about what credit file information they use to make decisions will assist in giving people a better understanding of their credit file and how important it is to access products. This is in line with FCA's recent and evolving work around behavioural economics<sup>568</sup>.

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<sup>568</sup> Erta, Kristine; Iscenko, Zanna; Hunt, Stefan and Brambley, Will (2013). *Applying behavioural economics at the Financial Conduct Authority*. Financial Conduct Authority, London, UK.

Products designed around young adults with thin files (little information on their credit file) is another area that could help prevent young borrowers entering the credit market with the wrong product and would give the right support to build a good credit history.

Going beyond providing individuals with educational material on how to handle their finances, models such as SalaryFinance's one inherently allow an individual to better manage their finances by linking their debt responsibilities to their payroll. As such, a lender has an accurate view of the applicant's affordability levels and borrowers receive a salary net of credit responsibilities, and as a result can avoid missing payments and incurring additional charges and impaired credit history.

### **Addressing financial exclusion**

7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?

There is significant scope for improving support for the most vulnerable population proactively rather than reactively. Currently, there exist a number of successful charities who provide advice to individuals that find themselves in financial distress. However, it is important that these individuals have access to advice and support before they find themselves in financial difficulty and exclusion.

Arguably, the government should intervene with the promotion of financial products that are inherently designed to educate young borrowers entering the credit market on how to maintain a good credit history and promote the factors that would lead to maintaining access to mainstream financial products (reducing financial exclusion). Similarly, there should be incentives for financial products to be diversified to address the specific needs of different segments of the borrower population (including those excluded).

**SalaryFinance Evidence:** Individuals that resort to high-cost borrowing such as payday loans are of a younger demographic than borrowers who take up credit cards and unsecured personal loans. In the sample of UK borrowers investigated, 52% of individuals between the ages of 18-25 had taken at least one payday loan in the past 6 years. This was relative to 22% for individuals of 55-59 years of age (*Evidence Point, 8B, Appendix*). This has significant future consequences for this group, reducing for example their ability to get a mortgage.

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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?

The market tends to be: organisations fighting to give the best deals to the financially included as they have many options and shop around; and

organisations looking at how they can offer the highest rate - within the regulation – to the financially excluded as they have such few options.

Credit unions are an exception, but have not gained scale. SalaryFinance is one of very few businesses with a social mission which aim to fill the gap between a firm that operates at scale, and focusses on those that would otherwise be excluded from mainstream products at mainstream rates.

Overall, we believe there is a case for financial exclusion to be better addressed by involving new and innovative financial providers that could support a government initiative. Although the major retail banks still hold the majority of share in the market, there is scope for new entrants to make an impact by leveraging their legacy free infrastructures and more agile and technology-based operational models.

### **Accessing affordable credit**

9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?

Financial exclusion is caused by mainstream lenders, who exclude individuals with poor credit histories, which mean they then need to go to payday lenders and such like. Capping payday loans although valuable does not solve the cause (simply somewhat reduces the effect).

### **Government policy and regulation**

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

We believe the government has a pivotal role in addressing financial exclusion. Consumer lending is a regressive industry which works well for the included, and works against the excluded. This is a vulnerable group whose life can be destroyed with no way out unless there is support. This does not have to be government led solutions, simply focus and facilitation, such as recent initiatives taken to promote lending to SMEs. For example, supporting funding of ethical loans like SalaryFinance, would help accelerate an additional option for the financially excluded.

### **Financial technology (FinTech)**

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?



The government can significantly assist the financial technology industry – and firms like SalaryFinance - in addressing financial exclusion. Some of the areas in which it could provide immediate support are:

- Promote the adoption of employment-based lending programs such as the one offered by SalaryFinance to public sector employees, to reduce the number of government workers that are financially excluded, and eliminate the use of payday loans by them.
- Implementation of an **open banking standard** for sharing financial data currently proprietary to the major UK retail banks. Such an initiative will allow new banks and alternative financial institutions to assess applicant affordability more accurately and as such make more informed decisions, offer more fairly priced and more diversified products to consumers. This will in turn promote more competition in the industry and help stimulate innovation.
- The government could promote further a greater diversity of consumer lending institutions in the market by encouraging the growth of smaller, innovative and alternative lenders. Some ways in which this can be achieved is through the direct channelling of funds to be used specifically by institutions focused in tackling financial exclusion or in the form of an “ethical financial safeguard” for loans to consumers in vulnerable groups.

Traditional lending institutions can find it difficult, due to their size, complexity and legacy infrastructure, to be agile and quickly adapt to new market requirements. An alternative way to reduce financial exclusion is to focus on more nimble FinTech organisations that apply innovative approaches to lending which recognise the financial struggles of modern households and offer solutions which cater for their needs.

*14 September 2016*

## **The Salvation Army – Written evidence (FEX0054)**

### **Select Committee on Financial Exclusion: Call for Evidence**

The Salvation Army wishes to register its support for the valuable work of this committee. Financial Inclusion is an area that we have recently commenced work in, and where we increasingly find demand outstrips supply.

Although a relatively small provider of debt advice, we have seen considerable growth in numbers referred into our service, particularly amongst our key client group who are largely the vulnerable, and who are usually experiencing difficulties with debt as a result of changes to benefit entitlements. However, we would wish to emphasise that problems with debt and poor financial management not only affect this group, but we see many coming for help who are higher-earners but, through changes to their income, can no longer pay their bills. There is a perception that those who have the ability to pay bills, and possess purchasing power, must have good budgeting skills, whereas the reality is that subsequent changes in income can quickly lead to problems with debt. Indeed sometimes a person on a lower income has a better grasp of budgeting through having to make their finances stretch further.

From a Salvation Army perspective, Budgeting and Debt Advice is emerging as a significant need for people on low incomes and for those moving into work. In delivering the Work Programme we find that as many as 70% of clients come to us with unmanageable debt. Working for a low income requires budgeting skills to overcome the poverty premium and calculate what level of social participation is possible once essentials are purchased. However, deficiencies in other life skills, for example, cooking, can also impact budgeting education and, again, are not limited to those on low incomes. This lack of awareness is perpetuated when passed down through generations.

Two areas that we would particularly like to highlight to the Committee are 1) the need for more education on budgeting at an earlier stage of schooling; 2) resources and funds to address financial exclusion.

Firstly, we would like to see investment in earlier and repeated budgetary education in schools and beyond, believing that a programme to embed these skills would lead to greater financial inclusion and have a positive effect on wider levels of budgetary literacy. However, this would require significant resourcing given that the sector is highly regulated, attracting higher costs in terms of the professionalism of those employed to deliver such training.

Secondly, a significant concern is the wider question of funding in this area. Local Authorities have been a significant source of funding for organisations providing debt advice but across the country we find that the number of staff or sessions they can fund is decreasing.

At present it is unclear whose responsibility it is to ensure that sufficient accessible services are provided. The cost to the state of families without work

or housing is considerable. It is a false economy not to fund such services? Furthermore, in areas where local authority-funded debt advice services are present, demand for services like ours continues to rise, therefore raising questions about adequate levels of funding.

Thank you for accepting our submission to your inquiry: I wish you every success with its progress. I have attached a current briefing sheet on The Salvation Army's work in this area for your information.

Please do not hesitate to get in touch if we can be of further assistance.

*14 September 2016*

## **Scope – Written evidence (FEX0006)**

### **A response from Scope**

#### **Summary**

Scope welcomes the opportunity to submit evidence to this Lords inquiry into financial exclusion.

The additional costs that arise as a result of disability will lead to many disabled people facing financial exclusion. One area of extra cost in particular is insurance, where many disabled people struggle to access financial products of this sort.

Supporting disabled people to engage more effectively in the insurance market will enable individuals to improve their financial wellbeing and in turn, participate fully in society.

#### **Recommendations**

- **The insurance industry should make efforts to understand how the market is working for disabled people and take practical steps to support individuals who are unable to obtain affordable insurance.**
- **The Financial Conduct Authority should investigate whether disabled people and similar potentially under-served groups have access to insurance that fairly reflects risk.**
- **The Government should address the challenges faced by disabled people in accessing affordable insurance products if the Financial Conduct Authority determines that these are being priced appropriately.**

### **About Scope**

Scope exists to make this country a place where disabled people have the same opportunities as everyone else. Until then, we'll be here. We provide support, information and advice to more than a quarter of a million disabled people and their families every year. We raise awareness of the issues that matter. And with your support, we'll keep driving change across society until this country is great for everyone.

## Introduction

1. This submission is a response by Scope to the inquiry on financial exclusion and access to mainstream financial services by the House of Lords Select Committee on Financial Exclusion.
2. Disabled people can face financial exclusion as a result of the extra costs of disability. Scope research shows that on average, these costs amount to £550 a month.<sup>569</sup> These costs make it harder for disabled people to get into work, access education and training opportunities and participate in the consumer economy.
3. The additional costs of disability also have a significant impact on disabled people's ability to save and increase the likelihood of falling into debt. For instance, disabled people have an average of £108,000 fewer savings and assets than non-disabled people.<sup>570</sup>
4. Personal Independence Payment (PIP) plays an important role in helping disabled people to meet additional costs. Scope welcomed the pledge by the Prime Minister to 'safeguard' PIP,<sup>571</sup> as well as the announcement in the Summer Budget 2015 that it would continue to be exempt from the freeze on working-age benefits and any form of taxation or means-testing.<sup>572</sup> We also welcomed the decision in this year's Budget to not change the way that aids and appliances are assessed when determining eligibility for PIP.<sup>573</sup>
5. However, PIP will often not cover all disability-related costs. Therefore, there is a need to look at ways in which to drive down extra costs to minimise the financial penalty that disabled people face in the first instance. This was the focus of the Extra Costs Commission,<sup>574</sup> a year-long inquiry that identified solutions to tackle additional costs for disabled people.

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<sup>569</sup> Scope (2014), Priced Out,

<https://www.scope.org.uk/Scope/media/Documents/Publication%20Directory/Extra-Costs-Report.pdf?ext=.pdf>

<sup>570</sup> McKnight, A. (2014). Disabled people's financial histories: uncovering the disability wealth penalty, CASE paper 181

<sup>571</sup> Politics Home. 'David Cameron: Tories will not undermine disability benefits'. 31 March 2015. <https://www.politicshome.com/economy-and-work/articles/story/david-cameron-tories-will-not-undermine-disability-benefits> (Accessed 21 January 2015)

<sup>572</sup> HM Treasury and the Rt Hon George Osborne MP (2015). Chancellor George Osborne's Summer Budget 2015 speech. [Summer Budget 2015] 8 July 2015. <https://www.gov.uk/government/speeches/chancellor-george-osbornes-summer-budget-2015-speech>

<sup>573</sup> Department for Work and Pensions (2016). Secretary of State for Work and Pensions statement on not going ahead with changes to Personal Independence Payment (PIP), [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/516954/secretary-of-state-for-work-and-pensions-statement-on-not-going-ahead-with-changes-to-pip-21-march-2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/516954/secretary-of-state-for-work-and-pensions-statement-on-not-going-ahead-with-changes-to-pip-21-march-2016.pdf)

<sup>574</sup> The Extra Costs Commission was a year-long, independent inquiry that looked predominately at market-based solutions for driving down the additional costs of disability: <http://www.scope.org.uk/get-involved/campaigns/extra-costs-commission>

6. One area of large extra cost identified by the Extra Costs Commission was insurance. Disabled people will often be charged a high price for insurance products, whilst others are denied cover altogether.
7. Supporting disabled people to obtain affordable insurance will require action by a number of different groups, including the insurance industry, regulators and government. This would help to reduce extra costs for disabled people, as well as provide individuals with protection to deal with financial shocks.
8. This increase in financial resilience would put disabled people in a stronger position to contribute to, and benefit from economic growth as employees, savers and consumers.

### **The extra costs of disability**

The additional costs of disability are incurred in three main ways:

- **Paying for specialised goods and services.** This may include one-off, but expensive, purchases, such as assistive technology or mobility aids.
- **Greater use of non-specialised goods and services.** For example, someone with limited mobility may have to spend more on energy to keep warm, whilst a wheelchair user may have to use taxis more often if public transport is inaccessible.
- **Spending more on non-specialised goods and services.** This may include things such as higher tariffs for accessible hotel rooms, or having to pay higher premiums for insurance products.

### **Response to questions**

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

9. As indicated above, one of the main areas of extra cost for disabled people is insurance. For instance, research by Ipsos MORI found that:
  - **Twenty two per cent of disabled people feel they have been overcharged for insurance as a result of their impairment which equates to roughly two and half million people.**<sup>575</sup> For many people the Extra Costs Commission spoke to, insurance was so expensive it was simply unaffordable, rather than an extra cost actually incurred.<sup>576</sup>
  - **A further eight per cent say they have been turned down for insurance,** of whom the majority felt that this was due to their

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<sup>575</sup> Ipsos MORI (2013). Disabled people and Financial Wellbeing. <https://www.ipsos-mori.com/Assets/Docs/Publications/sri-ews-scope-disabled-people-and-workplace-wellbeing-2013.pdf>

<sup>576</sup> Extra Costs Commission (2015). Driving down the extra costs disabled people face – Interim report, <http://www.scope.org.uk/Scope/media/Interim-report/Interim-report.pdf?ext=.pdf>

impairment or health condition, equating to at least half a million people.<sup>577</sup>

10. The additional costs disabled people face for insurance, along with other costs, will have a significant impact on disabled people's financial stability. This can be seen by the fact that:

- Disabled people have an average of £108,000 fewer savings and assets than non-disabled people.<sup>578</sup>
- Households containing a disabled person are twice (16 per cent) as likely as households without a disabled member (8 per cent) to have unsecured debt totalling more than half their household income.<sup>579</sup>
- Disabled people are three times more likely to turn to doorstep and payday loans.<sup>580</sup>

11. Insurance plays a vital role in helping individuals to deal with unexpected financial shocks. This is especially important for disabled people who have a lower level of financial resilience than non-disabled people; a lack of access to financial products will only serve to increase the financial exclusion experienced by disabled people.

**Question 7 – What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

### **The role of the insurance industry**

12. In response to the difficulties faced by disabled people in the insurance market, there are ways in which the insurance industry can improve the consumer experience of this group.

13. When assessing eligibility for insurance cover, the mainstream insurance market will follow a model of passing large number of consumers through a

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<sup>577</sup> Ipsos Mori (2013). Disabled people and Financial Wellbeing

<sup>578</sup> McKnight, A. (2014). Disabled people's financial histories: uncovering the disability wealth penalty, CASE paper 181

<sup>579</sup> Scope (2013). Disabled people and financial well-being - credit and debt, <http://www.scope.org.uk/Scope/media/Documents/Publication%20Directory/Credit-and-Debt.pdf?ext=.pdf>

<sup>580</sup> Scope (2014), Priced Out

standardised underwriting process.<sup>581</sup> This enables insurance firms to deliver economies of scale, especially when the process can be automated and delivered online.<sup>582</sup>

14. However, this model does not account for the specific circumstances of consumers deemed to be 'non-standard', including disabled people. Consequently, these individuals may find that they fall outside the parameters of the algorithm that determines insurance eligibility, resulting in high premiums or refusal of cover altogether.<sup>583</sup>

15. In its inquiry, the Extra Costs Commission was unclear as to whether the insurance industry was doing enough to respond to instances where insurance products are too expensive for disabled people.<sup>584</sup> Where insurance firms are able to support disabled consumers in accessing affordable insurance products, this would help to improve the customer experience of a sizeable group of individuals.

**The insurance industry should make efforts to understand how the market is working for disabled people and take practical steps to support individuals who are unable to obtain affordable insurance.**

16. In practical terms this could involve a number of things, such as:

- Using mystery shoppers to understand the customer journey of disabled people better.
- Seeking input from disabled people and disability organisations to help develop and improve customer service and offers for disabled people.
- Investigating how signposting between insurers works for disabled people who face difficulties finding affordable insurance.

17. There are clear advantages to be sought for insurance firms through offering a better service to disabled consumers, as households with a disabled person spend £212 billion a year, the so-called 'purple pound'.<sup>585</sup>

### **The role of the regulator**

18. Whilst it is clear that disabled people struggle to pay an affordable price for insurance, concerns about the market need to be tested further to understand why this is happening. As the regulator for the market, the

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<sup>581</sup> The Financial Conduct Authority (2016). Access to Financial Services in the UK – Occasional Paper 17, <https://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf>

<sup>582</sup> Ibid

<sup>583</sup> Ibid

<sup>584</sup> Extra Costs Commission (2015). Driving down the extra costs disabled people face – Final report, <http://www.scope.org.uk/Scope/media/Interim-report/Extra-Costs-Commission-Final-Report.pdf>

<sup>585</sup> Department for Work and Pensions, the RT Hon Mark Harper MP and Office for Disability Issues. High street could be boosted by £212 billion 'purple pound' by attracting disabled people and their families. 27 August 2014, <https://www.gov.uk/government/news/high-street-could-be-boosted-by-212-billion-purple-pound-by-attracting-disabled-people-and-their-families>



Financial Conduct Authority (FCA) is in a strong position to lead such a piece of work, able to obtain evidence that may not be in the public domain.

19. Such an investigation is critical, particularly given that there are other groups that face similar difficulties to disabled people when shopping for insurance, e.g. cancer patients and those who have recovered from cancer.

**The Financial Conduct Authority should investigate whether disabled people and similar potentially under-served groups have access to insurance that fairly reflects risk.**

20. It is positive that the regulator for the insurance industry, the Financial Conduct Authority (FCA), is carrying out a review into how insurance firms use Big Data, which will look specifically at its impact on 'non-standard' risk consumer groups, including disabled people. Depending on the outcome of this review, the FCA should explore the experiences of this set of consumers in the insurance market further.

### **The role of the Government**

21. The above-mentioned review by the FCA is an important step in understanding whether disabled people have equal access to the insurance market in terms of insurance products that fairly reflect risk. If the FCA concludes that products are being priced appropriately, then there is a need for the Government to step in to address the lack of affordable insurance products for disabled people.
22. The Government has already intervened in the area of flood insurance, working with the insurance industry to come up with a model for pooling risk. This has allowed for cross-subsidisation in pricing, which means that products do not become unaffordable for people living in areas in the UK prone to severe flooding.

**The Government should address the challenges faced by disabled people in accessing affordable insurance products if the Financial Conduct Authority determines that these are being priced appropriately.**

## **Shelter – Written evidence (FEX0056)**

### **Introduction**

Shelter welcomes this opportunity to respond to the House of Lords Select Committee on Financial Exclusion Call for Evidence.

Shelter works to empower people with housing problems to keep, access and improve a home. We provide free, expert housing advice to anyone, no matter what their situation, through face to face, telephone and digital advice, as well as second tier advice services. Housing and financial advice is often linked and the provision of free-to-client, impartial financial guidance to give clients the information they need, to make financial decisions directly or to seek the right additional advice to help them to do so, is often an important component of our advice services.

Last year (2015/16) across England and Scotland:

- 5.28 million people accessed the 'Get Advice' Pages on our website
- 128,638 people accessed advice through the national telephone helpline and webchat
- 57,104 people were supported through face to face advice, support and guidance.

### **Shelter debt advice and financial guidance services**

- Shelter services are delivered via a combination of:
  - A national telephone helpline
  - online advice and web chat
  - face-to-face legal advice and advocacy services
  - face-to-face support services
  - services in prison and via the Transforming Rehabilitation programme
  - specialist services supporting clients with more complex needs.

In addition we provide an England-wide specialist second tier advice and training service (National Homelessness Advice Service), to support frontline agencies to deliver best quality advice regarding housing debt, to local Citizens Advice, other independent advice agencies and Local Authority housing departments.

Shelter provides specialist debt advice in relation to housing (including mortgage debt) via services funded by the Legal Aid Agency (Community Legal Advice Contract), British Gas Energy Trust and a specialist Housing Debt Casework team funded by the Department of Communities and Local Government.

Shelter is also a registered intermediary for Debt Relief Order and authorised by the FCA to deliver debt related activities.

## **Response to specific submission questions**

### **Definitions and causes of financial exclusion**

#### **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?**

Shelter believes that financial exclusion can be considered the inverse of financial inclusion as it means that a consumer is excluded by varying degrees from accessing financial services and products.

Financial inclusion means having access to a wide range of financial services such as bank accounts, insurance products, affordable loans and authorised overdrafts. It also means that consumers have the financial literacy and capacity to be able to effectively use products and services in order to manage their money.

Financial exclusion is a complex and dynamic process. Some people experience short periods of exclusion, maybe more than once in their lives. For a small number, however, it can be long-term, perhaps even life-long.<sup>586</sup> Financial exclusion means that the consumer does not have access to all of the financial streams that other consumers do, and their choice is restricted. It could also mean that they lack the necessary knowledge, skills or confidence to access, use and understand them.

There are many causes of financial exclusion including but not limited to: low or reduced income as a result of welfare reform changes, a lack of access (rural living, poor internet access, mobility problems, bank branches closing down), a bad credit rating or a lack of credit rating, mental health problems, age related illness such as dementia, terminal or serious health issues and unstable housing such as living in temporary accommodation.

#### **2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

Shelter clients experiencing poverty are more likely to face financial exclusion. They are more likely to struggle to pay their essential expenses e.g. housing costs, food, clothes, and utility bills and will turn to friends and family,

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<sup>586</sup> <https://www.jrf.org.uk/report/understanding-and-combating-financial-exclusion>, last accessed 14 September 2016

pawnbrokers, payday loan companies to help them pay essential bills and expenses.

People experience financial exclusion for different reasons and to varying degrees, but not necessarily in different ways- they are all at a financial disadvantage, on average, financially excluded consumers pay a 'poverty premium' of £1,300 <sup>587</sup> per year.

A broad range of households can be affected by financial exclusion, it includes anyone that cannot access affordable, appropriate and accessible financial products. Consumers that tend to be most affected by financial exclusion are those that display some sort of vulnerability such as those on low incomes, the unemployed, those with health conditions, disability or mental health issues, the elderly, single parents, prisoners, ex-prisoners, refugees, asylum seekers, those with low level digital or literacy skills, and those residing in rural areas.

Shelter research has found that families will often cut down on heating or food to cover their bills leading to arrears and possible disconnection resulting in financial exclusion. Clients on a low income often benefit from building financial capability skills such as budgeting classes and assistance with accessing appropriate financial products. For example Shelter's British Gas Energy Trust (BGET) service delivers a holistic debt, housing and welfare service; tackling fuel poverty at its root cause and intervening to prevent customers from falling into fuel arrears. Since October 2014 we have helped 3,049 clients and managed over £20 million of debt which has been further exacerbated by welfare reform and legal aid changes.

Financial exclusion often affects those living in rural and isolated locations more acutely. 12 million people live in rural or remote areas of the UK where poor internet access can make it difficult for them to manage their money online<sup>588</sup>. A lack of digital access means that consumers in rural settings rely much more on local, face-to-face providers. Rural consumers' choice of provider is therefore more limited and this is being exacerbated by many face-to-face providers reducing local branches. Consumers in rural areas are also much more dependent on other factors such as transport to and from providers which further complicates accessibility. There is evidence of advice deserts in some rural localities where voluntary advice providers have closed down. This has been exacerbated by changes to Legal Aid funding and scope, further restricting access to specialist debt advice.

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<sup>587</sup>'Becoming a nation of savers', StepChange Debt Charity, 2015, page 7

<sup>588</sup> FCA Occasional Paper, Financial Conduct Authority, May 2016, page 17

### **3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

There are direct correlations between the level of deprivation in areas and higher levels of unemployment, low incomes and low levels of financial capability. Our specialist advisers often see clients struggling to pay their essential expenses such as housing costs, food, clothes, and utility bills. Many will often turn to friends and family, pawnbrokers, payday loan companies to help them to pay their essential expenses.

Social housing may be characterised by higher levels of deprivation and residents may be significantly poorer than the population average. This segment of society is the most unbanked, with approximately 1.13 million individuals unbanked in the UK, around 79% are social housing tenants.<sup>589</sup>

It has also been found that nearly 30% of social housing tenants had 'thin/empty' credit files, making main stream borrowing a challenge for them and forcing them to borrow through other methods e.g. payday loans, loan sharks, pawnbrokers and family and friends. Vulnerable tenants such as those with mental health issues or long-term illness such as dementia also experience severe disadvantage especially in terms of financial literacy and money management.

Problem debt can close consumers off to accessing certain financial products as banks and lenders deem them too high a risk but can also have a psychological effect on consumers. Little engagement or bad past experiences with mainstream financial services leads to mistrust and a belief that these products and services are not for "people like them"<sup>590</sup>. It can also be embarrassing and difficult for anyone facing debts to seek advice due to the stigma attached to suffering money problems.

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

In Shelter's experience clients with mental health problems can struggle with the complex nature of finances and often struggle to manage their finances on a day-to-day basis, leading to debts accruing and an inability to manage debts when they occur. We also know of clients with mental health conditions who commit to loans and credit cards which they can't afford, leading to increasing

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<sup>589</sup> 'The impact of social housing rent payment data on credit scoring', Big Issue Invest, 2010, page 7

<sup>590</sup> <https://www.stepchange.org/Portals/0/documents/Reports/BecominganationofsaversStepChangeDebtCharityreport.pdf?timestamp=1438852274147>

debt. In the last 2 years over 25% of clients who have accessed our housing and debt advice have long standing health or mental health conditions.

Provisions for mental health sufferers are, however, less common. These consumers have more trouble with the processes and emotions of managing their money and can often find it harder to understand products on offer and financial processes. A lack of provider support not only increases the consumer's vulnerability and level of exclusion, but means that service providers are largely unaware of the issues faced by customers with mental health problems as consumers 'cannot communicate their needs and wants to firms to influence the design, delivery and price of products'<sup>591</sup>. Frontline staff need to be trained to support people with physical and mental health issues and to spot and effectively handle a range of vulnerability issues.

Current debt and financial capability advice provision is increasingly geared towards self-help or the client acting on advice given. For some clients, however, our experience suggests that a more interventionist and managed approach to the advice process can achieve better results more quickly. Vulnerable clients may have multiple issues to address, including financial capability, debt, welfare benefits and income maximisation, which are directly related to financial advice and guidance. Referrals from one provider to handle specific areas of advice can be detrimental to the client, because it means dealing with a number of different agencies and can require repeatedly describing the issues faced to a number of providers - passing vulnerable clients between and across agencies risks their disengagement.

## **Financial Education and Capability**

### **5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

Around a third of the UK population [17 million] struggle to routinely manage a budget and 1 in 6 people struggle to identify the balance on their bank statement.<sup>592</sup> It is our view that access to preventative education via a range of channels can be key to consumers making informed financial decisions. Timely and appropriate financial education and advice can prevent longer term vulnerability or negative financial behaviours being established. For example Shelter's 'Feel at Home with your Finance's service (in partnership with the CAB) supports and equips new and existing young (16 – 24) tenants with the necessary information, financial skills, confidence to access suitable products

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<sup>591</sup> FCA Occasional Paper, Financial Conduct Authority, May 2016, Paper 17

<sup>592</sup> Financial Capability Strategy in the UK: Financial capability outcome frameworks, NPC/MAS, 2014

and services to manage their financial affairs competently. As a result of our education and advice interventions a number of social housing tenants have increased their ability to make informed choices, thereby reducing the likelihood of falling into rent arrears and other forms of problem debt.

We recommend ensuring:

- that there is universal access to clear information on all aspects of financial products and options – provided via a range of accessible routes, be it face to face or on-line;
- embed general money guidance into the school curriculum as a requirement for local education authority-managed schools, free schools and the academy network; and
- ensure access to provision via JobCentre Plus, DWP service, Unions and employers.

## **6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

To maintain and develop financial literacy and capability over the course of a person's lifetime Shelter recommends:

- Financial advice/education is consumer-centred; aimed at meeting the needs of people at different life stages, such as college, entering apprenticeships, early adult relationships or change of housing status/leaving home/leaving care/leaving institutions, having children, working age and planning for financial security, through to planning for sickness and retirement.
- We would like to see increased consumer choice in where and how people access services, e.g. telephone, online, self-help, advocacy and practical interventions. This should ensure accessibility for people covered by the Equality Act categories.
- Social housing tenants are significantly poorer than the population average, with 70 per cent earning less than £20,000 a year (the lowest income quintile) (Hills 2007).<sup>593</sup> Tenants should be supported to access and improve their financial literacy and capability. (See question 5 Shelter's Feel at Home with your Finances example).

## **7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is this appropriate support available for the most excluded and, if not, how should support be strengthened? What role should the Government, the charitable sector and business play in tackling financial exclusion?**

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<sup>593</sup> 'The Impact of Social Housing Rent-Payment Data on Credit Scoring' Big Issue Invest, 2010, page 7

To address financial exclusion the government, charitable sector and business can play a vital role in addressing financial exclusion. For consumers to take 'personal responsibility', especially those in vulnerable circumstances, there needs to be equitable access to a range of financial services and products.

Charities may be able to provide the level of support e.g. running debt/budgeting sessions at GP's surgeries and food banks or provide home visits where required, but require resources to do this. Large telephone based advice services are important but there is still a need for more intensive, face-to-face or telephone case work support provision for more complex cases or more vulnerable customers. For example Shelter services are currently engaging with the NHS to discuss advice surgeries in health settings and will be piloting housing advice from October 2016 in London and Newcastle.

Banks and other lenders are moving in the right direction by developing vulnerable customer practices and dedicated teams, but could work better with specialist external providers. For example, Shelter's Sustaining Homeownership and Resettlement (SHOR) pilot with Barclays provides specialist debt, welfare benefit and housing options advice – where homeownership is not sustainable to Barclay's customers.

Employers have a role to play by providing training (e-learning) on financial literacy. Employers should also provide Employee Assistance Schemes for those struggling financially or experiencing health problems e.g. depression.

**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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

There are some appropriate financial services available for those experiencing financial exclusion, many of our clients benefit from accessing basic bank accounts or Credit Union jam jar accounts. In Shelter's view there should be minimum standards of access which are required for any regulated financial institution. Access to financial products should be a basic expectation and requirement across the financial sector. This will help households get into 'good habits' with regards to budgeting and savings.

The role of banks and the Post Office might be developed in the following ways:

- Banks should continue to provide basic bank accounts for those struggling financially with no or low charges and no overdraft facility.



- Additional regulation to prevent some lenders/loan companies from charging high interest rates or other penalties on loan repayments or when people fall into arrears – this can lead to a never ending spiral of debt.
- Post offices could offer basic current accounts and provide advice sessions for people with debts or struggling financially i.e. work with debt providers and charities to offer preventative education and advice.
- Pop up Post Offices for people living in rural locations. This can also provide good access to young people, older people and families with young children who are unable to travel.
- Banks and Post Offices could link to wider advice and support providers, co-location of services e.g. mobile libraries and libraries or community pubs could provide a point of access.
- Financial services could provide access to wider services via Skype, enabled by other providers or voluntary sector partners.
- Credit unions should be promoted more, as a viable borrowing alternative to high interest loans, payday loans, borrowing from friends and family.

**9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

With better regulations throughout the industry, many households may find this type of credit more restrictive and harder to access. In some cases increasing the likelihood of consumers turning to other sources such as pawnshops or illegal sources for emergency funds. Consumers may also end up with unauthorised overdrafts with prohibitive charges applied, which is often the case for a number of our clients. In Shelter's view a statutory safety net is needed for emergency borrowing to ensure people do not fall into problem debt.

Previously the Department for Work and Pensions provided Crisis Loans and Community Care Grants for living expenses under the Discretionary Social Fund. There is now no statutory duty to provide this support after the Welfare Reforms Act 2012<sup>594</sup>, which has forced consumers to seek funds from other unregulated sources thereby increasing their vulnerability.

The channels via which these products and services are offered also need to be varied so that consumers have a range of options. Digital access can be very helpful. However, 23% of UK adults do not possess basic digital skills.<sup>595</sup> Therefore it is important that on-line access (e.g. self- help) be complemented

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<sup>594</sup> 'Local Welfare Assistance Policy', Portsmouth City Council, 2014, <http://www.cpag.org.uk/sites/default/files/CPAG-portsmouth-local-welfare-assistance-scheme-policy-nov14.pdf>

<sup>595</sup> <http://www.go-on.co.uk/issue/>, last accessed 14 September 2016

by opportunities for direct access (by telephone or face-to-face where the consumer requires it).

### **Government policy and regulation**

#### **Question 11: What has been the impact of recent welfare reforms on financial exclusion?**

In Shelter's view the impact of recent welfare reforms has been significant. The reduction in income of working age adults has resulted in many clients struggling to pay their housing costs due factors directly related to welfare reform i.e. shortfall between housing benefit and rent due to the spare room subsidy, difficulty in budgeting due to monthly lump sum Universal Credit payments. As a result, many are turning to friends and family, payday loan companies or unscrupulous lenders for help with managing their essential expenditure and debts.

Some additional examples include:

- SMI waiting period extended back to 39 weeks before first payment – damaging record of mortgage payments and creating 9 months of arrears on account.
- Universal Credit mortgage payments are also subject to 9 months wait but with zero hours working rule and any break in claim e.g. temporary job or some part-time work requires waiting period of 9 months to start again. This is a big disincentive to taking on temporary or part-time work for those households thereby creating debt and reducing consumer choice
- LHA freezes, benefit cap and social sector size criteria have all reduced support and increased debt, arrears and impair credit ratings
- Over the past two years, 21% of clients referred to our British Gas Energy Trust (BGET) Service were in the Private Rented Sector (PRS) – this demonstrates that there are a sizeable group of people discharged into PRS by local authorities who struggle to manage their finances effectively.

*14 September 2016*

## **SourceCards – Written evidence (FEX0098)**

### **Background on SourceCards**

SourceCards is a social enterprise which consists of SourceCards Limited, a commercial company with a common foundation of the Debs Price Foundation, a registered charity. The Debs Price Foundation has been established to 1) Help Primary School Children to read and learn about money and 2) To help the financially disadvantaged to help themselves to financial independence, using SourceCards.

The attached overview of SourceCards and a video, <https://vimeo.com/168343607/3a4700e343> describe SourceCards.

In summary, the aims of SourceCards are to provide:

- flexible payment facilities for the financially excluded
- budgeting and payment control if requested by the account holder
- remote monitoring by mentors or case workers if permissioned by the account holder
- access to discounts, cash back and grants for essential items such as Food, Rent, Travel, utilities and essential goods
- a network of public funding and private philanthropy to assist and empower the vulnerable to financial independence

SourceCards has had recent meetings with the DWP and these objectives appear to support the aims of Universal Credit: in particular, SourceCards helps to solve the rent arrear issues faced by social landlords as Universal Credit is rolled out.

Universal Credit changes the way governments distribute financial help to the vulnerable and encourages them to do more for themselves. SourceCards provides the support, discounts and private grants which takes this much further.

SourceCards has also had significant encouragement from organisations such as the Centre for Social Justice, the Church of England and major charities such as the Trussel Trust.

The business model of SourceCards is to charge a fixed £5 monthly operating fee, which is paid on behalf of vulnerable people by, for example, their landlord. Once SourceCards is fully operational then the discounts, cashback and other benefits will more than outweigh the monthly charge and it is hoped that account holders will see the benefit of continuing to use SourceCards independently of their Sponsor. Ultimately SourceCards Limited will be self-funding and will generate dividends which can be paid to, (mainly philanthropic), investors but with the majority shareholding being held by DPF and the dividends being recycled back to needy people.

Debs Price Foundation will also be used as a vehicle through philanthropists, whether corporate or individual, can be encouraged to donate to vulnerable

account holders directly through SourceCards, subject to sponsors or case workers granting approval.

SourceCards also helps support organisations such as social landlords, councils, charities and agencies, to save cost and improve control. For example by giving SourceCards to all vulnerable tenants, a landlord can save several multiples of the cost in improved rent collection and cost savings.

The ultimate outcome is that vulnerable people will be empowered to become less dependent upon 3<sup>rd</sup> party help to move from financial dependence to independence.

### **Progress and Feedback**

SourceCards has spent the past 20 months speaking with a very wide range of organisations, such as DWP, councils, housing associations, charities and their caseworkers, Church and community organisations such as Rotary Clubs and suppliers such as bus and tube operators, supermarkets, white goods and energy providers etc., as well as grant making foundations.

Pilots have been developed around a variety of schemes to alleviate social issues and the first pilots of the rent arrear avoidance programme are being rolled out in January.

### **Feedback on Financial Exclusion and support of Universal Credit.**

In no particular order we would make the following points.

1. **Provision of accounts to the financially excluded.** There is now a wide range of accounts available to the unbanked, including a number of eMoney accounts which differ from bank accounts in that the money cannot be lent out. The payment provider which sits under our software platform is Contis Financial which provides a number of services such as Moneys, Credecard, Frees, and Engage which is used by Credit Unions. None of these is structured like Sourcecards to provide a Flexi account (free to use) and 5 restricted accounts, nor do they provide the suite of useful tools and services provided by SourceCards

There is obviously also the post office and a number of “free” bank accounts and the Credit Unions.

We have not come across another payment provider which offers an account which can be configured to meet the specific needs of a range of users: those who want or need control and supervision and those who just need a flexible account with access to discounts and grants

2. **Cost of accounts.** SourceCards charge £5 a month for a basic service which includes all 6 accounts, 2 debit cards-1 free use and the other

restricted use, and allows 4 free ATM withdrawals per month. The cost is similar to the post office and some other card based accounts, none of which provide our structure of benefits and support, which are essential for some vulnerable people.

A number of “free” accounts are not actually free. The banks charge fees for unplanned overdrafts and other inadvertent problems and the banking sector as a whole makes £billions from “free accounts”. SourceCards don’t allow people to overdraw and incur hidden costs.

There is an infrastructure cost which has to be paid for: for example Visa charge £0.50p for each ATM withdrawal: there is much more, including all the costs of the compliance regime.

If there is genuinely no account charge then these accounts have to be subsidised.

Our approach in SourceCards is to present the £5 cost up front and then to ensure that another organisation pays on behalf of the beneficiary. For example, our rent proposition is that the social landlord pays the fees for vulnerable tenants and will make an immediate 5:1 saving on rent arrears.

The account holder benefits from all the discounts, cash back and grants which should significantly offset the monthly charge, so that account holders should be ultimately be keen to pay the fee themselves to enjoy the benefits.

By providing remote monitoring and budgeting where needed, SourceCards should help educate account holders how to manage their money efficiently and make the money they have go further.

Perhaps all providers should be required by FCA to provide a “net monthly cost” statement which would identify the precise cost of accounts and the services provided.

3. **Know Your Client “KYC”**. With payment accounts and basic bank accounts the focus is more upon Anti Money Laundering (AML) than credit checking. We use an online system which checks Identity Documents against an identity database. Should the check fail, then the application is put forward for manual investigation.

If standard ID such as passport and driving license are not available then we have to rely on DWP or council documents. As SourceCards applicants are all initially sponsored government departments, landlords charities and support agencies this helps to establish an address.

Lack of ID is still an issue for financially excluded people. SourceCards has developed a provision to include ID data on our Essentials cards and the use for this will be explored.

4. **Implementation of Universal Credit.** We have had discussions with a significant number of social landlords and whilst there is recognition of the ultimate advantages of universal credit, there is nonetheless very considerable concern about the impact of its implementation upon the social housing sector. The feedback we get from housing associations in the early stages of implementation is that rent arrears have risen by, in some cases, 50%. There is delay before Alternative Payments Arrangements (APA) can be applied for, which also contradict the concept of Universal Credit.

SourceCards has developed a solution to this, which involves the account holder agreeing to set up his/her SourceCard to ringfence the rent portion of the universal credit as soon it is received.

Another issue is that the amount of Universal Credit fluctuates, so that in a case where there is a shortfall, a vulnerable tenant could end up paying his rent in full, but have nothing left to buy food. The solution may be to advise support organisations before the payment is made, to allow them to apply for an emergency grant, which can be delivered by SourceCards into the appropriate sub account for Food, Travel, Utilities or other Essentials.

5. **Support and mentoring.** When dealing with the vulnerable and financially excluded, it is important to recognise that providing a payment or bank account to a person who has hitherto had the rent and other services paid for them, may just result in them being unable to handle the responsibility of making payments themselves. The report on the pilot carried out by DWP with Kent C.C to pay universal credit via pre-paid cards concluded that it was important to provide a degree of support commensurate with the needs and circumstances of the account holder.

SourceCards allows the account holder to give a sponsor, case worker or mentor remote access to their SourceCards account to assist with budgeting, buying essentials through SourceCards and paying. The platform will only allow the account holder to make the actual payment.

### **Summary.**

All our research indicates that merely having a bank account is not enough to help some very vulnerable people to handle the advent of Universal Credit. The evidence from the DWP pilot in Kent also reiterates the importance of mentoring. In addition to which the challenges which Universal Credit places on social landlords need to be addressed. SourceCards is set up to address both of these issues.

Much more than that, SourceCards provides an innovative and holistic way to harness public funds, private philanthropy and advanced

technology towards empowering vulnerable people to help themselves from dependence to independence.

Finally, the issue of funding such programmes needs to be addressed. Our aim is to fund SourceCards by private investment, which in turn entails charging a socially fair amount for the service and over time making the service self-funding from fees charged to people who no longer need subsidising. Mindful of the issues of the Kids Company and similar and the pressures on public budgets is there a way in which government can assist start up social enterprises by providing guarantees or convertible type loans which could be allocated by social investment agencies such as Social Finance and New Society Capital?

John AJ Price  
Founder  
SourceCards Limited

*21 December 2016*

## **StepChange Debt Charity – Written evidence (FEX0084)**

Overview: What role does problem debt play in financial exclusion?

StepChange Debt Charity is the largest specialist debt advice charity operating across the UK. Last year more than 500,000 people contacted our telephone helpline or on-line debt remedy tool for advice and support on problem debt. In the first six months of 2016 more people have contacted us for help than in any previous January to June period.

We estimate that some 2.6 million people in Great Britain are struggling with severe problem debt, with another 8.8 million showing some signs of financial difficulty.

Debt is a cause of financial exclusion because people experience a progressive loss of financial control during the journey between the onset of financial difficulties and severe problem debt. The options to deal with pressure on household budgets become ever more constrained and people face a range of choices for survival in the short term that can cause significant hardship and detriment in the not so distant future.

This journey is briefly illustrated below as follows:

- Research we published last year found 14 million people had experienced an income or expenditure shock in the previous 12 months. Those that did so accounted for almost three quarters of people falling into severe problem debt<sup>596</sup>.
- Over two thirds of StepChange clients cite a shock such as job loss, reduced houses, illness, and business failure or relationship breakdown as the key trigger of their debt problems.
- People use a variety of strategies to cope with income shocks, including using credit. Six million people used credit as a coping strategy, but this made them over twenty times more likely to fall into debt.
- Around four million people used credit to meet every day needs and small lump sum costs. In some cases this was explicitly high cost or 'sub-prime' credit, in other cases it was credit cards or overdrafts that become high cost through inability to pay them down quickly<sup>597</sup>.
- A survey of people seeking help from StepChange found that pressure from creditors made the problem worse. Six in ten of those that did not get the help they needed from their creditors went on to take out more credit to try to cope with their debt problems - 21% who took out a

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<sup>596</sup> StepChange Debt Charity (2015) Navigating the new normal: Why working families fall into problem debt and how we need to respond

<sup>597</sup> StepChange Debt Charity (2016) The credit safety net: How unsustainable credit can lead to problem debt and what can be done about it



payday loan. Three in ten said that a creditor's actions prompted them to fall behind on other bills.

- One in four of our clients with utility arrears said they have had a repayment rate set at an amount they could not afford. One in three said they had a repayment meter forced on them<sup>598</sup>.
- We estimate that in just six months a typical StepChange Client would see an extra £2,300 added to their debts if creditors added interest and charges to all their accounts<sup>599</sup>.

In summary, problem debt pushes people into further and more expensive credit use; acquiring everyday items becomes more expensive when credit is the only choice; access to transactional banking and utilities can be compromised or made more expensive.

Problem debt is also a consequence of financial exclusion and low economic security. Debt can happen to anyone, but there is a strong a persistent patterning in the people it is most likely to affect.

- Our research shows people in more insecure work (such as zero hours contracts, part time or temporary work) are twice as likely to experience an income shock.
- Low to middle income households are most likely to fall into problem debt
- A disproportionate number of StepChange clients work in sectors noted for poor pay, low pay progression, uneven incomes or more insecure work.
- People vulnerable to financial difficulties tend to have low levels of financial resilience. So 34% of those that used credit to cope with an income shock could not last a week on their savings if their income dropped by a quarter.
- Those using credit as a 'safety net' to meet essential needs are much more likely to be struggling financial; 36% were falling behind on bills and credit commitments compared to just 7% of the overall population.

StepChange Debt Charity believes that public policy needs to do more to address both debt and financial exclusion together. Key policy interventions would include:

- Increasing the financial resilience by helping the most debt vulnerable households to build up rainy day savings
- Ensuring welfare and other safety nets are effective in helping people to cope with and recover from income shocks without falling into unmanageable debt
- Ensuring that credit products aimed at, or used by debt vulnerable households work with their needs and do not increase their vulnerability to debt

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<sup>598</sup> StepChange Debt Charity (2016) Creditor and Debt Collector Conduct: what's making debt problems worse?

<sup>599</sup> StepChange Debt charity (2015) Safe Harbours

- Ensuring that debt vulnerable households that do need to use credit for essential household items do not have to pay a large premium through interest, charges or limited choices of goods.
- Ensure that households in financial difficulty can access utilities such as fuel and transactional banking, and access these services without large additional cost
- Ensure that people in financial difficulties can get the help they need to recover. 60% of people who received forbearance from their creditors said that their financial situation stabilised as a result. None of those that did not get help such as freezing further interest, charges and collections / enforcement action said their financial situation stabilised.

The consequences of not acting are severe. We know that the hardship, distress and disruption that problem debt causes creates additional problems such as debt related ill health, reduced productivity and relationship breakdown. This weighs down on both individual households and the economy, costing the UK an estimated £8.3 billion.

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

Research from the charity Scope shows that disabled people find it hard to access mainstream, affordable credit and those that have borrowed are substantially more likely to be over-indebted on some measures, and more likely to draw on high cost credit (see Appendix 1 for case studies detailing some of the issues faced by our disabled clients). The recent changes and cuts to disability benefits have exacerbated this situation.

The failure of the current financial system in this area contributes to difficulties that disabled people often already face with gaining employment, accessing adequate benefits and dealing with high ongoing costs and is reflected in the disproportionate numbers of people with disabilities who need debt advice

Disabled people are over-represented amongst StepChange Debt Charity clients, who are more likely to be financially excluded, compared with the general population. Our mid-year figures for 2016 show that 9.1% of our clients were claiming Incapacity Benefit or Employment & Support Allowance compared with the average for Great Britain of 3.9%<sup>600</sup>.

There is also a proven association between mental health problems and debt problems, 86% of those with mental health issues say their financial situation has made their mental health problems worse. Three-quarters of our clients have experienced sleeping problems due to their debt, and 64% have experienced mood swings. Almost half (47%) say they have visited their GP as a result of mental or physical health problems caused by their debts.

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<sup>600</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/539175/dwp-stats-summary-july-2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/539175/dwp-stats-summary-july-2016.pdf)

Respondents to a recent Money and Mental Health Policy Institute survey described at least three common ways in which creditor behaviour contributed to negative mental health outcomes.

- Many respondents perceived contact by creditors to be excessive.
- Ultimately, some of those who get into financial difficulty can end up losing their home or an item on which credit was secured, or having possessions taken from them by bailiffs to pay debts.
- In some cases, respondents perceived the behaviour of creditors to be perverse, unreasonable, or irrational. Examples include payment plans that were perceived to be unaffordable and fees and charges that were larger than the original debt.

Beyond this, there are other forms of vulnerability that contribute to financial exclusion, often linked to poor creditor behaviour. A recent survey we ran with clients indicated up to 75% could be vulnerable<sup>601</sup>. It is of concern that of those who felt comfortable sharing their vulnerability with their creditors (only 45% of those who identified as vulnerable), over eight in ten said at least one of their creditors did not take account of it and 35% said none of their creditors took their vulnerability into account. Indeed, there is some indication people who are vulnerable might be treated worse than those without vulnerabilities. Our clients who have been visited by bailiffs were more likely to report being in a vulnerable situation than other clients.

**Q7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

Personal responsibility is an important indicator of financial health. We might expect people with sufficient resources, information and the capacity to use both of these to pro-actively maximise their welfare and plan for their future needs.

But these conditions generally do not apply to people vulnerable to financial difficulties or struggling with problem debt. People in these circumstances will often face a constrained set of options where there are no good choices. This is highlighted by the experiences of some StepChange clients forced to either use high cost credit or fall behind on bill payments to make ends meet.

*'Because I needed it [to borrow money]... I needed it... how I could pay for travel to get to work, or food to eat...'*

*'...It was that or the children didn't eat.'*

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<sup>601</sup> Based on the following factors: Difficulty with English language, visual impairment, hearing impairment, stress / anxiety, terminal illness, ongoing mental health condition, depression

The poverty of options to deal with the day to day realities of living with debt and financial exclusion suggests that the right support is not available to the most excluded and financially vulnerable households. Better options are needed if we are to avoid the harm that problem debt creates. Our response to other questions outlines the role that Government, creditors and credit providers can play.

Addressing financial exclusion

**Q8. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

Families struggling financially face a choice almost every day. What do they need to cut back on in order to get through to the end of the month? Nine out of 10 parents in problem debt have cut back on essential items for their children within the last year so they could keep up payments on debts.

Therefore it is crucial that appropriate financial services are available for these struggling families facing financial exclusion. However, sometimes financial services and products are designed in a way that creates and causes significant problems for these families. There has rightly been considerable media and political focus on the dangers of high cost credit that has resulted in stricter regulation of these markets (see response to question 9 below). However, relatively less attention has been paid to mainstream products that can also exacerbate financial difficulties and result in persistent debts. Credit cards are the most common unsecured debt our clients hold, with 66.8% in debt on their credit card. The second most common debt is overdraft with 52.8% of clients in overdraft debt.

### *On credit cards*

The FCA recently published the final findings report on its credit card market study which found widespread detriment.<sup>602</sup> They found that 2 million people are behind on their credit card payments and a further continuously in debt on their credit card and 1.6 million are repeatedly make minimum card payments, with many doing so systematically for three years or more. They have announced a series of actions to tackle persistent credit card debt including acting to give people greater control of their credit limit, but these voluntary and 'behavioural' approaches are unlikely to have sufficient impact. If they are found to not be delivering sufficient benefits for consumers we hope the FCA is prepared to back these up with rules if necessary.

**To address the issue with unsolicited credit card limit increases we have argued that the FCA should ensure that credit card limits are only increased where the borrower actively opts-in to this.**

**The FCA should also increase the very low minimum payments on credit cards, in order to prevent what's supposed to be short term credit card borrowing into expensive and persistent debt.**

**Credit card providers need to do more to stop credit card debt, including debt across multiple cards, from building up. They need to intervene more quickly to spot people in financial difficulty and offer better help for those struggling with persistent debt.**

### *On overdrafts*

The recent remedies proposed by the CMA focused on tackling particularly unarranged overdraft users will not reduce consumer detriment in this area. The CMA's proposes a 'Maximum Monthly Charge' (MMC) for overdrafts to be set by each current account provider themselves. However, all the major banks already in effect set an MMC and it results in wildly different charges, ranging from £35 to £90. **We believe the MMC should be set with reference to an independent benchmark in order to effect any real change. We would suggest that the FCA would be best placed to set the level of the MMC and review what further action should be taken to tackle persistent overdraft debt.**

Accessing affordable credit

**9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

We believe the FCA is making some good progress in controlling some of the more egregious problems in the consumer credit sector, An good example of this are the interventions in the payday lending market that capped the excessively high interest rates and charges in this sector, strengthen affordable lending guidance and limited the rolling over of loans.

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The price cap on and stricter regulation of payday loans has had a significant impact with substantially fewer people with payday loan problems coming to debt advice charities like StepChange. In 2013 nearly a quarter (23.4%) of all our clients had payday loans and this has fallen to 16.1% in our mid-year figures for 2016. In contrast, we saw 82% more people coming to us with payday loan debts in 2013 than in 2012. The clients we saw with payday loan debts often juggling a range of other debts that spiralled out of control when this form of high cost credit was added into the mix. The FCA's necessary intervention has clearly had a positive impact by substantially reducing the numbers of people falling into difficulties with payday loans.

These essential regulatory actions have therefore gone some way to tackling the worst excesses of the payday loan market. However, problems remain in this industry as our research on our clients' experiences of payday loans (to be published into October 2016) finds continuing issues with lending practices, affordability assessments and the treatment of customers in financial difficulties. The FCA has committed to reviewing the impact of the price cap in the first half of 2017 which we hope will tackle these issues.

The FCA's own research estimated that around 160,000 people a year would no longer get payday loans. Its research indicated that if a consumer was rejected by a payday lender then the majority (60%) would not borrow, 25-30% would go to family and friends and less than 5% would go to illegal lenders.<sup>603</sup> The FCA interventions have therefore reduced supply of payday loans for some. This is positive as wider access to high cost credit was clearly not the answer for financially excluded and vulnerable people. It also raises the necessity of ensuring these households have improved access to affordable credit alternatives to high cost credit like payday loans. This issue is broader than remit of the FCA and should be a priority for government policy as we outline in the response to the next 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 exclusion?**

Problem debt is holding back families' lives and acting as a barrier to the UK government's efforts to improve life chances. The number of people in severe problem debt stood at 2.6 million in 2015.<sup>604</sup>

Not enough has been done to ensure families are not excluded, are not denied access to appropriate products and adequate safety nets to either prevent them falling into debt or minimise the damage to their lives when income shocks hit. For millions income shocks remain a fact of life and the primary driver for problem debt. In the last year, 1.7 million people fell into severe problem debt after using credit to keep up after an income shock.

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<sup>603</sup> <http://www.fca.org.uk/static/documents/consultation-papers/cp14-10.pdf>

<sup>604</sup>

<https://www.stepchange.org/Portals/0/documents/media/reports/StepChange%20Debt%20Charity%20New%20Normal%20report.pdf>

To cut the £8.3 billion cost of problem debt, the Government should develop a plan to boost families' financial resilience, focused on creating the responsive safety nets people need. People need support at the point of a drop in income to help meet their essential costs while they seek to stabilise their finances. This is not just about welfare. Welfare is vital, but it will never be enough to help everyone weather shocks and changes to their income.

*On affordable credit*

Government has not gone far enough to promote more affordable, sustainable products for the more financially excluded. Despite changes to the payday loan market, there are still millions using credit as a 'safety net' and finding it difficult to repay.<sup>605</sup> They are significantly more likely to be in or at risk of financial difficulties as 60% are keeping up but struggling and over a third (36%) are falling behind on bills and credit commitments.<sup>606</sup> Some of these people are unable to access affordable credit and having to turn to high cost lenders:

*"As my credit rating was non-existent I had no option but to use doorstep lenders who were only too keen to 'help'."*

*"When I needed help I looked at lots of different options but in the end the only thing I could get was a payday loan."*

*"I never expect to get credit from high street lenders these days... I hate being shackled by high interest rates even after I have rebuilt my financial stability."*

The main response of the Government, alongside strengthening financial regulation, has been to encourage the growth of community lending. The Department of Work and Pensions is investing £38 million into the on-going Credit Union Expansion Project (CUEP). But credit unions and community development finance institutions (CDFIs) still have limited reach and the commercial financial services sector has done little to address the needs of those currently forced to turn to high cost credit. Our research found that only 5% of those needing affordable credit were using community lenders.<sup>607</sup>

Social Fund crisis loans previously provided support for many of these households as 21% of those in the lowest income quintile accessed these no-interest loans in 2011.<sup>608</sup> But crisis loans (and community care grants) were

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<sup>605</sup> StepChange Debt Charity (2016) The credit safety net: How unsustainable credit can lead to problem

debt and what can be done about it

<sup>606</sup> StepChange Debt Charity (2016) The credit safety net: How unsustainable credit can lead to problem

debt and what can be done about it

<sup>607</sup> StepChange Debt Charity (2016) The credit safety net: How unsustainable credit can lead to problem

debt and what can be done about it

<sup>608</sup> Ellison, A. et al (2011) Credit and low-income consumers: A demand-side perspective on the issues for consumer protection Dorking: Friends Provident Foundation

abolished and replaced by local welfare support schemes in England and the Scottish and Welsh welfare funds in 2013. The schemes have an uncertain future as there is no specific government funding for local welfare assistance after 2015/6.<sup>609</sup> Other interest free loans, Budgeting Loans (to become Budgeting Advances under Universal Credit) have continued to be available through the Department of Work and Pensions. However, these loans are inaccessible to households that do not meet the eligibility criteria typically either if they are in work or have not been out of work long enough to qualify.

**There is a pressing need to further expand the supply of accessible, suitable and sustainable credit for those whose access to credit is currently limited to high cost products.**

For many of the most financially excluded and financially vulnerable they will struggle to access forms of credit that they are able to sustainably manage and repay. There is a case for greater provision of alternative affordable credit safety nets for those where any form of commercial credit is not viable.

A scheme in Australia provides evidence of how business and government can partner together to provide support for the financially excluded unserved by other markets. Good Shepherd Microfinance, funded by the Australian Government and a major bank, provides a no-interest loan scheme (among other financial products and services). It has helped over 125,000 people who have previously been excluded from mainstream credit and an evaluation found that they were three times more likely to be severely financially excluded than the average Australian.<sup>610</sup> The evaluation also found to the scheme improved economic and social outcomes for more than a third of clients.<sup>611</sup> So far, there is one no-interest loans scheme in the UK - Tenbury NILs (based on the Good Shepherd scheme) set up in Worcestershire through charitable donations and support from the local council.<sup>612</sup>

#### *On savings*

StepChange Debt Charity research has shown that if every household in Great Britain had at least £1,000 saved it would reduce the number in problem debt by 500,000.

We are therefore pleased to see the Government is introducing the Help to Save account, providing matching savings to low-income consumers. However, as currently envisioned Help to Save will not help the number of people it might do, and **we believe the recently introduced legislation will need to be amended to make the product as effective as possible.**

Even amended, Help to Save will not be alone enough to boost low-income saving. **Government could also consider an adaption of the pension auto-enrolment system to allow accessible savings.** This would mean:

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<sup>609</sup> <https://www.nao.org.uk/press-releases/local-welfare-provision/>

<sup>610</sup> Centre for Social Impact (2014) Life Changing Loans at No Interest: An Outcomes Evaluation of Good Shepherd Microfinance's No Interest Loan Scheme (NILS)

<sup>611</sup> Centre for Social Impact (2014) Life Changing Loans at No Interest: An Outcomes Evaluation of Good Shepherd Microfinance's No Interest Loan Scheme (NILS)

<sup>612</sup> Tenbury no interest loans scheme can be accessed here: [www.tenburynils.org.uk](http://www.tenburynils.org.uk)



- A default amount of contributions that would go into accessible savings rather than inaccessible pension, in order to harness the behavioural nudge of auto-enrolment.
- The ability to override this default to increase or decrease the proportion of contributions that go into short term saving up to an agreed overall limit
- Explicit matching for the accessible savings with employers making contributions in response to employee contributions and the government relief at source
- A limit on the accessible saving individuals can accrue via pension contributions
- In line with our research we suggest this limit could be £1,000. We need to achieve the objective of creating rainy day saving without undermining the goal of improved retirement provision
- It will be important to ensure that any accessible savings are not able to be accessed during insolvency proceedings.

**In addition, commercial providers must learn from behavioural economics and create products that adequately incentivise families with limited ability to save.** This could include Prize-linked saving (PLS) schemes, where account holders have the chance to win a prize (e.g. a sum of money) on a regular basis or products incorporating digital 'nudges', where firms use online and mobile tools to encourage better savings behaviour among customers.

Government policy and regulation

### **11. What has been the impact of recent welfare reforms on financial exclusion?**

55% of StepChange Debt Charity client households are in receipt of benefits or 47% not including the near 'universal' child benefit. Around 27% of our clients have a deficit budget – they can't make ends meet or make repayments to their debts. But without support from benefits and tax credits this would be very much higher – 60% of our clients would have a deficit budget<sup>613</sup>. So benefits and tax credits are an important safety net for our clients who face financial exclusion, helping many to make ends meet until their circumstances improve. Without appropriate welfare support debts quickly spiral out of control because people use credit as a very unsuitable 'safety net' to adjust to changes in income. Six months of defaulting on bills and credit commitments adds £2,300 in additional interest, fees and charges onto our average client's debts<sup>614</sup>.

The proposed £12 billion cuts to welfare outlined in the Autumn Statement 2015 and Budget 2016 are still expected to go ahead. Overall it is clear that the wider population who have a similar make-up to our financially vulnerable clients, will have a net loss from the announced tax and benefit changes, as the two main positive changes of the increase in the personal tax allowance and national

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<sup>613</sup> StepChange Debt Charity (2015) StepChange Debt Charity clients in receipt of welfare benefits

<sup>614</sup> StepChange Debt charity (2015) Safe Harbours

minimum wage will not mitigate the impact of the welfare reductions. Certain groups will be disproportionately affected by the welfare benefit changes; households with children and people dealing with job loss will lose out the most. The average loss per year to 2020 is predicted to be almost £700<sup>615</sup>.

Modelling by the Centre for Economics and Business Research (Cebr) commissioned by StepChange Debt Charity shows that over 2015 -2020, the squeeze on wages of the

lowest income households are likely to continue as a result of further real-term cuts to welfare payments<sup>616</sup>. Rising to the challenge of helping shore up the finances of the 21 million people struggling with their bills is crucial. Almost three quarters (73 percent) of those struggling think that politicians are not doing enough to protect people like them from falling into financial difficulty<sup>617</sup>.

**12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

Once people are in financial difficulty, problems can escalate quickly. The way that creditors deal with people in financial difficulties can make a key difference in how far debt problems escalate and the degree of financial exclusion they can cause. For instance, 60% of StepChange clients polled said that their financial situation stabilised once all their creditors agreed to freeze further interest, charges and collection or enforcement action. But in cases where none of the creditors had agreed to give this help no one said that their financial situation had stabilised<sup>618</sup>. We would expect government creditors to lead by example and do the most to help struggling families. They do not. When our clients were asked whether they felt they had been treated fairly or unfairly by different types of organisation, it was bailiffs and public sector creditors that scored consistently worse than regulated financial services creditors, including high-cost lenders.

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<sup>615</sup> Institute of Fiscal Studies (2016) Distributional Analysis

<sup>616</sup> CEPR, 2014. Available on the StepChange Debt Charity website.

<sup>617</sup> StepChange Debt Charity commissioned online survey from Populus. Weighted sample: 2,322 GB adults. Fieldwork: 24th - 26th October 2014.

<sup>618</sup> StepChange Debt Charity (2015) Safe Harbours

Rank	Type of organisation	"I was treated unfairly"
1	Bailiff	50%
2	Local authority	42%
3	Dept. for Work and Pensions (DWP)	36%
4	Mobile phone company	32%
5	Debt collection agency	30%
6	HM Revenue and Customs (HMRC)	28%
7	Payday lender or short term lender	28%
8	Utilities company	27%
9	Catalogue lender	26%
10	Fee-charging debt management firm	26%
11	Store card lender	23%
12	High street bank	21%
13	Credit card company	20%

What's more, 51% of clients contacted by bailiffs were for council tax debts (Appendix 2). 75% of these clients identified as vulnerable through physical, mental health or language problems, and yet of these clients who made their creditors aware of this, 83% said that at least one of their creditors (including national and local government creditors) didn't take account of their vulnerabilities<sup>619</sup>.

It is not uncommon for our clients to have debts to local and central government. In 2015 over 30% of our clients with a liability to pay council tax had council tax debts, up from 15% in 2011; 7% of our clients also had debts to HMRC and 5% to DWP. There is a real imperative for the Government to ensure that collection of debt by central and local Government is better co-ordinated, managed in a way that minimises harm and stops problems escalating. Our clients who found their creditors' actions put them under more stress were twice as likely to take out more credit to keep up with the extra costs added to their debts<sup>620</sup>, so creating a spiralling debt problem.

There is little co-ordination between central and local government on ensuring good practice in the collection of council tax arrears, which are increasing as council tax support is cut for the most financially excluded people. Despite the fact that the Department of Communities & Local Government has published good practice guidance for councils on the collection of council tax debt<sup>621</sup>, these are not statutory and there is wide variation in local authority practice across the country. We surveyed more than 1,000 StepChange Debt Charity clients with council tax arrears who came to us for advice in 2014 to understand their experiences of council tax collections<sup>622</sup>. After falling behind on their bills, the

<sup>619</sup> StepChange Debt Charity (2016) Creditor and Debt Collector Conduct: what's making debt problems worse?

<sup>620</sup> *ibid*

<sup>621</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/210478/Guidance\\_on\\_enforcement\\_of\\_CT\\_arrears.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210478/Guidance_on_enforcement_of_CT_arrears.pdf)

<sup>622</sup> StepChange Debt charity (2015) council Tax Debts

vast majority (86%) of people engaged with their council to get help with their arrears. However, people found that councils were more likely to take a threatening or demanding approach than a supportive one. In total, 65% of people who contacted their council received a tough demand or threat of enforcement – being threatened with bailiff enforcement or court action, or having a demand for the full arrears or the full bill to be paid in one go.

### **Appendix 1 Case studies of financial issues faced by our disabled clients**

A StepChange Debt Charity client applied for Personal Independence Payments (PIP). However, due to the length of time the Department of Work & Pensions (DWP) took to process their PIP application, they received a lump sum amount for the backdated PIP during their Debt Relief Order (DRO) moratorium. This lump sum payment was treated as an asset and, as a result, their DRO was revoked. They, therefore, ended up back at square one in trying to resolve their debt problems. Our client feels frustrated by the DWP delays and the Insolvency Service rules that treat backdated money for care costs as an asset. They felt this was discriminatory against people with disabilities and stated that they had been “let down by the system”.

A StepChange Debt Charity client with mental health problems and at risk of self-harming, was in arrears with their payments to a rent-to-own lender. Staff from the lender’s shop arrived at the client’s house on several different occasions asking for them to make repayments on their debt in what they perceived as a threatening manner. As a result of the stress this caused, our client had a panic attack the next time they visited the lenders’ store, and their mental health problems worsened.

A StepChange Debt Charity client told us that his wife was very concerned about what would happen to their debts if our client was to pass away, as her only income came from disability benefits. One of the loans our client had was in both his and his wife’s names but our client stated that he and his wife had complained about this to the bank providing the loan. . Our client had attempted to take the loan in his name only but the bank had pressurised his wife into signing too. Our client’s wife had told the lender at the time that she would not be able to afford the payments on her own if the client passed away, but this was ignored and a joint loan set up against their wishes.

A disabled StepChange Debt Charity client has told us that because she has to rent a specifically adapted property, her rent is above the Local Housing Allowance cap. She has asked the council for assistance with accommodation but they could not help and she has started to fall further into debt as a result of the shortfall between her rent and the amount of housing benefit that she can receive.

*15 September 2016*

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## **StepChange Debt Charity – Supplementary written evidence (FEX0096)**

The Committee invited further evidence on three topics discussed at the oral evidence session on 18 October.

1. Examples of good debt collection practice among local authorities
2. Improvements that could be made to the Scottish DAS Debt Payment Programme
3. Delivering a co-ordinated approach to tackling financial exclusion in the context of “localism”

### Examples of good collection practice in local authorities

In the oral evidence session, I noted research by the Money Advice Trust found no correlation between the extent of bailiff use by Councils and the amount of council tax collected. In fact, the research found that the ten councils who were the heaviest users of bailiffs had an average collection rate of 22% of old debts, compared to 31% for the ten lowest users<sup>623</sup>.

It is important to recognise the variety of policies and practice across local authorities, and I am pleased to offer the following examples of good practice. However, I note that examples of good practice primarily support those who are failing to pay, rather than those who might be managing to pay but only with difficulty.

### **Case study 1: LB Lambeth introduces a new “Income and Debt” policy that stops the use of bailiffs and increases council tax collection rates**

In April 2015, Lambeth council introduced a new policy for collecting council tax arrears from council tax support claimants. The policy brought in extra recovery measures for residents in receipt of council tax support and established the organisation “Advising London”, an independent debt relief agency. A significant number of steps were added to the standard council debt collection process:

- SMS reminders were sent to claimants.
- A further soft reminder letter (a communication tested to be non-threatening and in plain English) was issued if no payment or contact was received, including a flyer from Advising London inviting claimants to a debt advice surgery.
- A telephone call was made to claimants from either Advising London or the council tax team. A soft summons letter was issued if no contact had still been made.

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<sup>623</sup> Money Advice Trust (2015) Stop the Knock

- If no engagement was made after any of the above steps, a summons was issued, including a further flyer. Advising London advisers were present at the court hearing.

Lambeth's use of bailiffs to collect council tax arrears from council tax support claimants went from 3,244 uses in 2013–14 to zero in 2015–16. This was accompanied by a significant reduction in summonses from 8,933 in 2013–14 to 2,176 in 2015–16 and an increase in collections rates for council tax support claimants from around 80% in 2014–15 to 93% in 2015–16<sup>624</sup>.

### **Case study 2: Mendip District Council**

Mendip District Council's Scrutiny Committee reviewed its council tax collection processes in 2013, when Council Tax Support Schemes were localised. As a result they changed the way they collected council tax to maximise collection rates in the most cost-effective way. They introduced:

- More work through the "Shape Mendip" hub of 26 private, public and civil society organisations.
- Sign-posting to debt advice was included on all council tax correspondence sent out.
- They signed up to the LGA / Citizens Advice council tax collection protocol.
- A partnership with Citizens Advice to provide independent debt advice to those in financial difficulty.
- The council developed tailored individual repayment plans for those in arrears with the support of Citizens Advice and a credit union.
- They worked with the council's housing unit to identify vulnerable clients.
- Bailiffs were only used as a last resort and people were encouraged to engage with the council as early as possible if they were in financial difficulty,
- The council aimed to use attachment of earnings and attachment of benefits instead of bailiff action.

The result of this was that between 2013–14 and 2015–16:

- The council tax collection rate increased from 97.6% to 98.2%.
- There was a 3,000 fall in warning letters issued.
- There was a 20% fall in summons.

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<sup>624</sup> Ashton, S., Francis, M. & Woudhuysen, A. (2016) Still too poor to pay: three years of localised council tax support in London.

- There was a 30% fall in liability orders issued.
- There was a 40% rise in arrears being paid through attachment of benefits.

### **Case study 3: Swindon Council**

Collecting council tax is a key priority but is seen as a financial inclusion issue. One of the council's 30 pledges is to "Provide early support for people in debt so that we significantly reduce the need to use bailiffs to recover council tax and other debts". Swindon's collection rate is currently 97.82%, a top performing council when it comes to collecting council tax and much improved over recent years.

Just two years ago around 14,500 people in Swindon were summoned to the Magistrates Courts for non-payment of council tax. The council worked very hard to reduce this number through text reminders and telephone calls to those in arrears. They invested £50,000 in directly telephoning and offering assistance to those council taxpayers who had been sent a paper reminder before any summonses were sent. The assistance included rescheduling payments and referrals to advice agency partners. As a result they reduced the number of summonses to just under 9,500.

The council encourages anyone having financial problems paying their council tax to contact the council as soon as possible by phone or e-mail. Since introducing these measures they have been monitoring the number of bailiff referrals and in 2015-6 6,104 liability orders were referred to bailiffs (a reduction of 1,899 from 2013-4).

As part of their work to help people on low incomes or facing other financial problems the council have been continuing to develop their relationships with voluntary sector organisations across Swindon to help people get the advice and support that they need.

The council have also been conducting research and have developed a Financial Inclusion Policy to work towards helping people maximise their incomes and manage their debts. In order to assist with this Financial Inclusion work the council and its One Swindon Partners appointed a Financial Inclusion Manager earlier this year. The post-holder has been working to promote Credit Union membership in Swindon (including a Save As You Earn Scheme), working with the Illegal Money Lending Team on Anti-Loan Sharking initiatives, has helped Citizens Advice to recruit two additional Welfare Advisors and has supported an Energy Switching programme aimed at low income households. They are also supporting DWP work coaches help people into employment or better paid employment.

### **Case study 4: Manchester City Council**



Manchester City council has improved its performance both current year and council tax arrears collection rates. It has seen:

- A steady reduction in cases passed to bailiffs
- Increases in the number of council tax arrears paid through an attachment of earnings order
- Increases in the number of council tax arrears paid through attachment of benefits orders
- Increases in the number of pending attachments:
  - 8,000 in 2012-13
  - 20,000 in 2016-17

They achieved this through:

- Early engagement with those in arrears.
- Writing all standard letters about council tax in plain English.
- Working with the Money Advice Trust on leaflets offering support.
- Providing contact details of Citizens Advice on all standard letters about council tax.
- Ensuring their call centre had only one automated option: otherwise people were put straight through to a human and all call centre staff had been trained in dealing with council tax and benefit issues.
- Sending five letters before passing a case to bailiffs.
- Automatically suggesting a repayment arrangement once a Liability Order has been issued.

They try to ensure they only pass the “won’t pays” (rather than “can’t pays”) on to bailiffs by:

- Developing a system that identifies those eligible for attachment of benefits automatically.
- Not making any referrals to bailiffs where an attachment of earnings or benefits order is possible.
- Providing discretionary payments where a claimant is ‘maxed out’ with attachment of benefits orders with DWP.

- Checking all sources for employer details and vulnerability, so that they can ensure attachment of earnings orders are issued where possible, instead of using bailiffs to collect the debt, and that bailiffs are not sent out to vulnerable people.
- Incentivising their bailiffs to arrange debt repayments by telephone, prior to visiting.
- Ensuring their bailiffs send a minimum of four letters and make three phone calls before a visit.
- Asking their bailiffs return any debts of less than £150 prior to enforcement.

#### Amendments needed to DAS to make a good Breathing Space scheme

In the oral evidence Lord Kirkwood asked if there was any reason why the Committee should not recommend the adoption across the UK of a model along the lines of Scotland's Debt Arrangement Scheme. I hope the committee will recommend a model along the lines of our "breathing space" proposal, details of which are in our earlier written evidence and also in the attached paper. The key thing is that DAS in its current form does not offer all the features and protections we would like to see to help people in problem debt stabilise their finances.

The StepChange Debt Charity team in Scotland have reported that the following provisions within the Scottish Debt Arrangement Scheme (DAS) have worked well for our Scottish clients:

- The statutory nature means creditors are obliged to stop interest, charges, and, importantly, to stop contacting clients. We know these contacts add to the stress and anxiety of problem debt, and can worsen the situation if people seek more credit to keep creditors at bay.
- The protection from court action reduces clients' anxiety and stress and helps them build financial stability.
- The Debt Payment Plan developed through DAS is usually free.
- Most debts can be dealt with including priority debts, such as council tax arrears, and business debts.
- The freezing of interest, fees and charges gives people clarity on exactly the amount of debt to be repaid and incentivises them to get debt advice earlier.
- The protection of assets means that clients don't have to worry about their assets being sold, a major disincentive to solutions like bankruptcy.
- The approved money adviser provides the client with considerable support to get their finances back on track.

- Debts that were overlooked can be added into the Debt Payment Plan at a later date.
- The money adviser can ask for a payment break in the Debt Payment Plan of six months, if there is a drop in income of 50% or more, which allows the client some time to re-stabilise their finances and continue with their Debt Payment Plan.

However, if a similar scheme, based on DAS, was introduced in England, Wales and Northern Ireland it should also address the aspects of DAS that have not worked so well:

- The initial breathing space allowed under DAS should be extended from six weeks. The current six week period in Scotland has been shown to be too short to stabilise finances or develop an affordable Debt Payment Plan for those in a position to do so. The latter usually takes at least 120 days from the initial application. A year's protection in the English and Wales scheme might not be needed by everyone but would provide a useful backstop
- Alternative: the proposed breathing space scheme for England and Wales offers protection in 3 parts....[while seeking advice, while setting up a solution and getting to a point when payments are possible, and while remaining engaged with a plan, submitting for regular reviews, and keeping up payments]. The proposal is that the first two protections would last for 6 months to a year, and the third indefinitely as long as the client remains engaged. DAS has two limitations by comparison. The first protection [intimation/moratorium] is limited to 6 weeks. Our clients' experience is that this is not long enough to navigate the process for establishing the plan. We are asking the Scottish Government to increase this to a minimum of 16 weeks. Secondly, DAS doesn't allow a Debt Payment Plan to start with a period of zero payments. Holidays are allowed at other times in the life of the plan. Our breathing space proposal would allow people up to a year to stabilise their finances and begin making payments.
- Problem debt is seen by many as a stigma. The public register of DAS applicants acts as a disincentive for some people to apply. The register of those on the England and Wales scheme should not be publicly available. They are not receiving debt relief, but entering into arrangements to pay off their debts in full within a reasonable time period
- The lack of publicity for the DAS in Scotland has limited take up. The England and Wales Scheme should be more widely publicised to ensure early access, when debts are lower and less complex, and to ensure all those eligible can take advantage of the support provided before their debt problems spiral out of control

Given the localism agenda, how can a coordinated approach to tackling financial exclusion be achieved?

There is an opportunity at a local level to address many of the issues facing the financially excluded, particularly regarding debt collection, but it will require a unified effort and agreement on the key issues to address.

In addition to debt collection issues, which we have addressed above, at a local level, we believe the following are areas public policy could concentrate on to ensure a reduction in financial exclusion.

- Ensuring local welfare safety nets are effective in helping people to cope with and recover from income shocks without falling into unmanageable debt
- Strong local partnership working to facilitate and encourage greater local financial inclusion.
- Ensuring that debt vulnerable households have access to local affordable credit. In order to prevent them from having to pay a large premium through interest and charges for credit to pay for essential household items.

*Effective local safety nets*

In April 2013, parts of the discretionary Social Fund, including Crisis Loans and Community Care Grants were abolished and replaced by local welfare assistance schemes run by local authorities.

Previous research has found that the discretionary Social Fund provided an important social lending safety net as it was one of the most important sources of credit for those on very low incomes used by 21% of those in the lowest income quintile<sup>625</sup>.

Our research suggests a decline in the use and accessibility of the Social Fund as a safety net since its localisation:

- Only 7% think they would be eligible for a local welfare loan. This contrasts with 21% who think they'd be eligible for a payday loan
- Just 5% know how to apply for a local welfare loan. But 12% would know how to apply for a payday loan.
- Only 2% of people believe they would get a local welfare loan quickly. Meanwhile 16% believe they would get the money quickly with a payday loan

Where people did apply, rejection by local welfare assistance schemes prompts people to turn to credit:

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<sup>625</sup> Ellison, A., Whyley, C. Forster, R. and Jones, A. (2011) Credit and low income consumers: A demand side perspective on the issues for consumer protection. Dorking: Friends Provident Foundation

- 9% of people who applied for a loan or grant from the DWP or local welfare assistance scheme said that being rejected led to them taking out more credit
- 8% said they used credit because it was less embarrassing than getting help from benefits or local welfare assistance

**This all suggests that there are issues with the awareness of the local welfare assistance schemes and that the accessibility and advertising of the availability of this support could be improved.**

### *Strong local partnership working*

There are examples of strong partnership working at a local level to build a coordinated approach to tackling financial exclusion. These involve local authorities working with local partners from both commercial and non-profit organisations. There are two further examples below:

#### **Case study 1: Sheffield Money**

Sheffield Money came out of the Sheffield City Council Fairness Commission. It is an innovative idea involving a council funded broking service working with community lending partners to provide loans and other financial services to local residents. It partners with various local financial services providers including a CDFI, credit union, white goods provider and basic bank account provider to offer a wide range of services. It provides a website, city centre store and a phone application service to offer a range of services and quick access to loans in as little as 15 minutes. Debt advice is embedded in the scheme with a debt advisor available at the store. Sheffield Money is only in its first year of operation so its impact is not known but it is expected to save residents on the lowest incomes £20 million in a year by reducing their reliance on high cost lenders.

#### **Case study 2: Leeds council and local credit unions**

Leeds Council has developed a wide-ranging financial literacy and financial inclusion strategy and the city has built a strong credit union movement.<sup>626</sup> Leeds City Credit Union has built a partnership with Lloyds Bank. Together they have piloted a customer signposting relationship so that if a loan applicant to Lloyds Bank and Halifax branches and Leeds are declined they are signposted on to Leeds City Credit Union to identify if they can provide them with a loan or other financial support. If the customer is identified as having debt problems they will be signposted on to StepChange Debt Charity. This holistic and coordinated approach helps the financially excluded in the city get appropriate support.

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<sup>626</sup> Accessible: [www.local.gov.uk/health/-/journal\\_content/56/10180/3510646/ARTICLE](http://www.local.gov.uk/health/-/journal_content/56/10180/3510646/ARTICLE)

There are clearly innovative examples of how local government can play a significant role in tackling financial exclusion in their local areas. **We would encourage local authorities to coordinate, learn from each other and develop best practice in working with local partners to encourage greater local financial inclusion.**

#### *Access to local affordable credit*

Many of the most financially excluded and financially vulnerable struggle to access forms of credit that they are able to sustainably manage and repay. There is a case for greater provision of alternative affordable credit safety nets for those where commercial credit is not viable. In many cases these could be most effectively offered at a local level.

There are examples from both the UK and overseas about how to operate such schemes, which we touched upon in our original submission.

#### **Case Study 3: Australia Good Shepherd microfinance**

Good Shepherd Microfinance has teamed up with National Australia Bank and the Australian government to provide low income consumers in Australia with access to a no-interest loans scheme (NILS). The programme has provided loans to over 125,000 people who had previously been excluded from mainstream credit. It works through local community organisations and has three high street store locations.

Good Shepherd Microfinance provides a range of other financial services alongside the no-interest loan scheme including a low interest loan scheme, savings and insurance products. An evaluation of NILS found that the scheme improves the lives of particularly vulnerable Australians. NILS clients are three times more likely to be severely financially excluded. The loans improve economic and social outcomes as more than a third of clients reported increases in savings levels and financial independence and nearly three quarters experienced positive changes in their standards of living, stress and anxiety levels. The evaluation also found that NILS was able to divert many clients away from high cost credit products like payday loans and goods rental services (known as rent-to-own in the UK).

#### **Case Study 4: Ireland's microcredit scheme: It Makes Sense loans**

A partnership between the Credit Union Sector, the Irish government's Department of Social Protection, the Citizens Information Board, and not-for-profit groups, has created a pilot microcredit scheme. The aim of the scheme is to reduce dependence on high interest moneylenders. The scheme was launched in November 2015 and is running out of 30 local credit unions across the country. It provides small sum loans (between €100 and €2,000) at low interest rates (maximum interest rate of 12%). Loans are available to people getting certain social welfare payments and can be repaid through deductions from these social welfare payments. Loans are to be granted within 24 hours of making the application (and becoming a credit union member).

**The government needs to look at new ways to provide greater access to more affordable credit safety nets for the most financially vulnerable, including looking at international examples of no and low interest loan schemes.**

*9 December 2016*

StepChange Debt Charity and Money Advice Service – Oral evidence (QQ 90-101)

**StepChange Debt Charity and Money Advice Service –  
Oral evidence (QQ 90-101)**

[Transcript to be found under Money Advice Service](#)



## **St Leger Homes of Doncaster – Written evidence (FEX0072)**

### **Definitions and causes of financial exclusion**

#### **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?**

We believe that the two concepts differ.

Financial Inclusion has a positive connotation regarding the actions taken to include all sectors of society in financial issues. Financial Exclusion has a much wider definition as it also encompasses the range of knock-on effects of not having the same access and choices as others.

As we know, the causes of financial exclusion are wide-ranging but typically include;

- Unemployment or insecure employment
- Lack of access to affordable credit
- Welfare benefit reforms
- Education & Literacy
- Poor budgeting and money management skills
- Low income
- Childcare costs
- Housing costs
- Poor standard of education
- Lack of job opportunities and apprenticeships
- Homelessness, insecure and/or unaffordable housing
- Large and/or multiple debts
- Court costs; County Court Judgements, Debt Relief Orders, Bankruptcy Orders etc.
- Lack of formal identity (i.e. passport, driving license)

#### **2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

The people most affected by financial Exclusion include primarily, those who are unemployed, working households with low incomes, disabled people, young people (particularly hard hit under recent welfare reforms), single parents, the non-primary carer of single parents (i.e. can't access help with housing costs for an extra bedroom for the child/children) and homeless people.

In addition, there are some specific groups who may be affected in different ways;

Families – One of the purposes of school uniform or dress codes is so that children look the same regardless of their family income. However uniforms appear to be increasingly prescriptive with only certain type of trousers and coats which have the school badge on etc. and certain types of shoes. This causes a difficulty as one-off items such as coats and shoes are often worn both in and out of school, so need to be dual purpose. Nobody after all, wants to be seen socialising with peers wearing their school coat. Families on low income who do not qualify for help are often unable to afford the costs of school uniforms. Failure to adhere to the uniform dress code is a means of exclusion and in some cases parents don't send their children to school due to the stigma.

The cost of and availability of affordable childcare as well as the cost of schools meals can also be prohibitive for families wanting to work or increase their earnings.

Some elderly people can be less trusting of the banking system, direct debits etc. and can pay more for services because of this.

Fuel poverty - Prepayment meters run at a higher tariff than standard meters and those most financially excluded often only have access to utility meters as a way to pay off debt. Once on these meters they often stay on them for the long-term; they are not encouraged to change to a standard meter once the debt is paid off.

People living in rural or isolated areas and/ or disabled people who are financially excluded are more likely to rely on digital services but may not have access to computers. Those who do have access may have issues with connection/speed in some isolated or remote areas.

Young people are particularly affected by the recent welfare reforms, with Housing Benefit being significantly cut for under 35's.

In addition, the following are also features of people who are financially excluded;

- People on low incomes find it difficult to get loans from the mainstream routes and resort to using companies with high interest rates.
- People who suffer a sudden change of circumstance who find themselves out of work and under threat of having their homes repossessed if they cannot make the repayments.
- Costs for transport and lack of public transport links for people without a car can significantly limit earning opportunities and job searching prospects. etc.
- Remote communities rely heavily on having their own transport, which puts a further strain on their budgets. They may also have poor digital connectivity i.e. affecting internet banking, job searching, ability to work from home etc.

**3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

People who are financially excluded are more likely to become socially excluded, as they are not able to participate in society as others might. This can be caused by quite basic but fundamental issues such as;

- Not being able to afford travel costs
- Not being able to take part in socialising
- Not having suitable clothing to be able to
- Lacking confidence generally in their ability to participate in their local society/community
- Digital poverty can also contribute to social isolation

People who are financially and socially excluded may also be more at risk of developing mental health issues, becoming homeless or falling into criminal behaviour.

In terms of problem debt, this can be presented as;

- High interest rates being charged on some debts means some people are unlikely to ever get themselves out of poverty
- Irresponsible lending can also encourage people into further debt that they cannot afford
- Many families now rely on credit cards to supplement their income to manage everyday monthly living costs, just to make ends meet.
- People on low incomes often have prepayment gas and electric meters, which are more expensive than the other standard tariffs on offer.
- Families with other social and personal issues can find it difficult to cope with unforeseen events and so are more likely to fall below the poverty line and less likely to be able to recover their position.

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

It is not uncommon for people with mental health problems to find it difficult to deal with their personal problems and in particular those of a financial nature. There is a tendency to ignore the problem rather than facing up to it, leading to further indebtedness.

Cuts to public services have meant that support agencies that previously may have been able to assist in these situations are significantly reduced now. The result is that help is either not available or there are long waiting times to receive this support. Due to the nature of these issues, it is important that help and advice is available at the point of need.

Many families have low level undiagnosed emotional wellbeing issues and mental health issues are quite often caused by or exacerbated by their social and personal issues. Debt can increase anxiety, which can affect

their ability to function, with substance and or alcohol misuse not an uncommon feature.

Nationally, there is a low take-up of people with mental health issues for options to take control of their own finances through Direct Payment and Personal Budgets. This means that they are more dependant upon statutory agencies to organise their care and support arrangements; increasing their dependency and reducing the opportunity for them to take control of their own lives and build their own financial capability.

Recent welfare reforms have also contributed to the financial exclusion of people with disabilities and mental health problems.

### **Financial education and capability**

#### **5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

This is an area that should be strengthened. Most young people leave formal education with little financial capability, knowledge of financial matters or experience of managing a budget. In order to address this we should consider

- Better education and clear advice about what help is available when things go wrong
- Being clear about the consequences of living beyond your means on a long-term basis
- Clamp down on irresponsible or extortionate lending.
- Gove people the confidence that they have a right to help rather than feel ashamed about applying for it.
- Encourage people to save and give them incentives to do so.
- Introduce practical financial management into the Maths curriculum, where budgeting and good financial management can be taught to develop financial capability.

#### **6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

Financial capability over the long-term can be maintained by;

- Ensuring (as above) that young people leave formal education with a sound basis of financial literacy.
- The provision of a comprehensive nationally recognised budgeting advice service where people can access help at the point it is needed, irrespective of where they live
- People having confidence that there are agencies who can offer practical, impartial and non-judgemental advice
- Strong third sectors that can act as advocates for vulnerable people against unscrupulous lenders etc.

- Irresponsible lending and the easy availability of credit can be a temptation for people looking for a quick solution to a long-term debt issue and needs to be reviewed

### **Addressing financial exclusion**

#### **7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

Personal responsibility is a significant point and strong financial capability includes the aim of being able to 'live within your means'. Being able to balance a budget or save must be a feature of any financial plan. However in order to develop this, practical financial education should be provided as previously mentioned (section 5).

Against a backdrop of public sector cuts and a reducing welfare state, the availability of timely and independent support and advice for those most excluded is problematic.

These further points are covered in various sections.

#### **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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

Not everyone have the necessary identification to open bank accounts or access credit. For example some people do not have a driving licence or a passport. They turn instead to lenders who offer very high interest rates purportedly to reflect the 'high risk' of lending to those who are financially excluded

To this end, the work of Credit Unions is invaluable and can provide affordable credit options for people who are financially excluded. Credit unions also offer support and advice to develop financial capability, promote saving and offer products to help with effective household and personal budgeting.

As Benefits are paid into post office accounts and branches continue to reduce, they can provide an alternative to those who may otherwise have less local access to their money.

In addition, Credit Unions are often also able to refer customers to other like-minded organisations to help with low-cost furnishing/recycling projects etc.

Promoting and supporting institutions such as this should be a national priority in addressing financial exclusion.

### **Accessing affordable credit**

- 9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

See response to Q8.

Many families now rely on credit cards to supplement their income to manage everyday monthly living costs, just to make ends meet. For those unable to access credit cards, payday loans are a feature of their household budget. Capping of these loans has assisted people in this position.

### **Government policy and regulation**

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

There are a number of areas where Government policies seems to conflict with one another. Issues such as zero hours contracts, digital access and welfare reforms contribute to financial exclusion.

- 11. What has been the impact of recent welfare reforms on financial exclusion?**

There has been a significant impact from welfare reforms and will continue to do so as the reforms are set to continue. The have included;

#### *Housing Benefit*

- Increases in the number of people no longer qualifying for Housing Benefit
- Significant reduction in the level of Housing Benefit available for single under 35's
- Increase in Housing Benefit overpayments and people less able to repay
- Consequently, lower recovery rates means it takes longer to get overpayments back, affecting the amount of money available to the council to pay for services.

#### *Bedroom Tax*

- There has been significant increases in applications for Discretionary Housing Payments from those affected by the Social Sector Size Criteria (SSSC) or 'bedroom tax
- Downsizing is not always a possibility due to the availability of smaller accommodation in areas where they have a support net
- Rent arrears have increased disproportionately for tenants affected by SSSC

#### *Universal Credit*

The original aims of Universal Credit to incentivize people to work or earn more have been significantly eroded with a series of changes and reforms.

In addition, the first payment of Universal Credit (UC) takes between 5 and 7 weeks to be received by the claimant. A hardship payment can be applied for and paid back over subsequent benefit payments. However many claimants on UC are struggling to manage to their first payment and are unable to buy food, run their gas and electric meters, travel to jobcentre interviews and have no credit on phone to pick up messages/appointments etc. They will often borrow money, which is paid back when they get their UC and then need to borrow again towards the end of the month. They are unlikely to ever get their finances back on track.

For many claimants, suddenly having to manage on a monthly budget comes as a shock; with people struggle to change the way in which they have managed their personal finances for many years.

The 7 Waiting Days rule in UC causes significant hardship as many claimants are not paid monthly and do not apply to UC with savings or money to see them through to their UC payment. This should be reviewed and as a minimum should include housing costs for the first 7 days of the claim

**12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?**

See section 10

**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? What balance should be struck between regulations and incentives for financial institutions?**

Further needs to be done to provide access to affordable credit to those who are unable to access mainstream credit products due to a lack of credit history (i.e. social housing renters or people who have not had previous loans etc.) rather than a poor credit history (i.e. poor payment history etc.).

**Financial technology (Fintech)**

**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?**

Digital access is now fundamental to reducing both financial and social exclusion. Having a computer, tablet or smartphone is no longer a luxury but a necessity to playing an active part in society. Access to the internet for all homes should remain a priority.

*14 September 2016*



## **Sunderland City Council – Written evidence (FEX0081)**

### **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?**

Yes –in its simplest definition- financial inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable

Financial exclusion is a complex and dynamic process, some people experience short periods of exclusion, maybe more than once in their lives. For a small number, however, it can be long-term, perhaps even life-long.

From our experience based on the information that customers who present at the services the Council offer ,tell us the main causes to our customers are a combination of being on low disposable incomes and being caught up in the economics of access to retail financial services

Government and regulatory policy can have unintended consequences on consumers inadvertently contributing to financial exclusion or making it harder for consumers to provide for themselves

The recent rises in customers who have been made bankrupt or are in a Debt Management Plan (DMP) are now starting to present as likely to face financial exclusion.

Difficulties/ issues opening bank accounts – e.g. Individuals they lack identification documents, such as a passport, as they are too costly to apply for.

Digital exclusion is now playing a part in relation to increased financial exclusion as customers are not being able to access the internet and missing out on competitive rates of interest applied to current / and saving accounts

### **2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?**

The *likelihood* of being on the margins of financial services is clearly related to who you are, your financial circumstances and where you live. Statistical modeling showed that socio-economic factors are most significant in predicting financial exclusion.

Sectors affected in our experience:

- People in receipt of income-related benefits
- Householders who have never had a secure job.
- Unbanked households
- Single people
- Low household income

- Head of household not in paid work for long period
- Women who became single mothers at an early age.
- Renters
- Single non-pensioner- elderly people (aged over 70) who are part of a cash-only generation
- BME communities

Analysis at the local authority level found that living in one of the fifty most deprived local authorities in England or Wales doubled the odds of being financially excluded.

Sunderland is ranked as the 37<sup>th</sup> most deprived council in England, with 19% of its population in the top 10% of the most deprived areas. (IMD 2015) According to the Money Advice Service report, Sunderland is top in the northern region at 20.6% of over indebtedness [the national average is 16.1%].

### **3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?**

It can lead to stress, depression, time off work and even family breakdown.

A loss of self-esteem, growing isolation, and the feeling of humiliation can be present. The effects on children in families have also been noted

Problem debt is common and is growing it's stressful in its own right but also can increase customers / family's financial exclusion if it brings default charges and enforcement action which increase the amount of money owed. Sometime additional borrowing occurs to pay the charges (often at extortionate rates of interest)

We would support a breathing space scheme for customers – to give them an extended period of protection from default charges and enforcement action.

The type of debt advisers are dealing seems to have changed – feedback from commissioned first tier welfare rights advice providers and our local Citizens advice bureau , suggests that is more likely to be arrears of everyday household bills that squeeze on household incomes

Debt is both a consequence/cause of financial exclusion.

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

The simple answer is in our experience Yes

Part of our welfare rights service (SWRS) supports people / families suffering from cancer. We encounter customers who when they receive a cancer diagnosis, this can lead in some cases to increased costs for them, particularly

for those who suffer losses of income. We advise customers who are at threat of losing their homes and many struggling with repayments to creditors

SWRS provides debt advice for people with mental health problems and this requires advisers to have the skills of both mental health advisers and money advice specialists.

We have developed models for joint working with health professionals, to enable them to use their specialist skills in a more coordinated way, and are looking at evaluating the impact.

There is still a stigma around mental ill health which is still blocking access to employment for many people – which compounds financial exclusion – more needs to be done to provide practical help to employers to take on, manage and support people affected by mental ill health.

People with physical disabilities may well be finding it difficult to financially transact and facing increased ATM charges through local high street banking access

## **5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?**

Some people do not have the knowledge, skills and motivation to understand and use financial products and make the most of their money

One of the reasons is that many of our customers do have good capability skills- they just happen to be on a low income. Financial decisions made by people who receive very low income are not necessarily decisions they would make if they had more financial resources but this does not mean that they don't have the skills and knowledge to make the best decisions. They may only have limited options available to them.

Financially capable individuals with higher income can save more and can therefore be more resilient to shocks such as loss of income, but some of our customer base regularly do not have access to any spare income to save and are bound by the limited products available to them

Some of the evidence we gathered following an evaluation of a budgeting skills /capability pilot ran by the Council , suggests that the unemployed and those who lack a bank account are generally good at budgeting but can find managing on a low income to be difficult because of the lack of resources –This is exacerbated by lack of access to financial products and the 'poverty premium' on some services.

## **6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?**

Appropriate education and advice needs to be targeted at different life stages or events across the life course and be relevant to individuals, for example the move to independent living or becoming a parent.- and of course should be offered on a consistent basis in school.

In order to be effective, financial education and advice needs to address an individual's motivations as well as their skills and knowledge. The role of wider social networks in shaping attitudes should be acknowledged.

Any capability /support needs to involve a range of bodies, including those with specialist expertise and those with close ties to communities, to ensure the effective involvement of the individuals, groups and communities targeted.

Not only do financially capable consumers need to have access to, and have the skills to understand, financial products and information; they need the motivation to act on this ...and issue which is going to be difficult to solve

**7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?**

The services we offer have always been underpinned a *rights & responsibility approach*

This is integral to changing the relationship our customers have with money and the culture they live in – to create a healthy relationship with money

The council runs a Making Your Money Go further Scheme – which advocates being responsible and having and living within a budget; as well as making good choice and decisions around credit

Charities in the city do play a big part in mitigating rather than combatting exclusion.

The Government does need to consider the impact of recent welfare reforms which have greatly increased the probability of people experiencing poverty and exclusion. Long delays for benefits, widespread issues with administration and sanctions can all create crisis points that lead to longer term issues

Mortgage interest rates being kept low and the help to buy scheme do seem to be benefiting customers however the reduction in interest on savings has a negative impact on others

In relation to business, financial education could be delivered through the workplace and business settings to ensure the specific needs of working parts of the population are met.

**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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?**

The supply, design and delivery of products are usually aimed at people on regular, stable and moderate incomes.

There is still a range of people that are both familiar and comfortable with using the post office to conduct their financial business – including low incomes, older, less socially mobile, and those less likely in employment. This suggests that post offices may play an important role in providing financial services to segments of the population that might be particularly likely to be financially excluded. Sunderland has a very large city centre post office, which is easily accessible, and still smaller branches remain in the more rural areas of Coalfield

The post office has diversified over the last 5 years, offering a number of services that rival traditional high street banking, and opportunities to provide cash-in and cash-out services and insurance

**9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?**

The impact has been felt by some customers we work with, however a commitment to continually review and reduce the cap, as well as ensuring it covers the whole of the industry is required.

Much has been done to raise awareness of the perils of loan shark/illegal money lending in our city, but there is no doubt that it still remains an option for residents. What is missing is still more choice so customers do not need to resort to payday loans.

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

The government does have a leadership role to play in addressing financial exclusion, especially in relation to widening access to appropriate and affordable credit.

There are a number of community investors operating in the north east area, and these are trying to play a part – (Credit unions and CDFIs) but without real development / funding and capacity building these will not be a viable option

The government needs to implement appropriate policies to support this development and increase channeling of private financial capital, to make any real impacts into addressing financial exclusion

**11. What has been the impact of recent welfare reforms on financial exclusion?**

The situation is likely to worsen; the implementation of Universal Credit has brought a fresh challenge to customers on how they manage their money and rent arrears are increasing.

The next phase to be rolled out in the city will affect single parents /families (late 2017) .It is reported from DWP figures the current estimate is for 419 households to be affected initially by the second phase of benefit cap, (Nov 16) single parents / families with 3 or more children are likely to be those most at risk of being capped. Further projections that 55% of customers will lose entitlement /have reduced awards as a result to working age customers having to apply for PIP instead of remaining on DLA will potentially increase those excluded

**12. No response**

**13. No response**

**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?**

Yes – If the government adopted reforms to increase mobile payment, introduced payment banks, abolished surcharges, reduced transaction fees and reduced obstacles to get a bank account/ identification barriers mentioned above – this would help address some issues of financial exclusion

Alternative credit scoring models that can use transaction history and big data to assess risk. would highly benefit the unbanked who do not have any formal transactional or financial history.

*19 September 2016*

Tinder Foundation, Lloyds Banking Group and Open Data Institute – Oral evidence (QQ 168-174)

## **Tinder Foundation, Lloyds Banking Group and Open Data Institute – Oral evidence (QQ 168-174)**

[Transcript to be found under Lloyds Banking Group](#)

## **Toynbee Hall – Written evidence (FEX0073)**

### **About Toynbee Hall and our response**

1. We work on the frontline in the struggle against poverty. Based in the East End of London we give some of the UK's most deprived communities a voice, providing access to free advice and support and working together to tackle social injustice. We have been national leaders in the field of financial inclusion for over 15 years, working directly with excluded individuals and communities, as well as with intermediary organisations, ranging from support agencies to government to financial services providers and regulators. We analyse the systemic and individual factors causing exclusion and work with policy-makers and practitioners to develop and implement effective, sustainable and scalable solutions which support better financial health for individuals and their communities.
2. We have noted the range of evidence being provided to the Committee, as well as the appointment of an expert Specialist Adviser. For that reason, we have deliberately not included third party data and statistics within this response. Instead we confine our evidence to knowledge gained through our own work with excluded communities and the agencies which support them.

### **Definitions and causes of financial exclusion**

*Q1. Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?*

*Q2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?*

*Q3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?*

*Q4. Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?*

3. This question has intrigued the sector. For Toynbee Hall, we use the term "financial exclusion" as shorthand to describe the set of barriers which prevent individuals, or groups of people, from formally accessing the specific financial products and services they need. In our experience, very few people are completely excluded from all financial services (for example, most people can use cash or cash a cheque, or gain informal access to a transactional account or credit through family, friends or unlicensed providers). Yet a single barrier can be enough to lead to exclusion; e.g. a lack of identity and address documents (regardless of socio-economic group or financial capability levels). Financial exclusion, then, primarily describes the problem to be solved and we recognise that the scope and specifics of the problem changes depending on who is affected within which set of circumstances. "Financial inclusion" describes either the desired end state where an individual – and thus cumulatively the whole of society – has full and effective formal access to and is able to use all relevant and appropriate financial products and services, or



to describe a specific programme of activity desired to overcome the barriers preventing access and use. We therefore see a continuum from exclusion to inclusion, where there are very few fully excluded individuals and where almost all consumers could benefit from further inclusion. For the Committee's purposes, it may be helpful to think of exclusion as barriers and negative consequences, including their cost to society, and inclusion as the desired end state with its associated social and fiscal benefits.

4. Our frontline work, as well as our research, policy and training provision, has led us to believe that there are two key components to achieving financial inclusion and health; an inclusive environment which proactively fosters financial health through providing appropriate and accessible products using human-centred design principles; and individuals who are skilled up to navigate that environment effectively. We argue that it makes more sense to create easily used products and services which are designed to support financial health than attempt to "improve" all individuals through education and behaviour change programmes. But we agree that both supply and demand sides need improvement.
5. Exclusion is caused by the following gaps in demand and/or supply:
  - a. A failure by financial services providers to create access to appropriate products due to:
    - i. Failing to understand the need for a product or service or a specific group's additional requirements e.g. a savings product for irregular and very small amounts; a low premium insurance product; flexible payment products for utilities
    - ii. Assessing the need or group as non-profitable e.g. basic banking services for low income customers
    - iii. Passing on the risk of regulatory fines to the user e.g. Know Your Customer regulations leading to a risk-averse approach to accepting alternative ID documentation
    - iv. Passing on financial risk to the user, thus making products inaccessible and/or unaffordable e.g. insurance for older people or those with a life-threatening condition
    - v. A lack of understanding about the need to provide control, assurance and/or transparency for those on tight margins e.g. failure to provide electronic products that work like cash
    - vi. A lack of commitment to overcoming cultural, socio-economic and/or knowledge/language barriers to engage those experiencing entrenched exclusion e.g. low-income groups, specific communities such as Travellers, or those with disabilities.
    - vii. Overly risk-averse and untailed approach to those with a history of debt
  - b. Inability and/or unwillingness to access and use mainstream financial products due to:
    - i. A personal or community-based negative experience or perception e.g. a previous negative experience within the close community/family with a specific type of provider
    - ii. A lack of belief that mainstream providers cater for "people like me"
    - iii. A lack of knowledge, skills or confidence to access and use mainstream financial services

- iv. A lack of formal documentation and credit history
6. Our experience shows us that the causes and impact of financial exclusion<sup>627</sup> differs for individuals, depending on their:
    - a. Individual personal and family socio-economic circumstances
    - b. Their personal financial capability levels
    - c. Their social capital networks

Our research with low-income residents in Tower Hamlets indicated that, while financial capability can reduce the impact of being financially excluded to a certain extent, no amount of financial capability alone could eliminate the impact of being excluded. For those unable to access essential financial services such as a transactional account, strong social capital was crucial in finding workaround solutions such as directing wages into a friend's bank account or keeping cash savings in the house. But these workarounds also raised the risk of financial abuse and fraud, demonstrating that informal solutions bring additional risk.
  7. Our research shows that specific groups face additional barriers to inclusion:
    - a. Those without a fixed address or without formal identity documents - this can include recent migrants from all socio-economic groups, as well as people experiencing homelessness and fleeing domestic abuse. Our recent research showed young people<sup>628</sup> are particularly at risk due to changes in housing and employment status, as well as welfare reform changes which reroute payments to a single person in a household.
    - b. Those with an adverse credit history, regardless of the cause
    - c. Offenders and ex-offenders, regardless of the nature of the conviction
    - d. Care leavers (due to a lack of documentation)
    - e. Gypsies and Travellers (due to a lack of a fixed address)
    - f. Low income groups, regardless of the cause
  8. Our work with excluded communities has shown us that low-income rural and urban communities face similar barriers to accessing face-to-face financial services, free-to-access ATMs and affordable credit and insurance products. Levels of multiple deprivation are typically a better indicator of exclusion than whether the community is rural or urban<sup>629</sup>.
  9. Financial services providers tend to design for the mainstream. Nonetheless, we have seen interesting developments recently around improved design for individuals with disabilities, such as specially shaped and coloured cards for people with visual impairment and web-based advice using sign language for those with hearing impairments. We encourage and support such human-centred design approaches wherever possible. However there is much still to do to ensure physical and mental health conditions are routinely factored into the design and delivery of financial services and products. For example, we are currently working with Ahead, a charity for people with acquired brain

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<sup>627</sup> The Poverty Premium in Tower Hamlets, 2014,  
[http://www.toynbeehall.org.uk/data/files/Reports/The\\_Poverty\\_Premium\\_Report.pdf](http://www.toynbeehall.org.uk/data/files/Reports/The_Poverty_Premium_Report.pdf)

<sup>628</sup> Lloyds Bank Consumer Digital Index 2016 – Unbanked Research data  
<http://www.lloydsbank.com/banking-with-us/whats-happening/consumer-digital-index.asp>

<sup>629</sup> How far is too far? Is there low Income Consumer Detriment from Gaps in Free-to-use ATM Provision?, 2015, Toynbee Hall, Collaborate Research, Sliced Bread Consulting

injury, exploring how people who have lost their impulse control can be supported to retake control over the finances. We anticipate producing learning which can be applied to other mental health conditions.

### **Financial education and capability**

*Q5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?*

*Q6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime*

10. Financial education and advisory services continue to be piecemeal and insufficient in both quality and quantity. If we wish to achieve a quantum leap in improving the levels of financial capability in the UK, we must move away from funder-led individual projects and programmes to a centrally coordinated national financial literacy programme capable of achieving critical mass. This requires significant investment in equipping schools, colleges, adult learning centres and community hubs with high quality knowledge and skills in financial literacy training. This will only be possible with government leadership, as it will require financial institutions, currently the main funders of financial literacy programmes, to agree to coordinate their resources towards achieving greater impact than they can achieve through individual grant programmes. The Money Advice Service and its successor are best placed to lead such effort, in collaboration with HM Treasury. Financial literacy and capability require foundation knowledge, which is ideally taught before 16, and "top-up", situation-specific knowledge which individuals require at various life stages. A coordinated national financial literacy programme (within the context of an extended and enhanced financial capability strategy) could provide the framework for both strands of knowledge, as well as core resources and support to the relevant sectors to deliver them. For example, firms taking on apprentices, making redundancies or with retiring staff could act as the conduit for relevant financial information. Educational institutions, healthcare providers, housing providers and landlords, and a wide range of support and advice agencies all have perfect access at key moments when financial literacy and capability knowledge is both appropriate and effective. This should be a key delivery theme of the UK's financial capability strategy.

## **Addressing financial exclusion**

*Q7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?*

*Q8. 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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?*

11. Toynbee Hall's approach to tackling exclusion and poverty is based on the principles of empowerment and co-production with our local communities. We work every day with people who are actively trying to improve their and their families' circumstances, but who are poorly served by providers and thus have to work twice as hard to make progress. For example, we see families who will do anything, including going without food and electricity, to avoid debt. We know that better access to income-smoothing products (such as more flexible payments) can help address these poverty traps, and we wish to see such personal responsibility supported and rewarded. We categorically reject the notion that financial exclusion is primarily the result of a lack of personal responsibility; all our experience and evidence shows it is more likely to be the result of chance, inadequate provision and the lack of consumer voice.
12. We encourage government and financial services providers (not just banks) to shift their thinking towards a UK plc business case scenario; we know that exclusion and financial detriment have a negative financial impact on government finances and wider social equality and cohesion. For too long the "excluded" have been thought of as a financial burden mainly for financial services providers, whilst the wider financial and social costs have been overlooked. Within the Payments Strategy Forum process we have heard from a wide range of businesses which keenly feel the financial impact of financial exclusion and ineffective financial services which fail to meet emerging needs. We urge government and the sector to take a leadership role and reframe the UK's financial inclusion debate around achieving greater social equality and economic resilience. The financial services sector has traditionally taken its lead from government on how much it is expected to do; we look to the government to raise its expectations in this area.
13. Gaps remain around:
  - a. Flexible recurring payments for essential bills. The Payments Strategy Forum's Request to Pay proposal can address this, but it needs government support.
  - b. Savings tools – not just savings vehicles – to prompt saving through:
    - i. Identifying ways to get more for less, thus freeing up surplus money which can then be saved
    - ii. Accessible and "non-threatening" savings products for individuals who do not identify with formal financial products (as illustrated by evidence from one of our Money Mentor graduates who asked the

bank for a savings product for her small weekly sum and was offered an ISA.)

- iii. Work-based savings schemes for life events, not just pensions
- c. Affordable and proportionate insurance products to increase financial resilience for low income and/or asset-poor households
- d. Access to transactional accounts for all; this includes those currently on a Post Office Card Account
- e. Access to cash and financial advice in communities of multiple deprivation and without good transport links (rural and urban). We believe the Post Office has a greater role to play here. And we also believe that a “one-stop shop” approach, where multiple banks can provide counter access through a single location (similar to cash withdrawal and deposit facilities for high-street banks at Post Office counters) could help address the challenges caused by bank branch closures.

### **Accessing affordable credit**

*Q9. What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?*

14. We believe that there is insufficient evidence to answer this question at present and we are planning a research project to gather relevant data. Anecdotally we see more families going without essentials, more use of other sources of credit, and greater debt on living costs (such as rent, bills and Council Tax). These lead us to suspect that the demand has been displaced rather than prevented.

### **Government policy and regulation**

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

15. Government policy has fluctuated in its effectiveness. Focussed initiatives, such as the shard banking goal under the Financial Inclusion Taskforce and the recent basic bank account work in 2015, have achieved some significant impact. However credit, insurance, savings and effective rehabilitation through debt advice all remain stubborn problems. The challenge here is that, for the majority, exclusion from financial services coexists along social, economic and educational exclusion. Financial inclusion is without doubt a key plank in any anti-poverty strategy, but in isolation it is a slow impact and stubbornly difficult policy tool, since it can only affect how people maximise value from the money they already have, but does not generate additional income itself. Nonetheless we firmly believe that government can and should prioritise financial inclusion, given its potential impact on the financial health of millions of excluded, struggling and overindebted households. In particular, government needs to equip the regulatory bodies with the appropriate powers to promote financial inclusion.

*Q11. What has been the impact of recent welfare reforms on financial exclusion?*

16. The loss of benefit income to already stretched households has damaged credit ratings for many households, and pushed others into unmanageable debt. Where families have had to relocate, they have lost access to social capital networks, in turn losing informal access to financial services.
17. Although one long-term aim for Universal Credit is to increase financial inclusion, it is too early to see any evidence of this. We have seen one example of a positive impact of welfare reform on financial capability, where a social landlord introduced benefit cuts months ahead of time to give households time to prepare and plan. This behavioural economics approach led to improved engagement from tenants in active decision-making and household financial management through the changes. We are now promoting this approach as good practice across the sector.

*Q12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?*

*Q13. 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? What balance should be struck between regulations and incentives for financial institutions?*

18. We see little evidence of joined-up communication, thinking or policy across government. This serves to reduce the potential impact of already limited resources. We would welcome a cross-government financial inclusion strategy which would allow us to engage funders and practitioners in coordinated and targeted activity. In particular we wish to see a Minister for Financial Health with responsibility across departments to facilitate greater coordination, supported by an expert, independent group to develop effective policy recommendations.
19. Our experience has led us to believe that our profit maximisation model can never lead to full financial inclusion, as there will always be a group of consumers who cost more to include. This dilemma is challenging, but must be resolved if we are to make significant progress. HMT's basic bank account agreement with the banks showed that only sight of a regulator's stick can secure full provision for these most excluded groups. We believe that it is the mark of a civilised and world leading society to want to provide the means for all individuals to improve their livelihoods, support their families and live well. This necessarily include providing access to the full range of financial tools – products, services, education and guidance – to enable people to make their money work well for them, now and in the future.

### **Financial technology (Fintech)**

*Q14. 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?*

**20.** We believe the Government does have a role to play here. FinTech is no more a magic bullet than Credit Unions have been; it is simply the latest wave in innovation which should be embraced, but we must ensure it is also underpinned by human-centred design which addresses real, rather than merely perceived, needs. We hear daily unsubstantiated assumptions such as “everyone has a smartphone now” and “young people are all digitally included”. We must acknowledge and test our assumptions carefully to avoid designing solutions which are unwanted and ineffective. Nonetheless, we firmly believe FinTech can help us solve some financial exclusion challenges, particularly around better use of data, digital ID, responsive design and user empowerment tools. We are trialling some ourselves with our local communities, such as spending trackers and e-learning programmes, and will continue to integrate FinTech into our programmes as appropriate. We welcome Government support for this aspect of the sector, but would ideally like to see FinTech “tasked” to develop solutions to support a cross-government financial inclusion strategy.

*15 September 2016*

Toynbee Hall and Citizens Advice– Oral evidence (QQ 112-121)

## **Toynbee Hall and Citizens Advice– Oral evidence (QQ 112-121)**

[Transcript to be found under Citizens Advice](#)



## University of Bristol, Dr Therese O'Toole & Dr Ekaterina Braginskaia – Written evidence (FEX0066)

Overview of the research underpinning the written evidence

1. This written submission focuses on the responses of faith organisations to financial exclusion. It draws on the findings of the report [Public Faith and Finance: faith responses to the financial crisis](#) (July 2016) by Dr Therese O'Toole and Dr Ekaterina Braginskaia of the University of Bristol.
2. The report examines how faith organisations have been responding to the impact of the financial crisis and austerity through: 1) assisting those experiencing financial exclusion; 2) campaigning to improve the accessibility, affordability and sustainability of financial services; and 3) advocating or providing alternatives to market-based financial services.
3. The report is based on a scoping survey of the work of 90 faith organisations and 13 case studies of faith-based initiatives. The research for the report was funded by the [Barrow Cadbury Trust](#). A copy of the full report and a summary are available at: <http://www.publicspirit.org.uk/new-report-on-public-faith-and-finance/>

Financial education and capability (Questions 5 & 6)

- 4. Faith organisations can play a key part in the development of financial literacy and education programmes over the course of a person's life, and in ways that emphasise the promotion of just and sustainable finance.**
5. Our research found that faith values are important in motivating faith organisations' engagement with ethical and sustainable approaches to lending, borrowing, saving, investments and financial literacy, since for many faith groups, there are particular theologically-based concerns in relation to matters of debt, finance and investment. For example, debt forgiveness and liberation from debt are key to various forms of Christian social action (the Jubilee Campaign invokes a Christian notion of debt liberation) and as one respondent from the Church Credit Champions Network framed it, 'the idea of liberation from debt, the freedom that comes from having that burden of debt lifted, is a sign of salvation'. The prohibition on interest or usury is key to the pursuit of alternative forms of borrowing, and charitable action to relieve the debt burden of those in need, among Muslims and Jews. Similarly, City Sikhs' report, *Ethical Finance: A Sikh Perspective*, highlights the role of Sikh values in promoting just forms of lending and investment.<sup>630</sup> Thus, a fairly high proportion – 60% – of our survey respondents said their perspectives on debt and credit are informed by religious values.

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<sup>630</sup> City Sikhs (2013) *Ethical Finance: A Sikh Perspective*: <http://www.faithsforum4london.org/wp-content/uploads/2013/01/Ethical-Finance-A-Sikh-Perspective-City-Sikhs-Network.pdf>

6. Consequently, many faith organisations are engaged in developing ethical finance education initiatives aimed at promoting financial literacy and awareness of just and sustainable approaches to debt, savings and loans.
7. For example, Archbishop Justin Welby's call for the Church of England to support the promotion of credit unions to tackle financial exclusion was followed by the **To Your Credit** initiative aimed at providing information resources for individuals and churches to promote understanding of credit unions and develop financial skills.<sup>631</sup> The Church Urban Fund's **LifeSavers** programme runs primary school-based ethical financial education programmes that focus on the importance of giving, the implications of spending and consumption, the significance of indebtedness and how ethical approaches to money enable people to practice citizenship.<sup>632</sup> Similarly, **1st Ethical**, a Muslim educational charity, has developed a financial education curriculum which focuses on financial literacy from an Islamic perspective for delivery from pre-school level through to 18, aimed at schools, evening and Sunday schools and mosques. It has also established a panel of Islamic scholars to provide advice on money matters from a scriptural perspective, and created a **Halal Money service**, which provides an online consultancy tool for those seeking theological advice on money matters, including in relation to student loans, zakat and wills.<sup>633</sup> The importance of its educational initiatives, our interviewee suggested, was to 'equip [people] with the skills to navigate modernity or being a citizen in today's communities in a way that enriches communities and is faithful to their scriptures.'
8. There are also faith-based alliances to establish ethical or faith-based money advice initiatives. For example, between 2009 and 2012, London Citizens ran a peer-to-peer financial literacy project called '**Money Mentors**', which involved training over 4,000 volunteers from the member organisations of London Citizens in key skills relating to credit, debt, budgeting and university finance. Money Mentors received an ASDAN qualification and engaged in dissemination and training via peer-to-peer teaching and networks within their communities.

addressing financial exclusion (Question 8)

**9. Faith organisations have a key role to play in developing appropriate, contextually sensitive, ethical and sustainable financial services and products to address financial exclusion.**

10. Faith organisations in our study draw on close links to communities on the ground and faith-based practices and values to campaign for reform of financial services or to promote contextually or religiously sensitive, ethical financial services and products.

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<sup>631</sup> Church of England, To Your Credit: <https://www.churchofengland.org/our-views/home-and-community-affairs/home-affairs-policy/work-and-the-economy/creditunions.aspx>

<sup>632</sup> Church of England, LifeSavers programme: <http://justfinancefoundation.org.uk/act/lifesavers>

<sup>633</sup> 1<sup>st</sup> Ethical halal money guide: <http://www.1stethical.com/halal-money>

11. For example, The Centre for Theology and Community (CTC) launched the **Just Money** campaign<sup>634</sup> in partnership with Citizens UK in response to the financial crisis of 2008 and the lack of regulation of payday lenders. Mobilising as a coalitional and multi-faith movement, they collected stories on the impact of lending through a series of money talks which 'confirmed the extent to which people felt [they were] being exploited by the system.' The campaign focused on lobbying for a cap on the cost of credit (introduced by the FCA in January 2015<sup>635</sup>), promoting financial literacy through the 'money mentors' programme and promoting and supporting 'more ethical and local forms of finance', such as credit unions.
12. The campaign to introduce halal student loans in the UK was driven by concerns that Muslim students are excluded from the education system because of the interest-based loans system. A successful campaign to provide **halal student loans** was launched by 1<sup>st</sup>Ethical and supported by FOSIS, Al Qalam and the UK Islamic Finance Council (UKIFC) to enable Muslim students' access to religiously appropriate forms of finance.
13. **Credit unions** occupy a particular role for many Christian groups because of their emphasis on trust, mutuality and fairness to provide manageable and accessible forms of finance to low-income families and communities, and the Church of England, and other Christian denominations, have long been involved in supporting, participating in or running credit unions in order to bring 'unbanked and under-banked people into financial services.'<sup>636</sup>The **Church Credit Champions Network** emerged to address a need to direct and coordinate the energy of churches and their congregations into promoting credit unions, to create, as one interviewee put it, to create an 'infrastructure, a bridge between the resources of local churches and the needs of community finance providers like credit unions in a way that was true to the theology and the issues the churches were seeing [and to] help the community finance sector strategically'.
14. Whilst positive about the service that credit unions provide for communities, some respondents highlight the need for other models that meet the needs of those with poor credit and in need of emergency lending, and 'good small businesses' that need finance but lack the security to borrow from mainstream lenders. Thus, there is a need for forms of finance that address the need for short-term

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<sup>634</sup> See Citizens UK: [http://www.citizensuk.org/just\\_money](http://www.citizensuk.org/just_money)

<sup>635</sup> FCA (2015) 'PS14/16: Detailed rules for the price cap on high-cost short-term credit – including feedback on CP14/10 and final rules'. <http://www.fca.org.uk/news/ps14-16-detailed-rules-on-the-price-cap-on-high-cost-short-term-credit>

<sup>636</sup> Bishop of Durham (2016) *Banks: Unbanked and Underbanked*: <https://hansard.parliament.uk/Lords/2016-04/11/debates/1604115001378/BanksUnbankedAndUnderbanked>

responsive lending, and on a scale that addresses the needs of small or micro businesses for accessible and affordable finance.

15. One response to this is a collaboration between St Martin's Affordable Finance, a faith-based charity, and Street UK, a non-faith-based social enterprise based in the West Midlands, to create **Street Online** – an ethical affordable and sustainable alternative to payday lending. Street Online was launched in April 2016 by Street UK in collaboration with St Martin's, with support from three social investors, the Esmee Fairbairn Foundation, Barrow Cadbury Trust, and the Big Issue.<sup>637</sup> It is distinctive in providing an online ethical lending service to individuals requiring short to medium term loans, and as one respondent explained, whereas credit unions charge very low interest rates, 'we're going to lend at a bigger price but we're going to do more and we're going to reach a lot of people that will never go anywhere near a credit union and a lot of credit unions wouldn't want them to be near them'. The ambition for Street Online is that it will provide a model of finance that can achieve the scale and reach to act as a real alternative to payday lenders, where success will enable the future lowering of interest rates charged to clients and lowering of the credit scores needed to access their loans.

16. The creation of faith-based financial services and alternatives to payday lenders or high street banks faces design, logistical, financial and regulatory challenges, however. Thus, faith organisations often struggle to directly provide alternative credit, lending or finance schemes themselves.

#### Government policy and regulation (Question 10)

17. In relation to the logistical, financial and regulatory barriers to establishing faith-based or ethical forms of finance, organisations report a need for more help to navigate the regulatory and logistical challenges of developing alternatives to high street banking, and for the introduction of incentives to encourage asset-rich institutions to partner with ethical or faith organisations to develop alternative financial products.

18. Supporters of credit unions suggest that there is a need to overcome the perception that credit unions exist solely for the unbanked: and that government can play a role in communicating the role of credit unions for everyone in order to increase the asset base and reach of credit unions: although this requires an approach that recognises that the same ethical message will not appeal to all. Advocates also

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<sup>637</sup> See <http://www.barrowcadbury.org.uk/street-uk-launches-online-lending-platform-as-an-ethical-alternative-to-high-cost-pay-day-lenders/>

acknowledge that the credit union sector is not the solution to all problems of financial exclusion.

19. Many felt there was more scope for partnerships between faith organisations and secular ethical/finance organisations. Indeed, some of the most innovative and far-reaching work identified by our research involve efforts to create larger networks between faith organisations with other ethically-conscious investment companies or organisations to build on shared values and principles to improve people's access to affordable and ethical forms of finance. The UK Islamic Finance Council, for example, has played a leading role in the establishment of the **Ethical Hub** in Scotland, with support from the Scottish Executive, which provides a networked, collaborative approach to incubating ethical businesses, drawing on ethical and Islamic finance principles.

20. Faith organisations are involved in developing and innovative approaches to financial education that focus on the ethical implications of spending, saving, investing and consumption and the implications of indebtedness. Government can engage with faith organisations to develop models of, and capacity for delivering, ethical financial education programmes from primary through to secondary, further, higher and adult education.

*14 September 2016*

## **Unlock - for people with convictions – Written evidence (FEX0012)**

### About Unlock

1. Unlock is an independent, award-winning charity for people with convictions, which exists for two simple reasons. Firstly, we assist people to move on positively with their lives by empowering them with information, advice and support to overcome the stigma of their previous convictions. Secondly, we seek to promote a fairer and more inclusive society by challenging discriminatory practices and promoting socially just alternatives.
2. We welcome the House of Lords Select Committee on Financial Exclusion and its call for evidence. Our submission focuses on financial exclusion issues where a criminal record *per se* causes a problem.

### We help

- We support people with convictions by providing information, advice and support through our websites and helpline
- We help practitioners who support people with convictions by providing criminal record disclosure training and useful resources
- We recruit and train people with convictions as volunteers to help support the information and advice we provide
- We support employers in the fair treatment of people with criminal records

### We listen and learn

- Our helpline and forum provide an ear to ground on the problems that people face as a result of their criminal record
- We collect evidence and undertake research into the barriers caused by criminal convictions

### We take action

- We challenge bad practice by employers and push for improvements to the way that criminal record checks operate
- We advocate for a fairer and more inclusive society by working at a policy level with Government, employers and others

## Executive summary

In this evidence we make a number of recommendations. These include:

1. The government should sufficiently resource oversight of the national bank account programme to ensure that CRCs and other providers in prisons where appropriate are providing the appropriate support to people in opening a bank account before release.
2. The banking industry should continue to work as a collective with prisons to ensure that the national bank account programme continues to develop in response to changing banking products and changing profile of prisons and those near to release.
3. Banks should be clear about their policies and practices towards people with convictions. Banks should not take action against a customer unless there is clear evidence of financial fraud which poses a live risk to the bank.
4. There should be a regulator-led investigation into the data used to risk-price customers with unspent convictions, with a view to the FCA regarding this as a 'market failure' and raise 'access and competition' issues due to a failure in proper risk-pricing.
5. There should be a change in approach which ensures that insurers make their decisions based on clear risk-pricing criteria, which would ensure that people with convictions are treated fairly.
6. Recommendation: Insurers should replace their discriminatory blanket ban with a data-driven risk pricing model. Anecdotal evidence suggests that people with convictions are no higher risk than average customers.
7. Recommendation: Insurance companies that exclude people with convictions should make this clear to customers and create links with specialist providers to ensure that customers with convictions are treated fairly.
8. Recommendation: People in prison, on probation, and on conviction at a court, should be provided with information on the importance of insurance, the impact of a criminal conviction, and where they can go to secure insurance with a conviction.
9. Recommendation: Insurance companies (and comparison websites) should ensure that all customers are aware of, and clear about, what is meant by an 'unspent' conviction when applying for insurance, including those of anyone in the household (for home insurance) and anyone on the policy for motor insurance, and make clear whether disclosure is required at application, mid-contract or renewal

10. Recommendation: Insurers should make it clear that applicants only need to disclose unspent convictions.
11. Recommendation: The regulator and the ICO should work together to take active steps to ensure that insurance companies do not rely on spent convictions as part of their work.

#### Questions set by the committee

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?
3. We would argue that financial exclusion is not quite the inverse of financial inclusion. For example, people in prison are financially excluded. Many people with convictions in the community are financially excluded. However, 'access' to a bank account or an insurance product does not make you 'financially included'. For example, managing to find *some kind* of insurance for your house through a specialist insurer of ex-offenders might mean you are no longer 'financially excluded', but the result is usually a policy with a non-standard insurer at a much higher price than the mainstream market. We would suggest that means that person is not yet 'financially included'.
2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways?
4. There are over 10.5 million people with a criminal record in England & Wales. Before March 2014, approximately 2.5 million people had an unspent conviction. Since changes in the law that came into force on the 10<sup>th</sup> March, this was reduced to approximately 750,000 people.<sup>638</sup> Research we published in 2010, in partnership with the Prison Reform Trust, established a strong link between the criminal justice system and financial exclusion. We found that the criminal justice system both causes and exacerbates financial exclusion.<sup>639</sup>

#### **Financial exclusion prior to contact with the criminal justice system**

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<sup>638</sup> This is a conservative estimate that is unlikely to fully account for the number of people with unspent motoring convictions/endorsements. There were over 447,000 convicted of motoring offences in 2012.

<sup>639</sup> Unlock/PRT (2010) *Time is Money*, Online: <http://www.unlock.org.uk/projects/past-projects/time-is-money/>



5. In our research, we highlighted how *"a substantial proportion of people sent to prison were already experiencing extreme and persistent financial exclusion."* We surveyed 144 people in prison (interviewing 44 of them). 24 former prisoners and 29 families of people with convictions. We found that:
- 30% of people in prison did not have a bank account and of these, 31% said they had never had one. 85% of people interviewed in prison who did not have a bank account said they had tried to get one without success.
  - More than half of people in prison said that they had been rejected for a bank loan and 8% said they had tried to borrow from a loan shark (a rate over 10 times higher than the average UK household)
  - Two thirds of the families in debt said their debts had increased since the imprisonment of their relative.

### **The criminal justice system exacerbating financial exclusion**

6. In our research, we highlighted that *"when someone is convicted of a crime, the impact on their finances can be extreme. The loss of liberty is the most severe form of punishment in the UK but with it come many unintended financial consequences. The criminal justice system can increase financial exclusion, and reduce personal responsibility, creating problems with housing, insurance, employment and family relations, and thus contributing to a greater risk of reoffending."* For example, more than four in five former prisoners surveyed said their conviction made it harder to get insurance and four-fifths said that when they did get insurance, they were charged more.
7. In 2013, just over a quarter (27%) of people had a job on release from prison, indicating that for many people leaving prison, accessing benefits provides essential financial support.<sup>640</sup> We have comprehensive information on our website about the benefits people leaving prison are entitled to, which we would refer the committee to.<sup>641</sup>
8. In research that we published in 2010, we highlighted problems with benefits and the 'finance gap' on release from prison. This included significant delays before receiving first payment of benefits, claims being delayed because of no fixed address or other unstable living arrangements, and problems caused by not closing down a claim on entry to prison which resulted in

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<sup>640</sup> Table 8, Ministry of Justice (2015) National Offender Management Service annual report 2014/15: Management Information Addendum, London: Ministry of Justice

<sup>641</sup> Unlock (2016) Benefits, Online:

<http://hub.unlock.org.uk/knowledgebase/benefits/#Discharge%20grants>

investigations and new claims being suspended. We would draw the committee's attention to the findings of this research and our recommendations.<sup>642</sup>

- **Recommendation: We reiterate recommendations we made in our 2010 research, *Time is Money*, in relation to benefits, including:**
    - 1. People in prison should have access to independent quality-assured benefits advice from the point of arrival.**
    - 2. Benefits should be available from the day of release. The application process should be completed prior to discharge.**
    - 3. Until benefits are made available on release, the discharge grant should be increased to the level of the current Jobseeker's Allowance.**
    - 4. Prisons should alert local authorities to people in need of support well before the anticipated release date to ensure that the mandated duties to vulnerable people are met.**
    - 5. Prisons must ensure that all people receive the money that is held in their private cash (prison) account on release.**
9. Although there have been some improvements to the situation that led to the recommendations above, it is our understanding that many of the problems remain. For example, in theory people are now able to prepare claims up to 5 weeks in advance of release, yet it is our understanding that there remains an issue with delays in people receiving their first payment of Jobseeker's Allowance (JSA) given that often they cannot formally make the claim until they are released; for example, if they do not have a confirmed release date. These delays can often extend to many weeks. The system of prompt payment on release also relies on the person in prison being aware of the importance of starting the claim well in advance of release and the ability to access the Jobcentre Plus Employment and Benefits Adviser before release. It is unclear what proportion of people are unable to do this, and this may be an area the committee wishes to secure further evidence on from the DWP, because where this engagement does not occur, individuals may have to wait several weeks. For many people leaving prison, particularly those serving shorter sentences, there is no support and they are left to arrange this themselves on release.

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<sup>642</sup> Unlock/PRT (2010) *Time is Money*, Online: <http://www.unlock.org.uk/projects/past-projects/time-is-money/>, from page 49 onwards

- **Recommendation: All people leaving prison should be able to prepare a claim for JSA or ESA before release so that payments are available to them promptly on release.**

5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?

7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?

10. Access to a bank account is an important factor in accessing benefits. We have undertaken significant work in this area by establishing schemes that enable people in prison to apply to open a basic bank account before they are released. This was part of a project that Unlock ran until 2014, when we reached the stage of having linked every prison that released directly into the community with a bank. During the course of the 9-year project Unlock helped to set up 74 prison/banking programmes, and by the end of the project 114 prisons had links with a high-street bank, the 'big 5' current account providers (Barclays, Halifax (part of Lloyds Banking Group), HSBC, Santander and RBS) were all actively involved (as well as a significant contribution from Co-operative), and by the end of 2013 all prisons that wanted and needed a basic bank account opening programme had one. We produced a report at the end of the project with a number of recommendations.<sup>643</sup> Unfortunately, as a result of the changes to the delivery of services and support in prisons, we have been made aware of a number of prisons that are struggling once again in this area. This seems to have come as a result of a significant amount of change within the prison estate and once well-embedded arrangements have not been properly taken up, especially by CRC providers.

- **Recommendation: The government should sufficiently resource oversight of the national bank account programme to ensure that CRCs and other providers in prisons where appropriate are providing the appropriate support to people in opening a bank account before release.**
- **Recommendation: The banking industry should continue to work as a collective with prisons to ensure that the national bank account**

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<sup>643</sup> Available at <http://www.unlock.org.uk/projects/past-projects/unlocking-banking/>

**programme continues to develop in response to changing banking products and changing profile of prisons and those near to release.**

11. There is anecdotal evidence to suggest that some banks are using media reports of convictions (particularly of a sexual nature) to withdraw banking services from individuals. It is unclear to what extent this is taking place, and there is a lack of transparency or acknowledgement amongst banking institutions as to their policies in this regard.

- **Recommendation: Banks should be clear about their policies and practices towards people with convictions. Banks should not take action against a customer unless there is clear evidence of financial fraud which poses a live risk to the bank.**

12. People leaving prison are often eligible for a discharge grant, which currently stands at £46. The discharge grant remains at a very low level and has not been increased for many years. Discharge grants and travel money on their own will not support somebody until their first benefit payment comes through. Since the dismantling of the social fund, local authorities have their own welfare assistance schemes, although our experience from calls to our helpline is that awareness of these schemes is low. They are intended for individuals in crisis and they can sometimes cover rent in advance. However, many of these require local connections to the area, thereby excluding many people who have been homeless before prison or are released from prison in areas away from their home. In practice, the majority of people leaving prison receive a discharge grant which has to tide them over until their first benefit payment. They rarely access local assistance schemes and so are left to fend for themselves, relying on the goodwill of friends, family and charities.

- **Recommendation: An assessment into the availability of financial support through local authority welfare assistance schemes should be undertaken.**

8. Are appropriate financial services and products available for those who are experiencing financial exclusion? What might be done to address any deficit?

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

13. We will address these questions with a particular focus on insurance. Through our helpline, we deal directly with approximately 500-600 people a year who contact us with enquiries relating to obtaining insurance. Over a million people a year use our online information site, with the sections on insurance being in the top 5 visited areas of the site.
14. Although people with convictions are (in most cases) able to secure some form of motor or household insurance, this often comes at a significant additional cost, and not with the mainstream market. Such a blanket experience amongst a significant number of people does not seem to suggest that the market is functioning appropriately or competitively. Additional costs as a result of an unspent conviction are likely to make an otherwise attractive product unaffordable and thereby unattractive. Focusing on genuine risk-pricing in relation to unspent convictions would ensure that people with convictions are treated fairly, regardless of their income. That would enable attractive products for people on low incomes to be accessible to all in that category, including those with unspent convictions.

### **Summary of situation / Progress to date**

15. There are over 10.5 million people with a criminal record. However, less than 1% of these people are in prison. Only a handful of those in prison will never return to the community. Under the Rehabilitation of Offenders Act (1974) all people convicted of an offence must serve a 'rehabilitation period' which starts from the point of conviction. During this period, convictions are 'unspent' and individuals must disclose them to relevant parties such as employers and insurers when asked. After these periods, individuals are not required to disclose the conviction except in specific circumstances such as working with vulnerable people. The periods are many times longer than the actual sentence given to the individual, and in some cases can last for the rest of their life.
16. Most insurers consider convictions relevant and so ask about them at application stage. The majority of insurers will refuse or cancel any cover for people with convictions or a policyholder living in the same home, without any consideration of the specific facts of the case. Many people with convictions are not aware of the requirement to disclose unspent convictions due to a lack of advice from criminal justice agencies on the ROA and from

the insurance industry when taking out policies. This often leads individuals to believe they are covered, when in fact their policies are not valid. The serious economic and emotional consequences for the individual and their families are obvious. Mortgages require buildings insurance. Many jobs are dependent on the individual being insured to drive. Self-employment opportunities and small businesses need various insurances in order to trade.

17. Since supporting the establishment of the first specialist broker dealing with these clients, Unlock has developed links with 20-30 brokers. The charity refers its clients to these brokers, in order that they can benefit from a competitive quote. In 2011, and again in 2014, we worked with the Association of British Insurers to produce guidance for insurers. Unlock formed part of a group of consumer organisations to push Government to change the archaic laws on voluntary disclosure, which resulted in the Consumer Insurance (Disclosure and Representations) Act 2012 coming into force in April 2013. However, access to the mainstream market remains elusive for most people with unspent convictions.

### **Problem - Failure by mainstream insurers to properly risk price**

18. Insurers use unspent convictions as a proxy for risk. 86% of former prisoners report their conviction making it harder to get insurance. There is no mainstream household insurer that considers on the open market people with unspent criminal convictions. There is, in effect, a blanket ban. The reasons for this are not clear – in part, this is down to the perception (and it is, in Unlock's view, a perception) that this group is 'more risky'. Other reasons may include a general unwillingness to engage in this type of business, and the perceived complexity of considering the risks associated with each individual case. There appears to be a 'herd' mentality, where all mainstream insurers have taken the decision to stay away from this particular group.
19. The data that is apparently relied on, which is claimed to show that people with unspent convictions are 'riskier' customers, is not available. There is a lack of trust in the insurance industry's position of pricing fairly when there is a lack of transparency, and this lack of data makes it difficult to challenge the current status quo. Through 'off the record' conversations with specialist brokers that cover people with unspent convictions, it appears that, contrary to popular belief, people with unspent convictions who disclose their

convictions to a specialist insurer are much 'better' customers in terms of their loss ratio.

20. Some people with convictions remain 'uninsurable'. Employers struggle to get commercial cover for employees/volunteers. We have seen an increasing problem amongst employers that are willing to give people with convictions a job (or voluntary opportunity) who are struggling to find appropriate commercial insurance (e.g. employees liability). The result is that they end up being unable to follow through their offer of a job, or having to terminate the role at a later stage.

- **Recommendation: There should be a regulator-led investigation into the data used to risk-price customers with unspent convictions, with a view to the FCA regarding this as a 'market failure' and raise 'access and competition' issues due to a failure in proper risk-pricing.**
- **Recommendation: There should be a change in approach which ensures that insurers make their decisions based on clear risk-pricing criteria, which would ensure that people with convictions are treated fairly.**
- **Recommendation: Insurers should replace their discriminatory blanket ban with a data-driven risk pricing model. Anecdotal evidence suggests that people with convictions are no higher risk than average customers.**
- **Recommendation: Insurance companies that exclude people with convictions should make this clear to customers and create links with specialist providers to ensure that customers with convictions are treated fairly.**

### **Problem - Lack of choice and competition = higher prices**

21. In a relatively exclusive market, premiums are often higher with specialist brokers. Four fifths of people with convictions report paying more for their insurance, suffering financial detriment or a lack of cover as a result.

- **Recommendation: The regulator should regard this as a 'market failure' and raise 'access and competition' issues due to a failure in proper risk-pricing.**

## **Problem - When motoring convictions become 'spent'**

22. When reforms to the Rehabilitation of Offenders Act 1974 came into force in March 2014, a last-minute savings provision was made to retain the status quo in relation to motoring endorsements. This means that a minor fine for speeding takes 5 years to become 'spent', although a prison sentence of 8 months given to a different person at the same time becomes spent 2 months earlier. Given that there are over 440,000 motoring convictions each year<sup>644</sup>, this leaves people with motoring convictions at a significant disadvantage. This was the direct result of lobbying by the insurance industry, with a particular concern on motor insurance, but the result has been that individuals with motoring offences are significantly penalised in relation to household insurance as well as when seeking employment.

- **Recommendation: The Ministry of Justice and the Department for Transport need to develop a specific solution to disclosure rules to ensure that recent motoring offences are disclosed to motor insurers, but that they don't need to be disclosed to other types of insurers and/or employers beyond a period equivalent to a similar sentence for a non-motoring offence.**

## **Problem - Awareness of the issue amongst individuals**

23. People don't realise the need to inform insurers when they are convicted or when they have an unspent conviction. In our research, only one of the 47 people interviewed in prison could demonstrate an accurate understanding of the Rehabilitation of Offenders Act 1974, and 60% of those surveyed stated they did not understand the Act. In the community, 59% stated that they did not know what the Act meant for them.

- **Recommendation: People in prison, on probation, and on conviction at a court, should be provided with information on the importance of insurance, the impact of a criminal conviction, and where they can go to secure insurance with a conviction.**

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<sup>644</sup> This is a conservative estimate that is unlikely to fully account for the number of people with unspent motoring convictions/endorsements. There were over 447,000 convicted of motoring offences in 2012.



- **Recommendation: Insurance companies (and comparison websites) should ensure that all customers are aware of, and clear about, what is meant by an 'unspent' conviction when applying for insurance, including those of anyone in the household (for home insurance) and anyone on the policy for motor insurance, and make clear whether disclosure is required at application, mid-contract or renewal**

### **Problem - Questions about convictions by insurers**

24. We are currently undertaking some research into this issue, and we should have preliminary findings to share with the Committee should we be asked to present oral evidence.

25. We know that insurers regularly ask about 'any convictions'. Insurers use 'spent' driving offences (as they can stay on licences for up to 11 years). People are punished for being honest (as insurers normally only check at claim) which potentially encourages dishonesty. People don't trust insurers with the information, so often don't disclose. Insurance professionals don't understand the law. Unlock is regularly contacted by insurance practitioners seeking advice,

- **Recommendation: Insurers should make it clear that applicants only need to disclose unspent convictions.**
- **Recommendation: Good practice guidance on motoring offences and 'disclosure' should be developed.**
- **Recommendation: ABI good practice needs to be enforced.**
- **Recommendation: The FCA should investigate the compliance of insurance companies in treating customers fairly with the questions.**
- **Recommendation: Insurers should ensure that their staff are trained in criminal record disclosure laws.**

### **Problem – The way insurers deal with claims**

26. Claims handlers at insurance companies require claimants to provide copies of their police records. We have seen many examples where insurers require people to apply for a 'subject access request' to provide proof of their convictions, and this includes details of spent convictions which insurers have no right to be provided with. Although in most cases the insurer ultimately

proceeds with the claim, this process often results in people backing out of the claim through fear of how the insurer will react.

- **Recommendation: Insurers should only require individuals to undertake 'basic' disclosures, which provide evidence of any unspent convictions.**
- **Recommendation: The Information Commissioners Office should take action against insurers that require individuals to provide an 'enforced subject access request'.**

12. How effectively are policies on financial exclusion coordinated across central Government?

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?

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?

27. As demonstrated above, insurance companies are not treating people with convictions fairly. They are not asking clear questions and they are not properly judging their situations based on transparent risk-pricing criteria.

28. There remains no mainstream household insurer that considers on the open market people with unspent criminal convictions. There is, in effect, a blanket ban. The reasons for this are not clear – in part, this is down to the perception (and it is, in Unlock's view, a perception) that this group is 'more risky'. Other reasons may include a general unwillingness to engage in this type of business, and the perceived complexity of considering the risks associated with each individual case. A change in approach which ensured that insurers make their decisions based on clear risk-pricing criteria would ensure that people with convictions are treated fairly.

- **Recommendation: The regulator should investigate whether the market is failing in this regard.**
- **Recommendation: The regulator and the ICO should work together to take active steps to ensure that insurance companies do not rely on spent convictions as part of their work.**

Unlock - for people with convictions – Written evidence (FEX0012)

*9 September 2016*

## **Unum - Written evidence (FEX0028)**

### **Summary**

- 1 Falling out of work for health reasons greatly increases the risk of financial exclusion as households can become more vulnerable and more likely to fall in to debt or deprivation. The risks are even greater where one wage earner in the household falls out of work and another becomes their carer.
- 2 Increasing access to group protection insurance products can mitigate these risks in several ways. Group Critical Illness cover provides a lump sum to protect households from financial shocks. Group Income Protection (GIP) also protects people financially by paying a high percentage of their salary while they are too ill to work. It also provides support to return to work when people are ready, dramatically reducing the number of people who fall out of work.
- 3 GIP is bought by employers who provide it to their staff as a free benefit. Nobody is excluded from GIP on health grounds and, except for the very highest earners, medical history is not used in pricing.
- 4 Currently, only about one in ten employees have GIP. Increasing coverage of GIP would help prevent financial exclusion by reducing the number of people who fall out of work and protecting the finances of those who do.
- 5 We recommend the government take three steps to prevent financial exclusion as a result of ill health:
  - Use government communication channels to raise employers' and employees' awareness of how GIP builds financial resilience, reduces long term sickness absence and prevents people falling out of work.
  - Introduce a temporary tax incentive for employers, primarily SMEs, to provide Group Income Protection for more of their staff.
  - Look again at how to improve sickness certification so more people with health problems are able to access appropriate support to stay in work.
- 6 Unum also calls for clearer accountability and responsibility for building financial capability in the UK with a strong focus on helping working age people to prepare for life events that can lead to financial difficulty. This could include introducing a safety net statement that would explain the risk of becoming too ill to work and what their income would be if it happened.

## **Definitions and causes of financial exclusion**

*2. Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?*

- 7 As the largest provider of GIP in the UK, we are able to provide data on who is and who is not currently accessing this product. We also publish data to whom we pay a financial benefit to each year because they become too unwell to work.
- 8 Despite some misconceptions that it is only accessed by highly paid employees, more half the people who have GIP with Unum earn less than £40,000 and a quarter earn less than £25,000.
- 9 Except for those on the highest incomes, we do not ask people about their medical history or lifestyle. So we do not exclude people from GIP because of any prior or existing health conditions and nor do we charge them more.
- 10 Although the majority of people with GIP work for larger employers, we do cover many people working for firms with 249 or fewer employees and we expect to cover more in the coming years. We also cover people across all sectors, including retail, hospitality, manufacturing and financial services.
- 11 Around half of the people we cover with GIP are under 40 years old and about 65 per cent are male. We do not yet have a good understanding of why employers are more likely to cover men than women, particularly as women are more likely to experience a long term sickness absence, to become disabled and to make a claim.
- 12 On 5 September 2016, we published an annual claims statement covering all the new GIP claims we paid between 1 August 2015 and 31 July 2016<sup>645</sup>. It highlighted how women are under-protected; an issue first highlighted in last year's statement<sup>646</sup>. Despite only 35 per cent of those we cover being female, half of cancer claims (51 per cent) and 44 per cent of all claims are made by women.
- 13 Older workers are also more likely to make a GIP claim. Less than a quarter of all workers protected by Unum are aged fifty and over but they make 50 per cent of all claims and 57 per cent of cancer claims.
- 14 The data on women and older workers demonstrates how employers need to respond to the needs of their changing workforce. However, 22 per cent of people claiming are under 40, showing the importance of protecting all employees.

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<sup>645</sup> Unum (2016) *A third of all long-term absences caused by cancer*. Accessed via <http://www.unum.co.uk/media/third-long-term-absences-caused-by-cancer>

<sup>646</sup> Unum (2015) *First annual claims statement*. Accessed via <http://www.unum.co.uk/media/third-of-long-term-absences-caused-by-cancer>

- 15 We also found that cancer now accounts for almost a third (31 per cent) of all new claims paid, with breast and gastrointestinal cancers accounting for almost half of those claims. After cancer, the most common conditions claimed for are mental health (19 per cent), musculoskeletal (9 per cent) and cardiovascular problems (8 per cent).
- 16 We are not aware of any evidence showing workers in more remote communities find it harder to access our products.  
*3. What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?*
- 17 We strongly believe that greater coverage of GIP and Critical Illness protection would significantly prevent financial exclusion that results from mental and physical health problems, and the vulnerability, deprivation and debt they can bring.
- 18 Two thirds of people who fall into serious debt problems do so because of some form of income shock, such as becoming too ill to work<sup>647</sup>. The FCA is right to emphasise that acquiring a health problem can lead to serious income shocks and greatly increase vulnerability and financial exclusion<sup>648</sup>. It is also right to point out that such misfortune is not uncommon.
- 19 The number of people at risk is high and rising. 17.5 per cent of working age people in the UK are disabled or have a health condition and 83 per cent of disabled people acquire their disability during their working life<sup>649</sup>. The number of working age people in the UK with cancer is set to increase from the current figure of 750,000 to an estimated 1.7 million by 2030<sup>650</sup>. Mental illness is the leading cause of sickness absence in the UK – it accounted for 70 million sick days in 2007 - and in 2013, some 40.9 per cent of Employment and Support Allowance recipients had a 'mental or behavioural disorder' as their primary condition<sup>651</sup>.
- 20 27 million working age people do not have enough savings to allow them to cope with a significant income shock<sup>652</sup> and 60-70 per cent of households with an annual income of £35,000 or less do not even have a month's income in savings<sup>653</sup>. Work by CESI found 10.8m households, more than 60 per cent of working families, would see their income fall by more than one third if the main earner had to stop work due to ill health<sup>654</sup>.

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<sup>647</sup> FCA (2015) *Occasional paper no.8: consumer vulnerability*.

<sup>648</sup> FCA (2016) *Occasional paper no 17: access to Financial Services in the UK*

<sup>649</sup> Department for Work and Pensions (2016). *Disability Confident employer scheme and guidance*, accessed via <https://www.gov.uk/government/collections/disability-confident-campaign>

<sup>650</sup> Independent Cancer Taskforce (2015) *Achieving world-class cancer outcomes: a strategy for England 2015-2020*. Access via <http://www.cancerresearchuk.org/about-us/cancer-strategy-in-england>

<sup>651</sup> Department of Health (2014) *Annual report of the Chief Medical Officer 2013*.

<sup>652</sup> Money Advice Service (2015) *Financial Capability Strategy for the UK*

<sup>653</sup> Money Advice Service (2015) *Financial Capability UK Survey*

<sup>654</sup> CESI (2014) *Welfare Reform for the 21st Century*. Available from <http://tinyurl.com/abicesi>

- 21 It is no surprise that those forced to leaving work for health reasons are far more likely to fall in to poverty. Unum commissioned the Institute for Social and Economic Research (ISER) at the University of Essex to look why people left the labour market and the financial impact of doing so. Using British Household Panel Survey data, the report found<sup>655</sup>:
- About 1 per cent of the working population left work for health-related reasons each year. This was smaller than the proportion leaving to unemployment, but still represented almost one in four of all labour market exits.
  - More than one half of those who left work for health-related reasons were aged 45 or above, 60 per cent were the main earner in the household, and two-thirds were in full-time employment.
  - Withdrawal from work for health reasons doubled both the probability of having housing payment problems and of entering housing payment problems relative to remaining in work.
  - Withdrawal from work for health reasons was associated with a 32 per cent probability of being in poverty, and a 28 per cent probability of entering poverty. These probabilities were three times and four times larger, respectively, than those associated with remaining in a job, and were smaller than those associated with becoming unemployed.
- 22 The people caring for those with health problems are also at risk of leaving work, falling in to debt and financial exclusion. In a household where one earner stops working and another earner becomes their carer then the impact is twofold.
- 23 ISER found that when someone left the labour force because of ill health, their spouse often stopped working at the same time, probably because of caring responsibilities. Spouses who did keeping working were more likely to work fewer hours. Together this increased the chance of falling in to poverty.
- 24 The employment rate among the spouses of people who left work for health-related reasons, fell from 70 per cent to 54 per cent. About 30 per cent of spouses in employment stopped working within two years of a partner leaving work for health-related reasons. This compared to 6 per cent of spouses of respondents who remained employed.
- 25 The effect was long lasting. Fewer than 10 per cent of non-working spouses had entered work within two years of a respondent leaving work for health-related reasons compared with almost 30 per cent of non-working spouses of respondents who remained employed. Employed spouses of people who left work for health reasons were less likely to increase and more likely to reduce their working hours relative to those of people who remained employed.

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<sup>655</sup> Institute for Social and Economic Research(2011) *The economic impacts of leaving employment for health-related reasons*, accessed via <http://resources.unum.co.uk/downloads/ISER-Report-Final.pdf>

26 Early exit from the labour force also has an obvious impact on income in retirement – those who leave work early or have to reduce their hours will tend to have lower long term savings.

27 The Department for Work and Pensions estimate that by retiring at 65 instead of 55, an average earner could have over £200,000 extra income and increase their pension pot by 60 per cent<sup>656</sup>. The TUC found around one in eight people (234,000 women and 201,000 men) within five years of state pension age are too ill or disabled to work<sup>657</sup>.

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

28 Please also see our answers to questions two and three, above, for further information on this question.

29 Our answers to questions two and three outline some of the exclusion issues faced by people with health problems. The FCA Occasional Papers 8 and 17 also provide excellent summaries.

30 We would argue that group protection products solve many of the problems preventing people with health problems from accessing insurance identified by the FCA. Group underwriting means we do not ask people about their medical history, we do not charge people with medical problems more and we do not exclude them from cover.

31 Furthermore, the return to work support we offer people with GIP who are at risk of long term sickness absence is a powerful example of three criteria that the FCA proposed should underpin financial products for vulnerable people, namely<sup>658</sup>:

- *"Feeling that firms will treat you as an individual and you won't face the 'computer says no' response just because your personal circumstances do not fit the standard mould.*
- *Knowing that, should you experience a sudden change in circumstances, you will be offered a flexible and tailored response from your financial services provider.*
- *Being able to talk to someone who will take the time to listen, who is flexible enough to let the conversation take its natural course, and who is sufficiently trained to spot signs of vulnerability and refer on to specialists where necessary".*

32 Our return to work support is provided by our trained Vocational Rehabilitation Consultants in combination with our in house team of medical

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<sup>656</sup> Department for Work and Pensions (2016) *Fuller working lives – background evidence: infographic*. Accessed via [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/548248/fuller-working-lives-infographic.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/548248/fuller-working-lives-infographic.pdf)

<sup>657</sup> TUC (2016) *Postponing the pension: are we all working longer?*

<sup>658</sup> FCA (2015) *Occasional paper no.8: consumer vulnerability*.



staff. Every client receives flexible, tailored support based on their health status, their job and their circumstances. The benefits of that tailored service are reflected by its success - seven out of ten people using it return to work<sup>659</sup> and their absences are reduced in length by around a fifth on average<sup>660</sup>.

- 33 We also provide free training for employers to help them understand how to manage staff with health problems and reduce the chance of people falling out of work.
- 34 Called OnCourse, the training is available for free face to face or online and is delivered in partnership with patient groups<sup>661</sup>. It aims to help line managers and HR teams understand what their employee is going through, how it might affect their work and how to support them. Currently we have training modules on cancer, bereavement and stress and we have plans to develop more.

### **Financial education and capability**

*5. Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?*

*6. How can financial literacy and capability be maintained and developed over the course of a person's lifetime?*

- 35 The challenges in financial capability were well explained in the Money Advice Service's Financial Capability Strategy for the UK and its Financial Capability Survey plus the oral evidence given to the Committee by Joanne Elson OBE, Catherine McGrath, and Matthew Carter. We would also commend the HM Treasury and FCA *Financial Advice Markets Review* to the committee.
- 36 From those excellent surveys, we would emphasise the need to build the financial capability of working age people and the potential to do this through the workplace itself.
- 37 The Financial Capability UK Survey found that "preparing for and managing life events" (like acquiring a disability) was the financial problem people most struggled to deal with – their financial capability scores were much lower for managing life events than managing money day to day or dealing with financial difficulties.
- 38 It also found that financial capability for managing life events varied much more by income than other aspects of financial capability. Those on lower

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<sup>659</sup> Unum (2016) *7 in 10 people return to work with Unum's rehab service*. Accessed via <http://www.unum.co.uk/media/7-in-10-people-return-to-work-with-rehab-service-from-unum>

<sup>660</sup> CEBR (2015) *The Benefits of Early Intervention and rehabilitation*. Accessed via [http://cdn2.hubspot.net/hubfs/234061/Early\\_Intervention\\_Report\\_22\\_10\\_15\\_.pdf?t=1470756611592](http://cdn2.hubspot.net/hubfs/234061/Early_Intervention_Report_22_10_15_.pdf?t=1470756611592)

<sup>661</sup> The online interactive modules are hosted at <http://www.unum.co.uk/workplace-wellbeing#interactive-modules>

incomes were much less likely to understand the risks related to negative life events, how to prepare for them and how to access protection.

- 39 This is partly because people greatly underestimate the risk of facing unemployment due to disability. Research by Demos found that almost a fifth of people thought there was a 1 in a 1000 chance they would become too ill to work when in fact about 1 in 10 British workers claim some form of state benefit in their life as a result of an accident or severe ill-health, and at any one time 1 in 20 workers are out of work through disability<sup>662</sup>.
- 40 They also greatly overestimate their financial safety net if something does go wrong. Over half those interviewed by Demos believed they would receive their full salary for three to six months if they were too ill to work. In fact, employers are legally only obliged to pay Statutory Sick pay at £88.45 for 28 weeks.
- 41 Since that Demos research was carried out, huge changes have been made to the welfare system but we have not seen any concerted effort from the government to help people in work understand how their state safety net has changed and how best to respond. We suspect that people's understanding has fallen still further.
- 42 There has been some encouraging work to build financial capacity but more needs to be done. The Financial Advice Markets Review endorses and seeks to bolster workplace advice on pensions. We would like to see this broadened to help employees access advice on to how to respond to the financial risks they face.
- 43 The *Financial Capability Strategy for the UK* included a whole chapter of recommendations on how to help working age people prepare for negative life events. We strongly welcomed this long overdue national focus and joined the working group charged with delivering it.
- 44 However, we are concerned that HM Treasury's *Public financial guidance review* leaves the future of the *Financial Capability Strategy* highly uncertain. The slimmed down successor body may focus its resources on resolving debt issues rather than preventing them through improvements in financial capability.
- 45 We would echo the findings of the Financial Inclusion Committee and the oral evidence of Joanna Elson that there needs to be clarity about who is responsible for financial capability in the UK.
- 46 We also recommend that the government work with insurers and employers to increase employees' demand for financial education that can help them understand the risk of becoming unable to work through ill health and what to do about it.

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<sup>662</sup> Demos (2014) *Opting up: how to increase financial resilience*. Available from [http://www.demos.co.uk/files/476\\_1413\\_OptingUp\\_Web\\_2\\_.pdf?1397123976](http://www.demos.co.uk/files/476_1413_OptingUp_Web_2_.pdf?1397123976)

- 47 This could be done by developing a 'safety net statement' that explains someone's chance of being off work sick for 12, 28 and 52 weeks and what their public and private income would be at each stage, including their sick pay and any insurance or welfare payments. This could be included in people's P60, given at key milestones in their life or career or accessed online, always with appropriate signposting.
- 48 We also recognise that financial services companies have to get their own houses in order. The FCA rightly said that companies need to simplify their products, communication and terms and condition to lift "the fog" that prevents many people getting appropriate products<sup>663</sup>.
- 49 At Unum, we deal with employers who are typically well informed and unlikely to be vulnerable but we are undertaking a lot of work to simplify our service. We are rewriting all our terms and conditions in plain English; drastically reducing their length, simplifying the language and clarifying their terms and conditions.
- 50 We train client facing staff on how to improve their communication and we provide training on how to deal with people who have certain health conditions. We also provide Mental Health First Aid training.
- 51 We also launched simpler products for Life, Critical Illness and GIP. They target employers who have perhaps never had such a product before or who are put off by complexity. We would welcome any efforts to reinvigorate the Sergeant Review of Simple Financial Products agenda.

### **Addressing financial exclusion**

*7. What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?*

- 52 As noted above, helping people with health problems to stay in work and increasing their access to financial protection products can safeguard households from the vulnerability, debt and deprivation that increase financial exclusion.
- 53 Group Critical Illness and GIP protect households in different ways. Critical Illness cover provides a lump sum when someone suffers a serious health problem, such as cancer or a heart attack.
- 54 GIP goes a step further. It provides financial protection by paying a high percentage of people's salaries when they are unable to work, typically until retirement age. Importantly though, it also offers the highly effective support to return to work described in answer 4, which brings financial and health advantages to the households that use it.

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<sup>663</sup> FCA (2016) *Occasional paper no 17: access to Financial Services in the UK*

- 55 Both products also provide free access to our employee assistance programme, a 24/7 telephone helpline and online portal with expert advice on everyday issues like debt, legal issues and childcare. There is an assistance programme focussed on ageing and caring issues and the programme can also set up free face to face counselling for people with more serious problems.
- 56 Working together with employers, insurers and other stakeholders, there are three key steps the government can take to prevent financial exclusion among working age people with health problems and their families.
- 57 Firstly, the government should use its channels to raise employers' and employees' awareness of how GIP builds financial resilience, reduces long term sickness absence and prevents people falling out of work.
- 58 This could be done through the Health and Safety Executive, in keeping with its new strategic objective of "highlighting and tackling the costs of work-related ill health"<sup>664</sup>. It could also be done by trialling the safety net statement recommended in answer 6, above. The Disability Confident campaign is another possible channel as are those used by the Department for Business, Energy & Industrial Strategy to communicate with employers.
- 59 Secondly, to raise awareness of and stimulate demand for GIP, we advocate the implementation of a temporary tax incentive for employers, primarily for SMEs, to buy GIP for more staff.
- 60 This could be targeted at specific employers, such as SMEs or employers that cover a certain percentage of their staff. The tax break would reflect the public benefits of employers buying GIP – fewer people fall out of work and those that do continue to pay tax on their insured income and are less likely to claim welfare. An independent economic evaluation commissioned by Zurich found GIP currently saves taxpayers £192 million per year<sup>665</sup>. GIP also reduces the multibillion pound cost of sickness absence to UK plc and boosts productivity.
- 61 Currently, about one in ten employees have GIP and the fiscal gains would increase if more people were covered. EEF<sup>666</sup>, and the Association of British Insurers<sup>667</sup> have both called on the government to explore this tax incentive.
- 62 Thirdly, to enable more people to access appropriate support that could help them return to work after a period of sickness absence instead of falling out

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<sup>664</sup> Health and Safety Executive (2016) *Helping Great Britain work well: a new health and safety system strategy*.

<sup>665</sup> Kyla Malcolm (2015) *Income Protection and Rehabilitation - working together*.

<sup>666</sup> EEF (2016) *Health: The key to productivity? - Sickness Absence Survey 2016*. Accessed via <https://www.eef.org.uk/resources-and-knowledge/research-and-intelligence/industry-reports/sickness-absence-survey-2016-sponsored-by-jelf>

<sup>667</sup> ABI evidence to the Select Committee for Work and Pensions Disability employment gap inquiry, accessed via <https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2015/disability-employment-gap-15-16/publications/>

of the labour force altogether, we would urge the government to look again at sickness certification.

63 Many of the issues with sickness certification in general practice identified by Professor Dame Carol Black and David Frost CBE five years ago<sup>668</sup> still remain unsolved<sup>669,670,671,672,673</sup>.

64 The sickness certification process is a key path dependent moment in people's recovery. Until it is handled properly too few people will get the help they need to return to work, more households will experience sudden income shocks as they leave work unnecessarily and more will fall in to debt and deprivation. At each stage, their risk of financial exclusion increases.

*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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?*

65 Please see answer 4.

### **Government policy and regulation**

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

66 Please see our answers to questions 6 and 7. We would welcome greater clarity about who is responsible for leading and coordinating the UK's efforts to reduce financial exclusion and build financial capability.

67 We would urge the government to take a holistic approach, including the types of initiatives we propose to prevent people becoming more vulnerable and from falling out of work and in to debt and deprivation.

*11. What has been the impact of recent welfare reforms on financial exclusion?*

68 As noted above in question 6, there is strong evidence that working age people in the UK underestimate the likelihood of becoming too ill to work

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<sup>668</sup> Department for Work and Pensions (2011) *Health at work – an independent review of sickness absence*.

<sup>669</sup> Money A, Hussey L, Thorley K, Turner S, Agius R. Work-related sickness absence negotiations: GPs' qualitative perspectives. *The British Journal of General Practice*. 2010;60(579):721-728

<sup>670</sup> Department for Work and Pensions (2011) *General Practitioners' attitudes towards patients' health and work*

<sup>671</sup> Department for Work and Pensions (2013) *Evaluation of the Statement of Fitness for Work (fit note): quantitative survey of fit notes*

<sup>672</sup> Carol Coole, Fiona Nouri, Iskra Potgieter, and Avril Drummond (2015) Completion of fit notes by GPs: a mixed methods study, *Perspectives in Public Health* September 2015 135: 233-242

<sup>673</sup> EEF (2016) *Health: The key to productivity? - Sickness Absence Survey 2016*. Accessed via <https://www.eef.org.uk/resources-and-knowledge/research-and-intelligence/industry-reports/sickness-absence-survey-2016-sponsored-by-jelf>

and overestimate the financial support they will receive from their employer and the state.

- 69 The government recognised that when it changed pensions system, it had a duty to explain the impact on working age people so they could plan accordingly. There has been no analogous campaign to explain changes to the welfare system and we expect people's understanding of their safety net and how to strengthen it has deteriorated still further.

*12. How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities, and the devolved administrations?*

- 70 Please see answer 10.

*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? What balance should be struck between regulations and incentives for financial institutions?*

- 71 We feel the FCA/HM Treasury *Financial Advice Markets Review* strikes a good balance and offers a good way forward. We would encourage all stakeholders to support it, in particular its call to "work with employers to develop and promote a guide to the top ten ways to support employees' financial health".

### **About Unum**

- 72 Unum is an employee benefits provider with more than 40 years' experience in the UK.
- 73 Unum helps employers protect their employees by providing employee benefits. These help to prevent their workforce becoming ill, allow them to step in at the first sign of illness and provide financial protection if they need it. As part of this, Unum now also offers workplace dental cover.
- 74 At the end of 2015, Unum protected over 1.4 million people in the UK and paid claims of £294 million - representing in excess of £5.5 million a week in benefits to our customers - providing security and peace of mind to individuals and their families.
- 75 Its US parent company, Unum Group, traces its history back to 1848 and is one of the leading providers of employee benefits products and services, and the largest provider of group and individual disability insurance in the United States.
- 76 Unum Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Unum - Written evidence (FEX0028)

**About this submission**

77 The author is John Letizia, Head of Public Affairs and CSR, responding on a corporate basis for Unum on 13 September 2016.

*13 September 2016*



## **VocaLink – Written evidence (FEX0031)**

### ABOUT VOCALINK

VocaLink currently operates significant elements of the UK payments infrastructure, which is one of the very few real-time 24/7 payments systems in the world. Last year we processed over 11 billion transactions with a value of £6 trillion – or 3.7 times the UK's GDP. In the UK, we process 90% of salaries, more than 70% of household bills and almost all state benefits. Every business and person in the UK benefits from our technology.

In the UK our high availability, resilient payment systems power the Faster Payments Service on behalf of the Faster Payments Scheme, the Current Account Switching Service, Cash ISA Transfer Service, Bacs and the Direct Debit Scheme. We also connect the world's busiest ATM network, which connects over 70,000 ATMs through the LINK scheme. The average UK citizen interacts with the services that VocaLink runs 196 times per year – or at least once every other day.

Our proven capability of implementing real-time payment systems in the UK has led to the development of immediate payment solutions for other countries such as Singapore, Thailand and the United States.

VocaLink welcomes the opportunity to respond to the House of Lords Financial Exclusion Committee Inquiry.

### **KEY POINTS**

Vocalink published Inclusive by Design which includes contributions from Federation of Small Businesses (FSB) and Toynbee Hall. The report considers the challenges for small businesses and those on multiple and variable and multiple incomes in regards to their interactions with the payments system and how innovation in payments systems can potentially address these challenges. In the main, our response focuses on these two groups who have specific challenges making them financially excluded.

There are a growing number of individuals and businesses in the UK whose payment requirements are complex, and for whom there is a pressing case for payments systems to adapt. In particular, payments systems need to adapt to empower individuals who do not have a regular and predictable incomes and to empower small businesses which could benefit from greater flexibility in how they pay and get paid.

We believe there are a number of existing payments systems and forthcoming developments which could assist those who are financially excluded:

- 1) **Real Time Payments** – in existence since 2008, they allow payments up to £250,000 with the certainty they will reach their destination in near real-time. This has benefits including salary payments made at the end of the week to accurately reflect hours worked, and allowing for certainty of balance as funds are transferred in near real-time. There needs to be more

information available about all payment types for individuals and businesses to choose the most appropriate payment system for their use.

- 2) **Second Payment Services Directive** – aimed at supporting digital innovation in payments and encouraging greater choice and take up of digital payments services. It will enable payment initiation, and also allow individuals to see a consolidation of all their accounts in one place.
- 3) **Request to Pay** – this would allow people to pay their bills at a time of their choosing (within parameters set by the biller) and in separate 'chunks'. This would give individuals greater control of their finances, and help to reduce late payments for small businesses. This solution will require all stakeholders to come together to agree on the importance of Request to Pay and support the development of a model which will make this possible.

Government has a role to play in (1) considering how the Prompt Payment Code could be utilised to promote the range of payment options at the disposal of small businesses, including real time payments and (2) encouraging banks and billers to come together to find a solution that will deliver a flexible payments system.

There are also roles for the Payments Strategy Forum and for consumer organisations, banks, billers, infrastructure providers and other interested parties to work together to deliver a Request to Pay solution.

VocaLink believes that Government has a key role to play in helping to address financial exclusion. This includes ensuring that benefits are of a sufficient level to provide the support to individuals that they aim to and to ensure that individuals are accessing the benefits to which they are entitled. There are also potential future opportunities around data capture that would allow better access to credit for individuals and small businesses through income and identity verification.

## Background

In June 2016 VocaLink published *Inclusive by Design* which includes contributions from Federation of Small Businesses (FSB) and Toynbee Hall. The report considered the challenges for small businesses and those on variable and multiple incomes in regards to their interactions with the payments system. The report then set out how innovation in payment systems can potentially address these challenges.

First, it is useful to set out what we mean by payments systems.

Payments systems are the mechanisms that allow money to be transferred from one account to another. They provide the network of connections through which transfers are made from payers (the person or organisation paying for something) to payees (the person or organisation being paid for something) throughout the UK economy. They are the infrastructure that connects the banks, building societies and other organisations with which you have an account from which these payments are made. Similarly, it is this infrastructure that connects thousands of corporate organisations directly, allowing them to conduct their daily business.

This report addressed a number of the questions posed by the Financial Exclusion Committee.

### Who is affected by financial exclusion?

We are seeking to address the challenges faced by those who are unable to derive benefits from the existing payments systems, whether that be systems are not built in their favour, or new systems are needed to cater for their needs. As such, we define those who are financially excluded as those for whom the current payments system does not provide benefits to support them to manage and be in control of their finances.

Whilst we recognise that there are many sections of society who are financially excluded, we focus here on two specific groups with whom we have conducted further research; those with multiple and variable incomes, and small businesses. Contributions were received from Toynbee Hall and FSB to set out what they saw as their challenges with the payments system.

- **Individuals on variable and multiple incomes:** Toynbee Hall argues that the employment market is shifting away from the kind of permanence we know as normal, towards shorter-term and ever-changing conditions. There are increasing numbers of people on zero-hour contracts, and those who are self-employed, leading to a reliance on irregular and unpredictable work as their main source of income.

The key difference between a single-salary life, and that of someone on irregular or multiple smaller payments can be captured by the concept of 'flow'. For those on regular incomes, they can more easily predict the flow of money in and out of their bank account. But for those receiving irregular income payments across the month, they are more exposed to the risk of

missed payments, payment penalties and potentially adverse credit scores as well as higher costs.

As the employment market shifts towards a larger number of workers reliant on multiple, irregular income flows, we will see a corresponding demand for more flexible, transparent and controllable payment options that give the customer instant control over their payments and serve to better utilise those irregular incomes.

- **Small businesses:** There are 5.4 million small firms, which make up 99% of all businesses in the UK, contributing 48% of private sector turnover and employing 60% of the private sector workforce; the number of people in self-employment in the UK now stands at its highest level for 40 years.

The single biggest payments challenge facing small businesses is poor supply chain practice leading to late payments, which creates a negative cycle throughout supply chains and suppliers.

There is also a need to make it easier for small businesses to access current payment mechanisms, including contactless technology, direct debits and Faster Payments. In the main, small businesses, like everyone else, want payments systems that are easy to use, fast and secure, and available at a reasonable cost.

### **Are appropriate financial services and products available for those who are experiencing financial exclusion? What might be done to address any deficit?**

There are a growing number of individuals and businesses in the UK whose payment requirements are complex, and for whom there is a pressing case for payments systems to adapt. In particular, payments systems need to adapt to empower individuals who do not have a regular and predictable income and to empower small businesses which could benefit from greater flexibility in how they pay and get paid.

We believe that any new payments system needs to be guided by some core principles, including greater control, more information about individual payments, easy and convenient to use payment methods, built on current systems, and instilling confidence in payment methods.

As such, we believe there are a number of existing payments systems and forthcoming developments which could assist those who are financially excluded.

#### ***Existing payment systems: Real time payments***

Real time payments have existed in the UK since 2008. Usage is increasing, and there are benefits for both individuals and businesses in utilising this payments system.

Faster Payments, which is operated by VocaLink for the Faster Payments Scheme enables individuals, businesses and government to make payments up

to the value of £250,000 with the certainty that they will reach their destination in near real-time.

Real time payments have obvious benefits for sole traders and small businesses as payments can be received – and crucially credited to a bank account - in seconds rather than days. Employees and employers can also benefit with staff salaries increasingly easy to pay, as payments can be made at the end of a week to precisely reflect the hours worked.

For individuals, the certainty of balance and the immediacy of receiving funds are of universal benefit and as public services become more digital there is a stronger case for widely utilising the immediate payments system for making time-sensitive benefits payments to some of the most vulnerable in society.

### ***Future legislation: The Second Payment Services Directive***

The Second Payment Services Directive (PSD2) is a piece of European legislation that will significantly change the way that payments are made, as well as relationships with banks. It is due to be implemented by January 2018.

It is aimed at supporting digital innovation in payments and encouraging greater choice and take up of digital payments services. The ambition is that it will make it easier to transact online, helping to connect the offline and online worlds. It will enable 'Third Party Providers' to become intermediaries between the customer and the bank, who can initiate payments on behalf of the individual at their request. It will also enable Account Information Service Providers to sit between the bank and the individual or business, consolidating account information into a single dashboard. It also has the potential to enable services which can analyse the transaction data on an individual's account to tell whether they are being overcharged for their banking services.

### ***A new flexible payment systems: Request to Pay***

Request to Pay is a new payments service that would allow people to pay their bills at a time of their choosing (within parameters set by the biller) and in separate 'chunks'.

VocaLink believes that such a solution would help to solve some of the issues associated with financial exclusion.

As an example of how Request to Pay could work, when a specific bill payment is approaching its due date, the bill payer would be prompted by their bank, on behalf of the biller, that the payment is due. This would give them two options; choose when to pay the bill within a pre-determined timeframe, or choose in what proportion to pay a periodic bill, within a pre-determined timeframe.

It would help give individuals greater control of their finances, with flexibility on when and in what proportions to pay bills. And for small businesses, this would also help reduce late payments and financial uncertainty if used to bill supplier organisations.

## **What are the barriers to the introduction of these alternative payment systems?**

We have identified a number of challenges to the introduction of more flexible payments systems.

To make effective changes, there needs to be support from billers to banks, end users to the public sector and payments infrastructure providers. There also needs to be continued work to address the problem of the 'un-banked' and the 'under-banked' to ensure that the full potential of future innovation can be achieved. Innovation has a role to play in increasing inclusion, not unintentionally creating further exclusion; innovation should sit alongside and complement existing systems.

*Real time payments:* In order to realise many of the benefits that real-time payments can deliver there needs to be greater visibility of the Faster Payments Service as an option, set against other methods of payments. It will then be up to the user to determine if their requirements can be fulfilled by a real time payment in that instance, or if other methods of payment are preferable. As things stand, many individuals and organisations may not be aware that they have this choice.

*Request to Pay:* Whilst there are a number of technologies emerging, it is necessary for all stakeholders to agree on the importance of Request to Pay and support the development of a model which will make this possible.

It is likely that there will be costs for billers and banks to build the greater flexibility into their systems that will allow Request to Pay to become a reality, and a decision is likely to be needed on the commercial benefits of doing so.

There will also be a challenge for users of the Request to Pay system who would need the technological skills to be able to utilise such a system, and whilst Request to Pay is not intended to replace existing payment systems, there is a challenge in ensuring visibility of the service amongst those that might benefit from it.

## **What is the role of Government in reducing financial exclusion?**

We believe that there are some specific areas in which government can support increasing financial inclusion in respect of real time payments and Request to Pay.

*Real time payments:* In the case of small businesses, the Prompt Payment Code (PPC), which went live in June 2016 is a significant step towards reducing payment terms and the instances of late payment of invoices to small businesses. However, there is no guidance within this around the payments systems that are available for small businesses to utilise. There is merit in considering how the PPC could incorporate this guidance in order to support SMEs to have a full understanding of the variety of payment options available to them.

*Request to Pay:* Government is the largest user of the payments system, and currently uses a variety of payments methods to engage with citizens. There are a number of government departments that could benefit from the introduction of Request to Pay, which could make it easier, for example, to collect underpayments of tax or payments such as those processed by the Ministry of Justice for court fees. We believe there is a role for government in encouraging the banks and billers to come together to find a solution that will help to deliver a flexible payments system, and as a result, introduce the service themselves to lead by example.

## **What is the role for other organisations?**

We recognise that consumer control of payments is increasingly important, and that there is a need to provide a variety of solutions that will allow consumers to make the most appropriate choice for their needs.

VocaLink, as an expert in the payments industry, believe that real time payments, the changes as a result of PSD2 and the introduction of a Request to Pay service would act to complement the variety of payment methods that consumers already have access to.

There are a number of technologies emerging which could provide these services for consumers, however to provide the best solutions for consumers, and banks, billers, infrastructure providers and other interested parties will need to work together to develop the solutions which meet the needs of consumers and increase financial inclusion.

There is also a role here for the Payments Strategy Forum – which was set up by the Payment Systems Regulator to develop a strategy for payments systems in the United Kingdom. In their recent draft strategy, they recognised the need for a Request to Pay service and we believe they have a key role to play in encouraging cooperation for the benefits of all individuals and organisations that could benefit from payments innovation.

**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?**

VocaLink believes that Government has a dual role to play in helping to address financial exclusion. First, to ensure that benefits are of a sufficient level to provide the support to individuals that they need and, second, to ensure that individuals are accessing the benefits to which they are entitled.

VocaLink recently launched its insights business, Accura, which delivers factual, dynamic data-informed solutions that enable better-informed decision making, helping to solve some of the big problems that affect us all. Using up-to-date transactional data, we create innovative solutions that enable better-informed decisions. Through our services, we can help businesses and government to not only deliver enhanced experiences for individuals, but also achieve operational efficiencies.

Accura has worked with the industry to gain alignment around, and support for, a number of use cases, including anti-fraud and identity solutions, macro-economic reporting (ie. at an aggregated and anonymised level) and Income Verification. It has brought together the Gresham Council – made up of data owners (financial institutions) for payments processed via Faster Payments and Bacs – and these Data Owners will agree both the purposes for which the data can be accessed and the rules under which this will operate. The first draft rules and controls will govern the use of the data that flows through the VocaLink systems.

We believe that this new insights business can help Government in its role in addressing financial exclusion.

**Macro-economic data:** Policymakers need information that is easy to understand, reliable and based on the very latest transactional data passing through the UK economy. Even at a macro – i.e. aggregated and anonymised – level, this would allow Government departments to better understand the flow of money across the UK economy and enable fact-based policy decision-making to help address the issue of financial inclusion.

Currently, even policymakers with access to the best possible data - such as the Bank of England - make key decisions such as the setting of interest rates based on survey data. Survey data is attitudinal, can be impacted by sample size, and can have a time lag between survey completion and data being available for use; sometimes as much as six or even nine months.

Policymakers need to be able to react to changes quickly and with precision. They are keen to access new sources of accurate and timely data to better inform their decision-making. Accura insights are up-to-date and based on the huge volume of payments generated every day in the UK. They take the estimation out of policymaking and planning.



***Income and identity verification for individuals and small businesses:***

Consumers and small businesses often suffer from problems relating to accessing finance due to issues around income and identity verification.

Currently, lenders leverage a combination of analytics of their own customer transactions and information from the Credit Reference Agencies to inform lending decisions. Accura believes that transactional data has a new and important role to play in providing additional verification and affordability assessments for use both by financial institutions and people themselves. We are engaging with the industry to assess the appetite for deriving insights by aggregating payments transactions and performing analysis in order to deliver solutions that solve known problems for people, businesses and the wider economy.

These services could speed up the credit application process, leading to a better experience for applicants and measurable operational efficiencies for financial institutions. They could also reduce unnecessary referrals or declines for credit due to problems experienced when trying to validate either income or identity.

By providing the ability to evidence salary/revenue and payment history based on new data sources including payments transactions, details held by banks and credit reference agencies could be enhanced to provide additional verification of income and identity. This would help to give incremental insights to banks and other financial institutions which are looking to make decisions around lending, meaning that individuals and businesses will be more readily able to access main stream finance.

Identity verification for accessing finance is also an issue for individuals and small businesses. Accura is also working with the financial services industry to assess the viability to use the analysis of payment transactions to provide the certainty that applicants are who they say they are and provide additional reassurance to lenders before they grant any applications for credit.

Finally, in principle, Accura could help to achieve the government's aim to increase lending to small businesses and we believe that the innovative analytics of payments transaction data would help to empower small businesses to access credit outside of their current provider, whilst helping to protect financial institutions from unnecessary risks.

*14 September 2016*

## Young Enterprise – Written evidence (FEX0053)

- 1.** Young Enterprise welcomes the opportunity to respond to the House of Lords Financial Exclusion Committee's inquiry into financial exclusion, building on the recent oral evidence we provided to the Committee in July.
- 2.** The formation of this new House of Lords Committee marks an important step forward in ensuring that the important role that financial education – as a key driver of improving young people's financial capability and life chances – is properly considered by Parliament.
- 3.** As the UK's leading enterprise and financial education charity, Young Enterprise (having merged with the Personal Finance Education Group in 2014), ensuring that young people develop key money management skills and preventing financial exclusion in later life lies at the heart of our activities in schools.
- 4.** Each year, Young Enterprise works with a wide range of schools and teachers across the country to help them deliver effective financial education to children and young people. Our programmes predominantly operate on a 'train the trainer' model, with our key initiatives including:
  - **Centres of Excellence:** Our Centres of Excellence Programme – supported by a number of organisations including Santander and Experian – helps schools to develop a whole school financial education improvement framework: a set of national professional standards through which excellence in financial education is achievable and exemplary.
  - **LifeSavers:** A whole-school financial education programme for primary schools to equip children with the skills and attitudes to manage money well from an early age through a combination of school savings clubs, classroom learning and parental engagement. It is a joint Church of England and Young Enterprise programme, which is delivered in partnership with schools and local credit unions. Following a successful pilot, LifeSavers is being rolled out to 120 primary schools over three years with financial support from Virgin Money. Additional funding from Government will make the resources and learning available to other schools through a dedicated LifeSavers website.
  - **My Money Week.** Our national activity week for primary and secondary schools that provides a fantastic opportunity for young people to gain the skills, knowledge and confidence in money matters to thrive in our society. It is the highest profile, and most recognised personal finance education initiative in England.
  - **Quality mark.** The UK's only widely-recognised accreditation system for financial education resources, designed to give those delivering financial education confidence that the materials they are using contain accurate

and up-to-date information, are of the highest educational value, and are engaging and relevant for young people.

- **Ask pfeg.** Free financial education advice and guidance support service, which allows anyone involved in teaching children and young people about money to get in touch by email or phone to receive practical advice from our specialist education consultants on any aspect of financial education.

**5.** We know, from our work with teachers and young people across the country, that financial education can play an important role in helping to prepare young people for the financial challenges of later life.

**6.** Given our expertise in financial education in schools, our comments below are largely directed at questions 5 and 6 in the Committee's call for evidence relating to 'financial education and capability', though good financial capability – delivered through effective financial education – can help to prevent the financial exclusion raised in the Committee's wider questions.

### **Importance of prevention – and not just cure**

**7.** Young Enterprise welcomes the Government's recent focus on improving Life Chances for all, regardless of background, and hopes that this will be continued under the new administration.

**8.** In developing its work in this area, the Government must recognise that financial inclusion and money management are vital aspects of life chances: understanding how to earn, budget and save money allows individuals to secure financial stability and provide opportunities for themselves and their family to maximise their potential in life and fully participate in society.

**9.** Preparing young people, in particular, for the financial challenges of later life is a crucial aspect of this work. We do, however, start from a worrying position in which young people are particularly affected by the UK's financial capability challenge. Those aged 18-24 represent over 20% of the over-indebted population of the UK and a third of young adults find themselves in this situation. The average debt-to-income ratio for 17-24 year olds now stands at nearly 70%.

**10.** At the same time, young people now face a huge range of increasingly complex financial decisions, with government policy increasingly placing more responsibility onto individuals at all stages of their lives, from increased tuition fees to the introduction of Universal Credit and the offering of a Lifetime ISA.

**11.** Wider policy and economic developments also continue to reshape the financial landscape, from low interest rates affecting levels of saving and the cost of renting or a mortgage rising significantly. In later life, too, rising life expectancy is resulting in longer retirements – bringing with it associated care and pensions costs – while pensions freedoms shift significant financial responsibility to individuals. Each of these policy and economic developments

require young people to have a sound knowledge of money and savings to navigate the challenges they entail.

**12.** In order to help ensure this is a reality, the Government's Life Chances agenda should reconsider the current balance between prevention of financial exclusion and its cure. While both remain important, we believe that there is a need to shift greater emphasis and resources towards the 'prevention' strand – helping to ensure that young people do not enter their adult life saddled with debt and financially excluded, and having to cope with the many consequences, from mental health problems to homelessness, that can follow.

**13.** Early intervention is particularly important in financial education, with research for the Money Advice Service finding that money habits are set by the age of seven. It is for this very reason that Young Enterprise works with a vast range of primary schools each year to help teachers embed financial education across Key Stages 1 and 2.

**14.** We believe that the costs involved in strengthening early intervention in financial education – as set out below – are minimal, while the long-term financial savings that government and society could make from preventing financial exclusion will be significant.

### **Impact of statutory financial education in England**

**15.** The introduction of statutory status for financial education at secondary level in England represented a welcome step forward and a shift towards 'prevention' of financial exclusion. It also aligned the English school system approach to financial education more in line with the devolved nations, where the subject is fully embedded and statutory across all school levels.

**16.** As secretariat for the All Party Parliamentary Group (APPG) on Financial Education for Young People, Young Enterprise (now incorporating Pfeg) has long campaigned for statutory status for financial education.

**17.** By introducing statutory status at secondary level, the Government has helped to provide a mandate for schools to teach financial education – and we know from our work across the country that many of them are teaching the subject in a creative and engaging manner. However, we have seen since its introduction that statutory status does not, in itself, create a driver for teaching financial education.

**18.** As the APPG on Financial Education for Young People's report revealed, there is a clear mismatch in schools between the perceived importance of financial education and the reality of delivery. Its polling of secondary school teachers in England found that 95% believe financial education is important or very important, yet only 35% reported financial education being a high or medium priority in their school.

**19.** Financial education now forms part of Mathematics and Citizenship at Key Stages 3 and 4. While this is welcome, the APPG's research also identified

concerning findings in this regard, with only 52% of Mathematics teachers saying that they teach financial education, despite its statutory status.

**20.** Where financial education is being taught in Mathematics, the 'personal' aspect of financial education is often lost in favour of a focus on the mechanics of mathematical equations – for example, simply by inserting a pound sign in front of a multiplication calculation. This is unlikely to deliver real change in young people's overall financial capability and ability to budget and save.

**21.** Our own work in schools across the country has highlighted the importance of teaching Mathematics within a real-life financial context can help to drive up both young people's academic attainment and financial capability skills.

**22.** Young Enterprise strongly supports a greater involvement of this 'real-world' approach to financial education within Mathematics. We believe that this can best be achieved by the Department for Education amending the 'Programme of Study' for secondary level Mathematics in England to include a strand on 'managing money', with a particular focus on teaching financial education in real-life contexts as part of this strand.

#### **Case study: Maths in Context / London Lead Teachers**

Young Enterprise's 'London Lead Teachers' programme sought to increase engagement and attainment in Mathematics at Key Stage 3 and 4 by using real-life personal finance scenarios as a context for learning.

Participants took part in a series of workshops and received direct in-school support from our team of consultants to help them integrate financial education into specific lessons.

An evaluation of the impact of its intervention with students within the test group (who had been taught by teachers supported by the programme) found that they improved their attainment in mathematics by 21% since the start of the programme, compared with improvements of only 3% in a control group.

Following the success of this programme, Young Enterprise is now scaling up its work in this area by developing a '[Maths in Context](#)' programme and evaluation – co-funded by the Education Endowment Foundation and the Money Advice Service – that will train maths teachers to use real-world contexts when teaching maths, especially using examples related to personal finance.

Again, the aim is that this should make the subject more accessible, engaging, and relevant to real life, whilst also preparing students for the types of questions they might face in exams, and improving their financial education. Schools will begin the programme from September 2017, and the evaluation report will be published in spring 2020.

**23.** Alongside Mathematics, Citizenship at Key Stages 3 and 4 plays an important role in providing young people with an understanding of the ‘public’ aspects of finance – from how public money is raised and spent to the role of taxation – that complements the more ‘personal’ aspects of financial education in Mathematics. 75% of Citizenship teachers currently say that they are teaching financial education.

**24.** With the Department for Education’s recent White Paper – *Educational Excellence Everywhere* – pledging to “review the national curriculum’s citizenship programme of study”, the Department for Education should also commit to maintaining financial education’s position, and better integrating it, within the subject.

**25.** More broadly, financial education also continues to be taught in many schools as part of PSHE provision – with 62% of teachers surveyed for the APPG agreeing that it should be taught as part of this subject. While we accept that it is unlikely that PSHE will be granted statutory status during the course of this Parliament, the Department for Education’s upcoming action plan for PSHE should include a strong focus on financial education as part of the ‘Economic’ strand of the subject at all Key Stages.

### **Financial education at primary level**

**26.** While the policy focus in England has, in recent years, focused closely on changes to the national curriculum at secondary level, there has to date been little focus on how to deliver this in primary schools.

**27.** As it currently stands, there are no requirements on primary level schools to provide any form of financial education to their students. This effectively means that some children do not learn about the importance of money, budgeting and managing risk until 11 years old, despite the fact that research for the Money Advice Service has found that money habits are formed by the age of seven.

**28.** We know that a wide range of primary schools already engage in financial education – not least through Young Enterprise’s own Centres of Excellence model – but we should not tolerate a system in which only a minority of children, shaped by their families’ financial habits, are afforded the opportunity to learn how to budget and save from an early age.

**Case study: LifeSavers programme**

LifeSavers is a joint Church of England and Young Enterprise programme, which is delivered in partnership with primary schools and local credit unions.

The programme takes a holistic approach to financial education, encouraging children to start developing a savings habit early in life. It combines classroom learning with practical experience of dealing with money through regular small savings deposits in the school savings club. It offers older pupils the responsibility of setting up and running the savings club, alongside adult volunteers, giving them experience of the world of work.

By providing teachers with training, support and quality marked resources to embed classroom teaching about money, the programme also encourages a 'whole school' approach to the topic, while also facilitating a wider 'whole community' approach where parents and carers can get involved in their children's financial education.

An initial small-scale one year pilot ran in six schools across England in 2015/16, with an evaluation of the pilot finding that the vast majority of participating teaching staff found that the programme increased their skills to deliver financial education and made them more likely to embrace financial education in their teaching practice in the long-term. Over the course of the trial, 205 young savers deposited a total of £5472.93 (an average of £26.70 per child).

Following this successful pilot, LifeSavers is being rolled out to 120 primary schools over three years with financial support from Virgin Money. Additional funding from Government will make the resources and learning available to other schools through a dedicated LifeSavers website.

**29.** If we are to ensure consistency of provision and reach children from all backgrounds, including those from lower income backgrounds, the Department for Education must make financial education statutory at primary level as part of Mathematics. This would represent a significant step in enhancing the 'prevention' side of financial exclusion.

**Guidance on financial education provision**

**30.** We also are aware – through the survey of secondary level teachers outlined above – that many teachers across the country are struggling to teach financial education, with little appropriate teacher training or governmental guidance accompanying the introduction of statutory financial education in schools.

**31.** The survey revealed that only 17% of secondary level teachers have personally received, or are aware that a colleague has received, training or advice on teaching financial education, with 58% indicating that they would like to receive more training in this area. One in five teachers say that they are unconfident about teaching it.

**32.** The Department for Education has, in the past, published guidance for teachers at both primary and secondary level on the role of ‘financial capability education’ in the school curriculum, outlining what learning looked like at each Key Stage. This includes guidance published in 2000 by the then Department for Education and Employment, and again in 2008 at the then Department for Children, Schools and Families.

**33.** Another eight years on – and with major changes to both the national curriculum and financial education since 2008, most notably the introduction of statutory status – there is a clear need for this guidance to now be updated by the Department for Education. This would help to clarify the position of financial education on the curriculum and help teachers to understand how they can enhance learning within the subject and, in turn, reduce the chances of young people becoming financially excluded in later life.

**34.** We would urge the Committee to recommend that the Department for Education updates this guidance, which we believe would also provide an opportunity to look at a wider range of issues relating to strengthening financial education provision.

**35.** This could, for example include the role that financial education ‘champions’ can play in strengthening teaching in this area; how schools can utilise the Pupil Premium to strengthen financial education provision; analysis of how ‘whole school’ approaches impact on young people’s learning in this area; and the role that the new College of Teaching can play in providing training and support for existing teachers in the profession to confidently teach financial education.

### **Coordination role for new money guidance body**

**36.** The Committee’s inquiry coincides with a number of upcoming and significant proposed changes to the financial guidance landscape in the UK – most notably with the replacement of the Money Advice Service with a new money guidance body.

**37.** The Money Advice Service has had a remit to coordinate financial education provision over the past two years – in which time it has made a significant contribution to the sector, helping to provide both providers in this space and school teachers with the level of coordination required for such a diverse sector.

**38.** At the heart of this activity has been the publication of the UK Financial Capability Strategy, a ten year programme of work delivered in partnership with wider organisations to address the key issues relating to financial capability. This strategy includes a specific strand of work aimed at Children and Young People (3-18 years old). This includes work to develop the business case for schools delivering financial education through identifying its impact on educational attainment, character education and employability, whilst at the same time facilitating the evaluation of school’s financial education interventions so that they can identify the most impactful interventions.



**39.** Supporting this work, the Money Advice Service has also been undertaking activity to help better coordinate providers and funders within the education arena, as well as developing an Evidence Hub setting out the most impactful financial education interventions.

**40.** HM Treasury have recently consulted on its proposals for the new money guidance body, which placed significant focus on tackling gaps in provision. This remains a concern for the financial education sector, which suffers more from a gap in coordination.

**41.** Ahead of the Government's decision on the new money guidance body later this year, the Committee should urge HM Treasury to ensure that it is set a remit to coordinate financial education. This should include the further development of the Evidence Hub into a wider portal of financial education support offered by external providers, so that teachers are clear which interventions are available to them in their area and understand their impact.

### **Measuring long term impact**

**42.** Another key aspect of strengthening the financial capability of young people and preventing financial exclusion in later life is understanding exactly 'what works' in financial education – how, strengthening the financial capability of young people. Given its likely scale and influence, Young Enterprise believes that the new money guidance body can also play a significant role in this area.

**43.** The APPG on Financial Education for Young People found that there exists a wide range of evaluation data from financial education providers on the impact of their programmes, but often this data is limited to a focus on short-term impact.

**44.** In contrast, longer-term evaluation is more limited – largely due to the costs of evaluation as funders are often reluctant to commit to involvement in the long-term, as well as the length of time required to monitor and conduct the evaluation. Long-term evaluations in this area are also particularly complex, given the different type of problems that people will encounter during their lives and the number of variable factors involved.

**45.** HM Treasury have already indicated that it intends for the new money guidance body to have a focus on evaluation, and as such we would welcome a commitment from the Government for the body to commission a long-term study on the effectiveness of financial education interventions to assess their impact on young people's financial capability and life chances.

**46.** At the same time, we also believe that there is a clear need for the UK to have access to international benchmarks on the financial capability of young people. The Department for Education currently does not choose to opt in the UK to the OECD's Financial Literacy evaluation, but we believe that participation in this would provide significant benefits in terms of understanding where we rank alongside other international competitors and would provide a clear measurement for improvement in the future.

**47.** Young Enterprise hopes this written response is of assistance to the Committee and would be happy to discuss any of the points raised above in further detail if this were of interest.

*14 September 2016*

Young Enterprise and MyBnk – Oral evidence (QQ 13-22)

## **Young Enterprise and MyBnk – Oral evidence (QQ 13-22)**

[Transcript to be found under MyBnk](#)

## **The Young Foundation – Written evidence (FEX0022)**

This document sets out The Young Foundation's response to the questions posed by the Select Committee. It is primarily based on evidence gathered through our recent research investigating consumer drivers to and experiences of high cost credit. The full report can be found here: <http://youngfoundation.org/wp-content/uploads/2016/05/Summary-Report-VFinal3.pdf>

We would also be happy to give oral evidence if this would be of assistance to the Committee.

### **Definitions and causes of financial exclusion**

***Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?***

1. The availability and accessibility of affordable credit are often intertwined, particularly in rural areas and small communities. In less isolated areas there are a number of factors that impact financial inclusion including the ability of people to get 'out and about'. Health problems and caring responsibilities can lead to financial exclusion. Areas with high levels of deprivation are also frequently associated with financial exclusion, often compounded by the fact that mainstream financial services have withdrawn from such areas (through branch closure programmes)<sup>674</sup>. Local high streets frequently offer few options – often becoming overly populated by charity shops, 'pound shops' and outlets which exacerbate financial exclusion and/ or other financial problems such as gambling shops, pawn brokers, and cash loan and cheque cashing services.
2. To some extent, digital inclusion has the potential to mitigate against the effects of market limitations, but digital and financial exclusion also overlap – typically due to factors such as: a lack of digital literacy, cost barriers (technology products, broadband or 4G costs), or a distrust of conducting secure transactions online. We have found that four major factors determine what is available to a customer in practical terms:
  - a. Access- Many high streets do not have an affordable credit option and whilst some affordable lenders operate online services many still do not. This means that many people have to go further afield if they want to access affordable forms of credit.
  - b. Transport – In many communities, where use of high cost credit is prevalent, lack of transport infrastructure can enable high cost options- particularly doorstep lending and online pay-day loan services. In some instances, the cost of travel by public transport to a more affordable lender can significantly reduce the savings offered.

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<sup>674</sup> French, S., Leyshon, A., & Meek, S. (2013). The changing geography of British bank and building society branch networks, 2003-2012.

- c. Personal mobility - Health conditions, disability, or caring commitments can all limit someone's ability to access affordable credit options, as well as their awareness of those options.
- d. Internet access – Whether or not an individual is 'online' has a significant impact on what products are available to them. Importantly it also limits their access to a large amount of freely available information and advice on money management.

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

3. The relationship between mental health problems and problem debt has been well established by previous research<sup>675 676 677</sup>. Poor mental health can in some instances contribute to financial exclusion or exacerbate it. For instance, certain conditions such as bipolar disorder may lead to uncontrolled spending and subsequent debt problems<sup>678</sup>. As with physical health, mental health can also constrain an individual's ability to access both financial products and advice services, for example as a result of depression. It is also important to note that the inverse relationship is also true - the stress of financial exclusion and debt can contribute to exacerbating existing physical and mental ill-health.
4. Debt can have a deep impact on people's feelings of self-worth, inspiring feelings of shame and embarrassment. It can also cause stress in people's lives and take a toll on mental wellbeing, ranging from low-level worrying, to moderate anxiety, or even severe depression. Our research has shown that 42% of high cost credit customers report that adult members of their household have experienced anxiety, stress or other mental health problems as a result of being in debt.
5. We found that peoples' experiences of stress or anxiety are also related to the level of debt an individual has. We also found that those who have had difficulties repaying more than one loan are significantly more likely to have experienced anxiety or stress (79%) than those who have had difficulties on one loan (52%) or not experienced difficulties at all (16%)<sup>679</sup>.

***Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved? How can financial literacy and capability be maintained and developed over the course of a person's lifetime?***

6. There must be a greater emphasis on providing financial advice and access to affordable credit and appropriate savings products at key life

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<sup>675</sup> Jenkins R., Bhugra D., Bebbington P. et al. (2008), 'Debt, income and mental disorder in the general population', Psychological Medicine [In press]

<sup>676</sup> Mind (2008), 'In the Red: Debt and Mental Health', Mind.

<sup>677</sup> Skapinakis P, Weich S, Lewis G, et al. Socio-economic position and common mental disorders: Longitudinal study in the general population in the UK. Br J Psychiatry 2006; 189: 109-17.

<sup>678</sup> Ibid.

<sup>679</sup> Base: Customers who had taken out high cost credit in the previous 12 months – 28 have had difficulties repaying more than one loan; 25 have had difficulties repaying one loan; 50 have not had difficulties repaying

stages by working in collaboration with partners across services. More cross-sector collaborative working to identify opportunities for earlier intervention. The development and commissioning of new services must take a more holistic approach with a view to identifying opportunities for earlier intervention with financial information and advice at crucial life-stages – including leaving school, transition into employment, pregnancy, in the event of bereavement, and retirement. In particular this requires collaboration between health services, schools and colleges, employers, the third sector, and lenders offering affordable credit and/ or targeted savings schemes.

7. We also recommend supporting the creation of local peer-led financial education and advice programmes. High cost credit consumers are clear on the merits of peer-led education, advice and support. Peers are often felt to be in a better position to understand someone's situation, empathise, be non-judgemental, and to be credible. Peer educators also have the potential to act as a catalyst for changing social norms around borrowing in their communities. We therefore recommend further piloting, roll-out and evaluation of schemes which employ those who have had personal experience of financial exclusion with the skills and confidence to support other members of their community.

### **Addressing financial exclusion**

***What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charitable sector and business play in tackling financial exclusion?***

8. The emphasis upon 'personal responsibility' is unhelpful. It can lead to a shame and reluctance to turn to advice services or even family and friends to talk about financial difficulties. We found that many people avoided going to see advice services because they were embarrassed or because they felt they should 'solve their own problems'. The perpetuation of the cycle of debt is bad for the individual and it is bad for society. We need to focus on the structural inequalities that lead people into problem debt. Therefore, we suggest that more needs to be done to tackle the stigma of debt and to ensure that public and third sector workers who engage with people in crisis understand the potentially devastating impacts of debt and are equipped to understand and refer those at risk.
9. In addition, when considering what should be done to tackle financial exclusion, there must be caution against an over-reliance on improving financial capability generally, as it does not tackle wider structural problems with the market and other services, and implies that sole responsibility for a person's financial situation lies with the individual. Improving financial capability and education can only ever be one part of a more holistic approach to tackling the issues around high cost credit use.

10. Our research has found that many people in problem debt utilise complex money management strategies and budget very closely but that ultimately they have very low levels of financial resilience. Our research found that 78% of high cost credit customers would find it difficult or impossible to find £200-300 in an emergency. In this context it is perhaps unsurprising that many people slip into problem debt. We would therefore advocate that measures need to be taken to address these low levels of resilience and stop people from seeking these high cost options. For many people with precarious livelihoods it is important to be able to easily borrow relatively low amounts for shorter periods of time in a way that will help them to smooth over fluctuations in income caused by, for example: an unexpected expense like a broken washing machine; the need to pay for Christmas; having to move house.
11. While we welcome the recent announcement of the Government's "Help to Save" scheme, more needs to be done in terms of offering opportunities which respond better to the way in which high cost credit customers manage their finances. In addition, Government can help this problem by considering the expansion of Discretionary Assistance Funds or other mechanisms for catching people in times of crisis or during financial 'pinch' points, including greater promotion of DWP Budgeting Loans.
12. We also suggest that a thriving, diverse, innovative and competitive consumer credit market is needed to deliver better products and options for people needing to borrow (see paras 17-19).

***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? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?***

13. Across the UK there is already some important and creative work being done to improve current products and services, and develop new ones, including by existing short-term lenders. It is critical, if we are to see a strong affordable credit market, that this activity is greatly expanded and accelerated, and new products designed to reflect the needs and priorities of consumers. There are 9 core principles and features on which we believe products and services should be built: Affordable repayments; Offers control – repayment schedules set in agreement with borrowers; Convenient; Quick – decision-making and access to money/product; Respectful – private and anonymous but also the option to develop personal relationships; Competitive in their offering – provide a range of goods comparable with high street; Help develop financial capability and confidence – by integrating incentives or 'nudging' people to change behaviour. Referrals to advice and support made as appropriate; Simple but transparent terms and costs of borrowing and application process; and Ethical business – lenders must be sustainable, set rates which reflect genuine risk without being exploitative.

14. Existing affordable credit options, such as credit unions and Moneyline, cannot meet consumer demand alone. As with mainstream consumer credit, there is a need for a much wider range of products and services, from a range of lenders to increase choice and the availability of credit products which meet the needs of different customer groups. Building on the suggestions of consumers, experts and a review of global innovations in alternative credit products, potential examples include: Products which promote positive financial behaviour and financial capability, e.g. through opportunities to earn better rates and terms, savings-links, and ethical debt consolidation; Products which promote savings, e.g. product-linked savings schemes (e.g. school uniform), micro-savings schemes, loan-to-savings products, payroll deductions; Products offering lower rates through risk management or ethical business models, e.g. social enterprise, employer or landlord underwritten products.
15. The Post Office and mainstream banks could play a role in encouraging micro-savings by offering a savings account as a default with all PO/ Foundation/ Basic Accounts and encouraging new customers to sign up to save a small amount on a regular basis. These should be linked to current accounts such that if a customer goes over-drawn but has sufficient funds in their savings account, they do not incur overdraft fees or interest.

### **Accessing affordable credit**

#### ***What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans - on those facing financial exclusion?***

16. The impact of the capping of payday loans has inevitably reduced access to this product. However, the majority of those facing greatest financial exclusion are fulfilling their credit needs through other, equally or even more expensive products – e.g. doorstep loans, rent-to-own and pawn-broking.
17. Our research showed that six per cent of the Welsh population have used one or more of rent-to-own stores, home credit and payday loans in the last year. Customers come from all walks of life but are most likely to be young families. They are equally likely to be in employment as non-customers but are more likely to be on low-incomes.
18. It is important to remember that the majority of alternative credit customers require access to multiple lines of credit (including more affordable options such as credit unions, as well as various high cost options).
19. The majority of people turn straight to high cost credit without considering different types of credit or comparing offers between lenders. There are a number of reasons for this: A lack of financial capability and confidence in money-management; Many see high cost credit options as being 'for people like me' and one of a very limited set of financial options. This is, in part, a result of poor financial capability, combined with the attractive features of current products, and their common usage and acceptability. The majority of high cost credit customers live in communities where



these types of borrowing are normal. 71% think that borrowing from doorstep lenders is common in their community. Family and friends shape decision making through recommendations and referrals, and by providing advice and practical help with money management. The power of these local networks and peer influence should not be under-estimated.

20. Customer perceptions of payday loans still firmly reflect the pre-cap market, reinforced by media portrayals and past experiences. The cap on short-term high cost credit has dramatically altered this product, limiting the total cost and reducing the chances of a customer ending up in major financial difficulties, yet it is by far the most stigmatised of the three forms of credit we investigated.
21. We do not see any evidence that the cap has driven people to illegal lenders – some customers are simply borrowing less, while others are using alternative high cost options instead.
22. By contrast, rent-to-own and home credit have largely slipped through the net of negative publicity around high cost credit, meaning that they are still seen as relatively acceptable choices.

***How can it be ensured that those in need of affordable credit can access appropriate products or services?***

23. Many high cost credit customers are unaware of, or do not fully understand the offering of existing more affordable alternatives. Those lenders themselves and experts from housing and advice sectors tend to broadly agree that this needs to be addressed as a priority, through “long-term, continuous marketing of those products to change that”.
24. Some experts also highlight that sometimes it is not a lack of understanding or awareness which prevents some customers from using more affordable alternatives, but that the products themselves fail to meet consumer demand as effectively as high cost options. Some customers prefer to use other forms of credit because of ease of access, because of their understanding of that, how it works, and because it’s always been available to them. Affordable options often do not offer a competitive alternative to high cost credit products. Credit unions for example are often not as convenient and accessible as high cost lenders, with more limited opening hours and online offers.
25. There is increasing impetus for credit unions to share best practice and have a more consistent core offering. This is supported by many from within the credit union movement in Wales, and also by others in sectors such as advice and housing who see first-hand the consumer confusion and misconceptions that can arise.
26. Aside from increasing access to existing affordable credit products, such as those offered by CDFIs, credit unions and social enterprises, many are keen to see new products enter the market.
27. One route to increasing awareness and take-up of financial products and advice may be to increase the use of peer advocates to promote the sharing of knowledge through trusted, local networks within disadvantaged communities.

28. Separately, better use of data is identified by some experts as having the potential to help lenders understand the needs of different groups of customers and potentially reduce the risks and costs of lending. Increased data sharing between housing associations, the public sector, support services and financial organisations, also has potential to inform the development of new products, improve measurement of financial health, and create better links between lenders and advice or support services.

## **Government policy and regulation**

### ***What has been the impact of recent welfare reforms on financial exclusion?***

29. Changes to welfare systems always have the potential to have significant impacts upon problem debt. Tight incomes mean that many high cost credit customers budget to the last penny and closely track their income and outgoings. Most people have a clear hierarchy of priorities for their expenditure, focused on the essentials of ensuring a roof over their heads, feeding and clothing children, and then priority bills such as gas and electricity. The prioritisation of other bills and expenditure will sometimes depend on who is chasing hardest for payment. Loan repayments can often be relatively high in the overall consideration as if the customer loses access to that line of credit, they know that they will face difficulties in the future. Changes to household budgets, resulting from welfare changes, mean that people can find themselves working with less income or with new and unexpected expenditures. This provides a clear 'trigger' point for indebtedness as people negotiate a new benefits system.
30. Some also expressed concerns that the introduction of Universal Credit will have on some of their established money management practices and in the face of competing expenses will inevitably result in them dipping into rent money which is now paid directly to them rather than their housing provider to pay for other costs at 'crunch points', even despite the fears around the implications for their tenancy.

### ***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?***

31. Regulation is an essential part of the consumer credit market and, as FCA regulation of High Cost Short Term Credit demonstrated, can dramatically shift and change the landscape. Similarly, legislation and policy has the potential to positively impact on the market, including through self-regulation or policies developed by finance industry bodies.
32. The Young Foundation recommend the strategic use of policy and (self-) regulation. For this we support the following:
- a. **A 'financial wellbeing in all policies' approach**, at both national and local government levels
  - b. **Regulation of promotion of repeat unsolicited loans.** Unsolicited offers of credit by a lender, before an existing loan has been repaid, is a significant driver to repeat borrowing. This is

particularly the case in the home credit market. We recommend that the FCA investigates the opportunities for regulation in this area while calling on lenders to consider self-regulation in the interim.

**The development of a process which enables people to 'self-ban' from specific types of credit or lenders.** We recommend the establishment of transparent and consistent process across credit agencies which will enable individuals to register a wish to be refused access to particular types of credit. Building on the model of self-exclusion in the gambling sector, this could provide a useful tool for some customers who are struggling to manage their credit agreements. As with gambling, regulation could be used to ensure compliance and implementation. The use of such a self-ban should be viewed positively from a credit scoring perspective, as a commitment to improved financial management by the individual.

Submitted by The Young Foundation High Cost Credit Research Team  
Victoria Boelman, Hannah Kitcher and Charlotte Heales.

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Young Scot, National Youth Agency and Rees Foundation – Oral evidence (QQ 69-78)

## **Young Scot, National Youth Agency and Rees Foundation – Oral evidence (QQ 69-78)**

[Transcript to be found under National Youth Agency](#)