



HOUSE OF LORDS

Select Committee on Financial Exclusion

Report of Session 2016–17

Tackling financial exclusion: A country that works for everyone?

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Select Committee on Financial Exclusion

The Select Committee on Financial Exclusion was appointed by the House of Lords on 25 May 2016 “to consider financial exclusion and access to mainstream financial services”.

Membership

The Members of the Select Committee on Financial Exclusion were:

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[Viscount Brookeborough](#)

[Lord Empey](#)

[Lord Fellowes](#)

[Lord Harrison](#)

[Lord Haskel](#)

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Declaration of interests

See Appendix 1.

A full list of Members’ interests can be found in the Register of Lords’ Interests:

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Q in footnotes refers to a question in oral evidence.

SUMMARY

The United Kingdom is at the forefront of the global finance industry and is a leader in the fields of financial services, technology and innovation. Despite this high standing, a sizeable number of UK citizens lack access to even the most basic financial services, while still more are forced to rely on high-cost and sub-optimal products which can prove damaging to their long-term financial health. The ‘poverty premium’, whereby the poor pay more, serves to exacerbate the effects of financial exclusion, reinforcing a vicious circle. In addition, bank branch closures are a depressingly regular feature in news headlines and, when combined with a growing emphasis on digital services, will intensify financial exclusion.

We do not believe that this situation is acceptable. Recent speeches and policy announcements have clearly set out the Government’s ambitions towards a shared society, and to make ‘the system’ work for all. Our conclusions and recommendations in this report are consistent with these wider Government objectives, and will help the Government to deliver on this agenda.

The Government needs to give stronger leadership and central co-ordination to initiatives that seek to address financial exclusion. Work to address financial exclusion cuts across various Government departments and extends to local authorities, businesses and civil society. In addition, there is a need to collaborate and co-ordinate with the devolved Legislatures and Administrations, to create a cross-UK response to financial exclusion. Since the demise of the Financial Inclusion Taskforce initiatives have lacked central co-ordination and oversight; in addition, the loss of the Taskforce gives the unfortunate impression that financial inclusion is no longer a key priority for the Government.

We recommend the appointment of a clearly designated Minister for Financial Inclusion to lead and co-ordinate work in this field. The Minister should provide annual reports to Parliament, setting out progress made in addressing financial exclusion. A strong lead from the Government should be supported by proactive regulation; we recommend that the remit of the Financial Conduct Authority should be expanded to include a statutory duty to promote financial inclusion as part of its key objectives.

The Government must lead from the top, but support should also be provided to ensure that each individual is equipped with the lifelong skills required to make appropriate choices concerning savings, borrowing, and debt. We recommend the addition of financial education to the primary school curriculum in England, and a stronger role for Ofsted in assessing provision, in order to deliver against this objective.

While this will help to support the financial capability of future generations, those who are currently experiencing difficulties should not be neglected. Cuts to debt advice services—especially those provided at a local level—are a cause for major concern, particularly in an era of growing levels of household debt. The body that succeeds the Money Advice Service must have the appropriate mandate to be able to commission and fund effective and impartial debt advice for all who require it. In addition, the banking sector needs to be much more proactive in promoting basic bank accounts to those who need them, playing the fullest possible role in reducing the number of people who are currently unbanked.

The ongoing closures of bank branches, and an increasing reliance on digital services, pose a number of challenges for customers. The Post Office provides a wide range of banking and financial services through an extensive branch network. The majority of customers, however, are simply unaware that these services exist. The current waste of this untapped potential is not acceptable, and needs to be addressed through a concerted joint effort from Government, the banks and the Post Office.

Vulnerable groups including the elderly, those suffering from mental health problems and people living with disabilities are particularly ill-served by the growing number of bank closures, and we make specific recommendations to support these groups. We find it totally unacceptable that, over twenty years after the concept of reasonable adjustment was first introduced into law by the Disability Discrimination Act 1995, some financial services providers are still failing to make reasonable adjustments for disabled customers.

High-cost credit is a significant issue which can intensify the problems of those who are already in financial difficulty. The added value of a strong lead from Government, backed and supported by proactive regulation, was demonstrated clearly in the action taken to regulate parts of the high-cost, short-term credit sector in 2015. The success of these regulations makes the case for more widespread regulation of high-cost credit. In particular, we recommend that the excessive costs associated with unarranged overdraft fees and some rent-to-own products should be addressed as a matter of urgency, and we see no reason why a similar cap should not be extended to these services. Limitations on this sector will mean that demand for credit needs to be met elsewhere, and we recommend that credit unions should be provided with new freedoms and flexibilities to help them to meet some of this demand.

Finally, we received a high volume of evidence highlighting how recent Government welfare reforms could contribute to financial exclusion. We believe that the reforms were intended to promote social and financial inclusion, and are concerned that unintended consequences could undermine these aims. We make a number of important recommendations which would help to prevent benefit recipients spiralling unnecessarily into debt and financial exclusion.

SUMMARY OF RECOMMENDATIONS

Chapter 3: Leadership from Government and proactive regulation

1. We recommend that the Government should appoint a clearly designated Minister for Financial Inclusion. The Minister should have lead responsibility for promoting financial inclusion and should be supported with appropriate resources to co-ordinate effectively work to address financial exclusion. (Paragraph 65)
2. We recommend that the Government should set out a clear strategy for improving financial inclusion in the UK. The Government should lead and co-ordinate on the implementation and monitoring of this strategy. This should be one aspect of a wider Government strategy to address comprehensively the issue of financial exclusion. We believe that the recommendations in the remainder of this report should form a key part of this wider strategy. (Paragraph 75)
3. We recommend that the Government should also provide an annual report of the progress made towards addressing financial exclusion across the UK, with work on this led by the Minister for Financial Inclusion. The report should be presented to Parliament as a Command Paper. We recommend that the first such report should be presented to Parliament within 18 months of the publication of this Select Committee report. (Paragraph 76)
4. We recommend that the Government should expand the remit of the FCA to include a statutory duty to promote financial inclusion as one of its key objectives. Government leadership of the financial inclusion agenda must be supported by proactive regulation. At present, the work of the FCA in this field is limited by the objectives defined in its statutory remit. (Paragraph 84)
5. We recommend that the Financial Services and Markets Act 2000 should be amended, in order to introduce a requirement for the FCA to make rules setting out a reasonable duty of care for financial services providers to exercise towards their customers. Such a duty will promote responsible behaviour on the part of businesses and support sound financial decision-making by customers. (Paragraph 89)

Chapter 4: Financial education, advice and capacity building

6. We recommend that financial education should be added to the primary school curriculum. This measure alone, however, will not be sufficient to enhance the level of financial education provision in schools; experience since the 2014 addition of financial education to the statutory secondary school curriculum in England suggests that additional measures are necessary. (Paragraph 103)
7. We recommend that the Ofsted Common Inspection Framework should be updated to more explicitly address the extent to which schools provide young people with financial knowledge and skills. Such a measure will help to ensure that schools attach an appropriate degree of priority to financial education and learning. (Paragraph 109)

Chapter 5: Financial exclusion and vulnerable groups

8. We recommend that the Government and regulators should work together to develop an approach to promote further innovations in the provision of

online and mobile banking services to older people. The central objective of this initiative should be to develop new platforms and apps that can simplify access, security and interface in an age-appropriate way, while maintaining the high level of integrity and security required to reassure and encourage take-up among the older age group. (Paragraph 166)

9. We recommend that the Government should work with the financial services industry and the FCA to develop and introduce a wider range of ‘control options’ for those customers who may experience mental health problems. Such options would allow people to opt in voluntarily to a series of controls which limit the potential for financial harm. (Paragraph 176)
10. We recommend that the Government, working with the FCA and the British Bankers’ Association, should carry out a review of reasonable adjustment practices for disabled customers. The review should identify areas of good and bad practice, as well as areas where current provision needs to be improved. The initial review should be published within 18 months of the publication of this Select Committee report. Subsequently, and within the lifetime of this Parliament, a timetable identifying target dates for the delivery of improvements should be set out, monitored and implemented. (Paragraph 192)

Chapter 6: Access to financial services

11. We recommend that the Government should require banks to promote their basic bank accounts appropriately and effectively, both in store and in advertising. In evaluating the ongoing rollout and uptake of basic bank accounts, the Government should address the concerns expressed to us that not all banks are issuing an equivalent proportion of these accounts, and that the cost burden of offering the accounts is not shared appropriately across the sector. (Paragraph 204)
12. We recommend that the annual report which we have proposed in recommendation 3 should contain updates on the rollout of electronic identification for bank accounts—particularly in regard to the success of bringing previously unbanked people into the banking system. The annual report should also provide an update on the level of acceptance by banks of Universal Credit and other non-standard but legally sufficient identity documentation. (Paragraph 215)
13. We recommend that the Government work proactively with the Post Office and banks to fund and launch an extensive public information campaign on the banking services that are available through Post Office branches. The Government—as sole shareholder in Post Office Ltd—should also ensure that the Post Office provides adequate training for staff at branches within retail outlets, so that they can carry out banking services for customers with confidence and competence. (Paragraph 237)
14. We recommend that the Government should ensure that non-digital access to social security benefits, and other services, remains possible. Access via free telephone lines, and through face-to-face meetings where appropriate, should remain available indefinitely. (Paragraph 261)

Chapter 7: Financial exclusion, credit and borrowing

15. We recommend that regulations to limit and manage the negative impact of unarranged overdraft charges should be introduced. The potential for such

regulations should be assessed as part of the ongoing FCA review into high-cost credit. (Paragraph 274)

16. We recommend that the Government provide all necessary assistance, including legislation where needed, to further combat financial exclusion caused or exacerbated by high-cost credit. We believe that the FCA review of the wider high-cost credit sector should consider seriously the potential value of further regulatory action. Regulations should be put in place in other parts of the high-cost credit sector, particularly the rent-to-own sector; we hope that the FCA review will give full consideration to this possibility. (Paragraph 300)
17. We recommend that the Government should expand the scope of products that credit unions can choose to provide to their members and, where appropriate, should amend the rules under which credit unions operate in order to enable them to take up these opportunities. (Paragraph 321)
18. We recommend that the Government funding provided to the sector should take the form of repayable, long-term investment capital rather than grant funding for ongoing expenses—following the pattern of the successful Financial Inclusion Growth Fund. We also recommend that the Government should work with representatives of the banking and credit union sectors to develop proposals to increase the lending, at reasonable rates, of investment capital to credit unions. (Paragraph 322)

Chapter 8: Welfare reform and financial exclusion

19. We recommend that the Government abolish the seven-day waiting period at the start of a Universal Credit claim; the waiting period contributes to sometimes lengthy delays in claimants receiving their first payment. These delays put claimants at significant risk of falling into arrears. (Paragraph 349)
20. We recommend that the Government should allow for greater flexibility in the frequency of Universal Credit payments in England and Wales so that, where monthly payments would contribute to a claimant's financial exclusion, payments can be made twice-monthly, as will be possible in Scotland and Northern Ireland. This could be on the basis of a DWP decision-maker decision or on the basis of a Trusted Partner scheme with local authorities or social landlords. (Paragraph 360)
21. We recommend that tenants in receipt of Universal Credit in England and Wales should be allowed to decide for themselves whether their housing costs should be paid to them or direct to their landlord. (Paragraph 371)
22. We recommend that the Government conduct a detailed, comprehensive cumulative impact study of how changes in social security policy resulting from the Welfare Reform Act 2012 might have adversely affected financial wellbeing and inclusion. This research should consider the extent to which these changes have contributed to debt and arrears and to any greater reliance on high-cost lending. (Paragraph 395)

Tackling financial exclusion: A country that works for everyone?

CHAPTER 1: INTRODUCTION

Why does financial exclusion matter?

1. For most people, access to financial services is an important part of everyday life. At the most basic level, a bank account is used for paying bills and receiving income; access to a bank account is also usually a pre-requisite for gaining employment and receiving social security benefits. Access to savings and affordable credit is an important factor in allowing people to meet unexpected expenses, while conscientious provision for retirement relies upon pension products. These services are a recognised feature of day-to-day life for most people.
2. A sizeable minority, however, lack access to these products. This presents a significant barrier to engagement in modern society, and can also lead to individuals incurring significant additional costs due to reliance on sub-optimal forms of financial access. Those who are financially excluded in this way typically experience other forms of social exclusion, or have other vulnerabilities related to old age, disability, deprivation or a lack of digital skills, meaning that the effects of financial exclusion are compounded or reinforced. Free markets do not always serve the financial needs of these customers effectively.
3. In an increasingly connected society, and with greater movement towards a cashless economy, lack of access to financial services will put individuals at serious risk of social exclusion and marginalisation. In her speech to the Charities Commission in January of this year, the Prime Minister explained how the Government:

“Will recalibrate how we approach policy development to ensure that everything we do as government helps to give those who are just getting by a fair chance—while still helping those who are most disadvantaged. Because people who are just managing, just getting by, don’t need a government that will get out of the way, they need a government that will make the system work for them.”¹

She went on to state:

“With all these steps we will deliver this new agenda of social reform. And government will step up to support and—where necessary—enforce the responsibilities we have to each other as citizens, so that we respect the bonds and obligations that make our society work. This means government supporting free markets as the basis for our prosperity, but stepping in to repair them when they aren’t working as they should.”²

1 Prime Minister Theresa May, The shared society: Prime Minister’s speech at the Charity Commission annual meeting, 9 January 2017: <https://www.gov.uk/government/speeches/the-shared-society-prime-ministers-speech-at-the-charity-commission-annual-meeting> [accessed 14 March 2017]

2 *Ibid.*

4. At a time when the Government is focused upon developing a ‘shared society’, and making the system work for those people who need it, positive interventions to overcome the issue of financial exclusion are essential. This report sets out a number of practical, deliverable recommendations, based upon our extensive evidence, which would help to address the injustices of this persistent problem and, as a result, support the Government’s aim of delivering a fairer society.

The focus of the Committee

5. The Committee was appointed by the House on 25 May 2016 to “consider financial exclusion and access to mainstream financial services”.³ From the outset of our work, we sought to address fully both elements of this remit, giving due consideration to access to services but, also, seeking to understand the wider social implications of financial exclusion, and relationships with other forms of deprivation and exclusion.
6. We were mindful of recent work that had taken place in this field, including the extensive body of work produced by the former Financial Inclusion Taskforce and the detailed inquiries and report of the Financial Inclusion Commission. We heard evidence from individuals involved in this work, and sought to take account of their findings where appropriate.
7. Our recommendations are to the UK Government, reflecting the fact that financial policy is considered to be a ‘reserved matter’ under the various devolution settlements that have been made with the constituent nations of the UK. The nature and extent of devolution, however, necessarily means that across some policy areas that proved relevant to the inquiry—particularly, but not only, education—our recommendations might be of more direct relevance to England than they are to Northern Ireland, Scotland or Wales.

The work of the Committee

8. We published a call for evidence in July 2016, setting out 14 questions for consideration by interested organisations and individuals. Over the course of our inquiry we received 101 submissions of written evidence and heard from 52 witnesses in 23 evidence sessions. The Committee also carried out two visits, to Coventry, and to Toynbee Hall⁴, to meet with individuals who had experienced financial exclusion and a range of organisations that provide advice and support in this field. We are grateful to all those who gave up their time to make these visits worthwhile, and to all those who provided evidence to the Committee. Notes of both visits are contained in the Appendices of this report.
9. We are also grateful to Karen Rowlingson, Professor of Social Policy in the Department of Social Policy and Social Work, University of Birmingham, who served as the Committee’s Specialist Adviser.
10. Our report concentrates on:
 - The extent and nature of financial exclusion (Chapter 2);
 - Leadership from Government and proactive regulation (Chapter 3);
 - Financial education, advice and capacity building (Chapter 4);

3 HL Deb, 25 May 2016, [col 405](#)

4 A charity providing advice and support services in the east end of London.

- Financial exclusion and vulnerable groups (Chapter 5);
- Access to financial services (Chapter 6);
- Financial exclusion, credit and borrowing (Chapter 7); and
- Welfare reform and financial exclusion (Chapter 8)

CHAPTER 2: THE EXTENT AND NATURE OF FINANCIAL EXCLUSION

11. The causes and effects of financial exclusion are many and varied. In recent years, governments have undertaken a number of measures to seek to address exclusion and promote inclusion. Within this chapter, we provide some initial figures, analysis and context for financial exclusion; subsequent chapters of the report develop and build upon these themes.

Defining financial exclusion and financial inclusion

12. In public policy, the term ‘financial exclusion’ began to be used in the early 1990s, reflecting concern among geographers regarding bank closures.⁵ Subsequently, financial exclusion has come to describe the inability, difficulty or reluctance to access mainstream financial services,⁶ which, without intervention, can stimulate social exclusion, poverty and inequality.
13. The term ‘financial inclusion’, first used in UK public policy in 1997, has in many respects replaced ‘financial exclusion’ in much of the policy and literature on this topic. It has been suggested that an individual might experience financial inclusion if they have the ability to:
- Manage day-to-day financial transactions;
 - Meet expenses (both predictable and unpredictable);
 - Manage a loss of earned income;⁷ and
 - Avoid or reduce problem debt.⁸

The relationship between financial exclusion and financial inclusion

14. It is widely agreed that a relationship exists between these two terms, although there are differing views on the precise nature of the relationship. Leeds City Council told us that financial exclusion should be seen as “the problem” and financial inclusion as the solution.⁹ Birmingham Financial Inclusion Partnership argued that financial products needed to be designed with the needs of marginalised groups in mind.¹⁰ We were told that:

“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.”¹¹

5 European Commission, *Financial Services Provision and Prevention of Financial Exclusion* (March 2008) p 9: <http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc0807.pdf> [accessed 14 March 2017]

6 Joseph Rowntree Foundation, *Financial Inclusion in the UK: Review of policy and practice* (16 July 2008): <https://www.jrf.org.uk/report/financial-inclusion-uk-review-policy-and-practice> [accessed on 14 March 2017]

7 For example, a loss of income from job loss, reduced working hours or ill health may be eased by savings.

8 Friends Provident Foundation, University of Birmingham, *Financial Inclusion Annual Monitoring Report 2016* (2016) p 4: <http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/financial-inclusion-monitoring-report-2016.pdf> [accessed 14 March 2017]

9 Written evidence from Leeds City Council (FEX0030)

10 Written evidence from Birmingham Financial Inclusion Partnership (FEX0049)

11 Written evidence from Dr Rajiv Prabhakar (FEX0001)

15. We did not, at the outset of our work, seek to limit our considerations by setting out a precise definition of financial exclusion, or financial inclusion. We have sought to consider the multiple causes and effects of financial exclusion and to give account to policy initiatives and proposals that were intended both to promote financial inclusion and address exclusion.

Financial inclusion in public policy

16. The increased prominence of financial inclusion in public policy debates was reflected by the publication of a financial inclusion strategy by the then Government in 2004. This strategy, entitled *Promoting Financial Inclusion*, outlined several key policies, including a dedicated Financial Inclusion Fund of £120 million for the period from 2005–08. The follow-up report, *Financial Inclusion—the way forward*, announced the extension of this fund with a further £130 million to cover the period 2008–11. The funding was targeted across a range of Government departments, with a degree of central co-ordination from HM Treasury.
17. *Promoting Financial Inclusion* also initiated the creation of the Financial Inclusion Taskforce in 2005. The Taskforce, comprised of industry, third sector, consumer groups, local government and academia, was set up to advise Government departments, with a mission to:
 - Increase access to banking;
 - Improve access to affordable credit, savings and insurance; and
 - Improve access to appropriate money advice.¹²
18. The Taskforce also undertook comprehensive monitoring of financial inclusion initiatives, and provided regular research and reports on such matters. It was based within, but independent from, HM Treasury. The presence of the Taskforce gave a clear, identifiable degree of Government priority to work to promote financial inclusion, and provided a central resource for leadership and co-ordination of such work.
19. The work of the Taskforce was wound up, as originally planned, in March 2011. While a number of subsequent policy initiatives have sought to promote inclusion, the loss of the Taskforce was consistently identified as an issue in the evidence that we heard. We reflect further upon this in the next chapter, which considers the need for central leadership and co-ordination of initiatives to address financial exclusion.

Who is affected by financial exclusion?

20. Financial exclusion affects a wide range of people at various stages in life. Age, education, digital capability and income are just some of the factors that can influence the level of financial exclusion experienced by an individual. Figure One illustrates some of the ways in which different groups of people might be affected by financial exclusion.
21. Young people can be at risk of exclusion; figures from 2011–12 highlighted that around 8% of 18–19 year olds did not have a bank account compared

12 Friends Provident Foundation, University of Birmingham, *Financial Inclusion Annual Monitoring Report 2016* (2016) p 8: <http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/financial-inclusion-monitoring-report-2016.pdf> [accessed 14 March 2017]

with 0.7% of the overall population.¹³ Other age groups, however, can be affected in different ways. Banking services are moving increasingly towards digital platforms, yet only 38.7% of adults aged 75 and over have used the internet in the past three months.¹⁴ Seeking to apply a single categorisation or measure for those who are financially excluded is difficult, although some correlations can be found between different groups.

Figure 1: Who is at risk of financial exclusion?¹⁵



Those on low-incomes or living in poverty

- 13.5 million people in low-income households
- Around 1.25 million people are suffering from destitution, and at the highest risk of financial exclusion



Young people

- 51% of 18–24 year olds regularly worry about money
- Credit ratings have caused financial problems for 1 in 5 young people



Older people

- An estimated 600,000 older people are financially excluded
- One-third of people aged over 80 have never used a cash machine or prefer to avoid them



People with difficulty accessing banks

- 53% of UK bank branches closed between 1989 and 2016
- 1 in 8 disabled people reported difficulty accessing their bank or building society



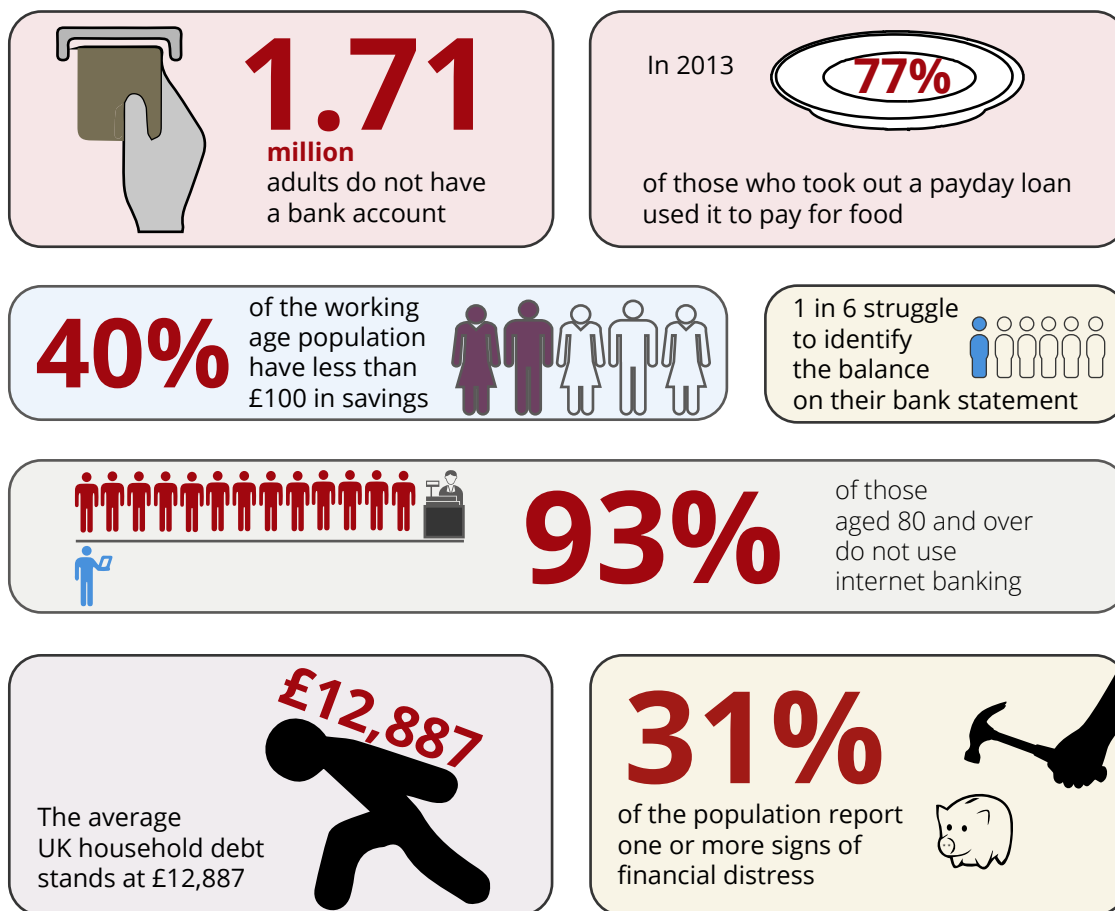
Those who lack digital access

- 12 million people live in rural areas with poor internet access
- 3.8 million UK households without any internet

13 Friends Provident Foundation, University of Birmingham, *Financial Inclusion Annual Monitoring Report 2014* (2014) p 6: <http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/chasm-annual-monitoring-report-2014.pdf> [accessed 14 March 2017]

14 Q 169 (Adam Mickelthwaite)

15 Sources: Joseph Rowntree Foundation, 'Monitoring Poverty and Social Exclusion 2016' (7 December 2016): <https://www.jrf.org.uk/report/monitoring-poverty-and-social-exclusion-2016> [accessed 14 March 2017]; Joseph Rowntree Foundation, 'Destitution in the UK' (27 April 2016): <https://www.jrf.org.uk/report/destitution-uk> [accessed 14 March 2017]; written evidence from Demos (FEX0063); written evidence from MAS (FEX0062); written evidence from Age UK (FEX0094); written evidence from the Finance Foundation (FEX0079); Federation of Small Businesses, 'Bank Branch Closures': <http://www.fsb.org.uk/standing-up-for-you/policy-issues/finance-and-the-economy/bank-branch-closures> [accessed 14 March]; written evidence from EHRC (FEX0089); Office for National Statistics, *Statistical bulletin, Internet access - households and individuals: 2016* (4 August 2016): <https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2016> [accessed 14 March 2017] and written evidence from the British Insurance Brokers' Association (FEX0075)

Figure 2: Financial exclusion in the UK¹⁶

22. Those on low incomes are particularly vulnerable. A range of individuals can fall into this low income category including: the long-term unemployed; people with a long-term illness; those unable to work due to disability; individuals with learning difficulties; young people; and single parent families. Across these groups, there is regular and ongoing research which points to negative financial impacts from major life events, or relates financial exclusion to groups that are exposed to lower incomes or poverty.¹⁷
23. Christians Against Poverty (CAP) noted that those experiencing deprivation are not set up to engage well with financial services as they are lacking monetary resources, support, confidence and, importantly, financial choices.¹⁸ This was part of a wider trend; we consistently heard that financial exclusion was connected to poverty, that deprivation and poverty could

¹⁶ Sources: Friends Provident Foundation, University Birmingham, *Financial Inclusion Annual Monitoring Report 2016* (2016) p 18: <http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/financial-inclusion-monitoring-report-2016.pdf>; Money Advice Service, Press release: *Low savings levels put millions at financial risk* on 29 September 2016: <https://www.moneyadviceservice.org.uk/en/corporate/press-release-low-savings-levels-put-millions-at-financial-risk>; supplementary written evidence from Age UK (FEX0097); written evidence from CAP (FEX0014); written evidence from Shelter (FEX0056); BBC, *UK household debt now a record £13,000*, says TUC (January 2017): <http://www.bbc.co.uk/news/business-38534238>; Money Advice Service, *Financial Capability in the UK 2015*, (November 2015) p 50: https://prismic-io.s3.amazonaws.com/fincap-two%2Fd08746d1-e667-4c9e-84ad-8539ce5c62e0_mas_fincap_uk_survey_2015_aw.pdf

¹⁷ See, for example, written evidence from The Advice Shop (FEX0039), Macmillan Cancer Support (FEX0057), Merton Centre for Independent Living (FEX0003), Demos (FEX0063), Financial Inclusion Commission (FEX0044) and Money Advice Service (FEX0062).

¹⁸ Written evidence from CAP (FEX0014)

exacerbate financial exclusion, and that financial exclusion could often arise from poverty.

The relationship with poverty

24. The Committee was told that the problem of exclusion was, sometimes, simply a result of a sheer lack of money. The National Housing Federation expressed this forcefully:

“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 . . . We have to be a bit more honest about some of the underlying challenges.”¹⁹

25. Lone parents’ advice charity Gingerbread concurred, saying that “financial exclusion among single parents is in the main simply about not having enough money.”²⁰ The Child Poverty Action Group (CPAG) reported that “it is often assumed that [those on very low incomes are] a group that does not manage money very well”, but that anecdotally it appears that “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.”²¹

The poverty premium

26. One of the main relationships between poverty and financial exclusion comes in the form of the poverty premium, which is the additional cost incurred by people carrying out their various transactions when compared 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 can be incurred.²²
27. Disability Rights UK explained the poverty premium as follows:

“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.”²³

In a similar vein, the Money and Mental Health Policy Institute told us that individuals with variable levels of income may choose to pay for their energy bills via a pre-pay meter, which comes with an additional cost²⁴ that will contribute to the poverty premium.²⁵ It was also noted that people can suffer the poverty premium when they lack the ability to buy products online—

19 [Q 104](#) (David Orr)

20 [Q 79](#) (Sumi Rabindrakumar)

21 [Q 79](#) (Alison Garnham)

22 Written evidence from Dr Christine Allison ([FEX0017](#))

23 [Q 65](#) (Philip Connolly)

24 In February 2017 the energy regulator, Ofgem, announced that a temporary price cap for energy pre-payment meter charges will be introduced. The price cap will be updated every six months, and will remain in place until 2020. See: <http://www.bbc.co.uk/news/business-38891010> [accessed on 14 March 2017].

25 [Q 146](#) (Polly MacKenzie)

where the best deals are often to be found—or are unable to subscribe to direct debit payments.²⁶

28. The costs associated with the poverty premium are significant, running into thousands of pounds.²⁷ A number of evidence submissions estimated that the premium could amount to approximately £1,300 a year per person, a figure first cited in a 2010 report by Save the Children.²⁸

Aspects of financial exclusion

How many are without a bank account?

29. The number of people without access to a bank account provides some insight into levels of financial exclusion. Bank accounts act as a prerequisite for other financial services and, arguably, have become a necessity. Although the ‘unbanked’ account for a relatively low percentage of the population they are a key driver of the financially excluded cohort.
30. Figure Three, which draws upon research from the Friends Provident Foundation and the University of Birmingham²⁹, illustrates that in 2006–07 there were 1.01 million people without access to any bank account in their household, falling to 660,000 in 2012–13. However, this declining trend reversed in 2013–14 with numbers rising to 730,000. If those who did not state whether or not they had access to an account are also included, numbers rise to 1.02 million for the period 2013–14 which, again, represents a decline from 2006–07 figures (2.09 million) but an increase on the 2012–13 figures (1 million).
31. The same research³⁰ suggests the total number of individuals who are unbanked was 1.71 million for the 2013–14 period which, once again, represents a decline from 2006–07 (3 million) but an increase on 2012–13 figures (1.5 million). It is, of course, worth noting that this might include adults who have access to the account of a partner or family member.

26 Written evidence from the Consumer Council (FEX0082)

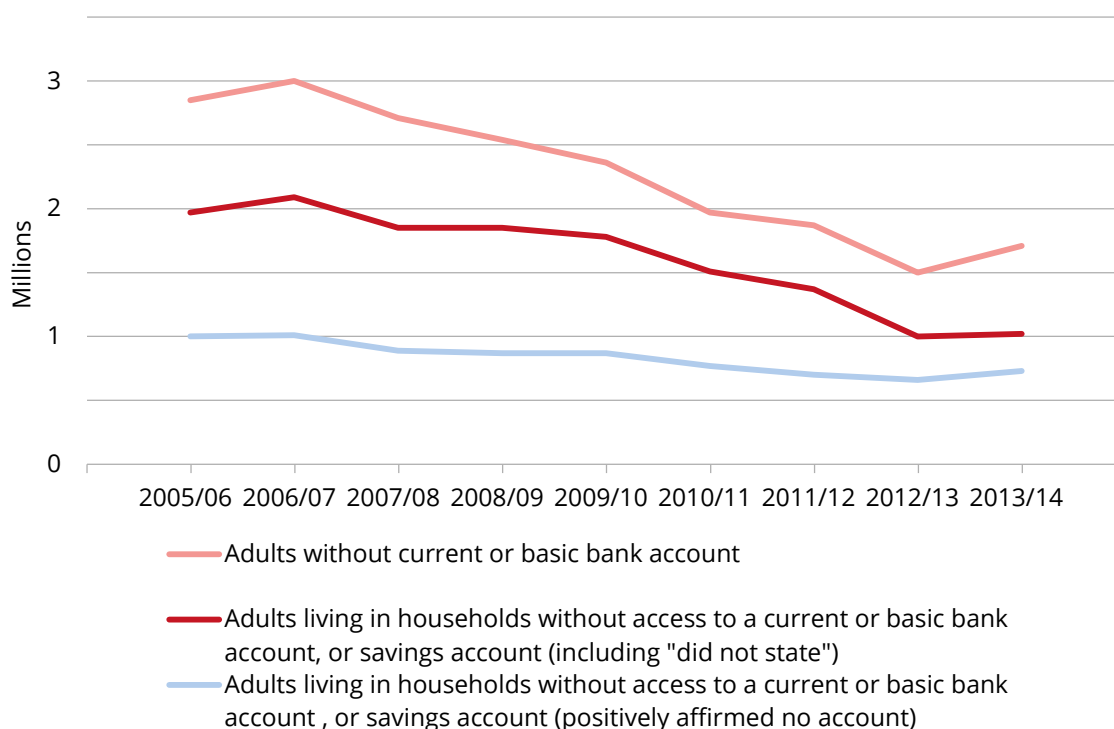
27 Written evidence from Dr Christine Allison (FEX0017)

28 Written evidence from Mastercard (FEX0068), Shelter (FEX0056), Lloyd’s Banking Group (FEX0077), Demos (FEX0063), Birmingham Financial Inclusion Partnership (FEX0049) and Financial Inclusion Commission (FEX0044)

29 Friends Provident Foundation, University of Birmingham, *Financial Inclusion Annual Monitoring Report 2016* (2016) p 18: <http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/financial-inclusion-monitoring-report-2016.pdf> [accessed 14 March 2017]

30 Friends Provident Foundation, University of Birmingham, *Financial Inclusion Annual Monitoring Report 2016* (2016) p 18: <http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/financial-inclusion-monitoring-report-2016.pdf> [accessed 14 March 2017]

Figure 3: Households and adults without access to a current or basic account, or savings account³¹



Identity verification issues

32. Not meeting identity requirements is one reason why an individual might find themselves unbanked or excluded from other financial services. Individuals without a driving licence, passport or permanent address, for example, sometimes fail to meet stringent identity criteria to access financial services; those already experiencing financial exclusion might find that they do not have the resources to acquire these documents, leaving them in a challenging position.
33. We were told that, in 2012, 9.5 million people were without a passport in the UK and, in 2015, 1 in 4 UK residents did not have a driving licence.³² Individuals that are particularly at risk of not meeting identity requirements include:
 - Ex-offenders and prisoners;
 - The homeless;
 - Those fleeing domestic abuse;
 - Young people;
 - Migrants, refugees; and
 - Low income groups.

³¹ Source: Friends Provident Foundation, University Birmingham, *Financial Inclusion Annual Monitoring Report 2016* (2016): <http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/financial-inclusion-monitoring-report-2016.pdf> [accessed 14 March 2017]

³² Written evidence from the Open University ([FEX0009](#))

34. A 2010 study found that 85% of people interviewed in prison without a bank account said they had tried to get one without success.³³ Difficulties experienced by migrants and refugees were also consistently highlighted in the evidence that we heard.³⁴

Digital exclusion

35. The growth of internet banking has meant an increasing number of financial services are moving online. While this has made banking more convenient and accessible to some, others face the negative effects of increasing bank closures and isolation from digital platforms. 53% of UK bank branches closed between 1989 and 2016.³⁵
36. Digital exclusion can affect those who are excluded from digital services due to high cost, capability issues or limited geographical access; 12 million people live in rural or remote areas of the UK where poor internet access can make managing money online a difficult task.³⁶
37. The ageing population is also at risk. Just 53% of single pensioners had internet access in 2016³⁷ and 93% of those aged 80 and over do not use internet banking.³⁸ Non-internet users are likely to miss out on competitive online deals and instant, easy access to their accounts and services.

Recent trends in savings

38. Research from the Money Advice Service (MAS) has suggested that 16.8 million people—40% of the working-age population—have less than £100 in savings available to them at any time.³⁹ This alarming figure leaves millions at risk of financial exclusion as savings can provide a buffer to unexpected expenses and reduced income through job loss, illness, or upon retirement. Moreover, 13 million people report that, should they experience a 25% cut in income, they do not have access to enough savings to support themselves for one month.⁴⁰

33 Written evidence from Unlock (FEX0012)

34 Written evidence from Oakam Ltd (FEX0064) and Toynbee Hall (FEX0073)

35 Federation of Small Businesses, 'Bank Branch Closures' <http://www.fsb.org.uk/standing-up-for-you/policy-issues/finance-and-the-economy/bank-branch-closures> [accessed 14 March]

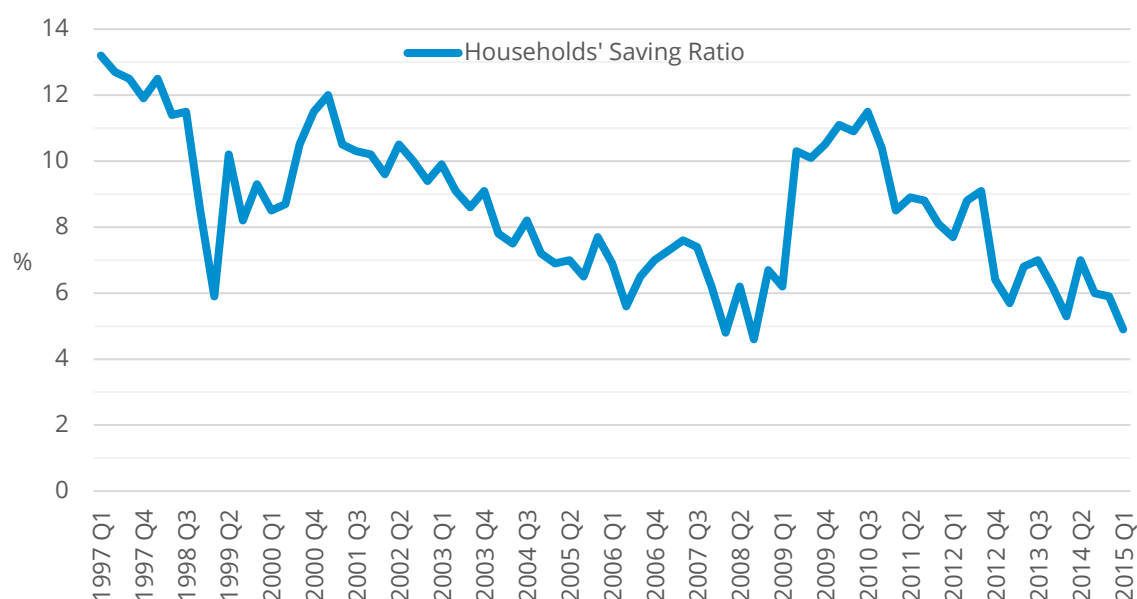
36 Written evidence from Shelter (FEX0056)

37 Office for National Statistics, 'Statistical bulletin, Internet access- households and individuals: 2016': <https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2016> [accessed 14 March 2017]

38 Supplementary written evidence from Age UK (FEX0094)

39 Money Advice Service, Press release: *Low savings levels put millions at financial risk* on 29 September 2016: <https://www.moneyadviceservice.org.uk/en/corporate/press-release-low-savings-levels-put-millions-at-financial-risk> [accessed 14 March 2017]

40 Financial Inclusion Commission, *Improving the Financial Health of the Nation* (March 2015) p 3: http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf [accessed 14 March 2017]

Figure 4: Households' Saving Ratio⁴¹

39. One key measure of savings, the households' saving ratio, highlights how saving levels in the UK have been declining steadily since 2010.⁴² As Figure Four displays, the households' saving ratio peaked at 13.2% at the beginning of 1997 but fell to a low of 4.6% in 2008 during the economic downturn. Despite recovering to 11.5% in the third quarter of 2010, savings have since been declining and, as recent figures demonstrate, savings for quarter one of 2015 were at 4.9%, marginally higher than 2008 levels.
40. These figures suggest a worsening scenario whereby those on the lowest incomes are likely to have the lowest savings and become susceptible to financial exclusion, simply by virtue of having insufficient money available to them to overcome the financial shocks or negative impacts that can be experienced as part of everyday life.

Access to credit

41. Many in this situation are also unable to access affordable credit and are forced to turn to high cost lenders; the Financial Inclusion Commission (FIC) estimated that two million people took out high cost credit in 2012 as they were unable to secure any other form of credit.⁴³ Younger age groups are particularly affected by this, with one survey suggesting that 40% of people between the ages of 25 and 35 were turned down for access to bank credit in the past year.⁴⁴
42. Those left without a choice face paying extra for turning to high cost credit. Disturbingly, these additional costs are often used for basic necessities rather than luxury goods and services. In 2013 CAP found that of those who had

41 Source: Office for National Statistics

42 This ratio captures the saving behaviour of households by subtracting household expenditure from household income; a higher saving ratio would indicate increased household income, decreased expenditure or a combination of the two. Figure Four also includes NPISH (Non-profit institutions serving households).

43 Financial Inclusion Commission, *Improving the Financial Health of the Nation* (March 2015) p 3: http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf [accessed 14 March 2017]

44 Q 160 (Monica Kalia)

taken out a ‘payday loan’⁴⁵, 77% had used it to pay for food, 52% for gas or electricity and 36% for rent or mortgage payments.⁴⁶ The extra costs associated with products such as payday loans constitute part of the ‘poverty premium’ discussed earlier.

Financial education and capability

43. A lack of financial education and capability has been cited as a further cause of financial exclusion. Around one 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.⁴⁷ Within this context, the need for financial education is more apparent than ever with younger people becoming increasingly exposed to financial choices; 68% of 13–17 year olds reported having seen a payday loan advert on television in the last week⁴⁸ and the average debt-to-income ratio for 15–24 year olds stood at nearly 70% for non-students in 2010–12.⁴⁹ While 94% of secondary school teachers⁵⁰ agreed that financial education gives students an essential life skill, evidence suggests that much work remains to be done in delivering financial education. We consider this in more detail in Chapter Four.

Self-exclusion

44. Finally, a proportion of individuals are ‘self-excluded’ either through their own choice or a lack of awareness of the services available to them. The Post Office, for example, offers an extensive range of accessible services, yet they themselves suggest public awareness of these services “has historically been relatively low”.⁵¹
45. Beyond a lack of awareness of the services on offer, there are a number of other reasons for self-exclusion. These can include:
 - A lack of financial capability and confidence;
 - Lack of trust in providers;
 - Psychological barriers; and
 - An inability to access products via the preferred channel.⁵²

The design and implementation of financial products can also contribute to this; we heard that inflexible payment schedules (such as those associated

45 A relatively small sum of money lent at a high rate of interest on the agreement that the borrower will repay the sum when they receive their next wages.

46 Written evidence from CAP ([FEX0014](#))

47 Written evidence from Shelter ([FEX0056](#))

48 All Party Parliamentary Group on Financial Education for Young People report, *Financial Education in Schools: Two Years On — Job Done?* (May 2016) p 14: <http://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf> [accessed 14 March 2017]

49 Citizens Advice, *Unsecured and insecure? Exploring the UK’s mountain of unsecured personal debt—and how it affects people’s lives* (September 2015) p 27: <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/UnsecuredorinsecureFinal.pdf> [accessed 14 March 2017]

50 All Party Parliamentary Group on Financial Education for Young People report, *Financial Education in Schools: Two Years On — Job Done?* (May 2016) p 17: <https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf> [accessed 14 March 2017]

51 Written evidence from Post Office Limited ([FEX0101](#))

52 Written evidence from Financial Services Consumer Panel ([FEX0035](#))

with direct debits) and penalties for missed payments could lead to some people ‘opting out’ of financial services.⁵³

Concluding remarks

46. Financial exclusion has multiple causes, and can affect many different groups in society. Different groups, of all ages, can encounter the repercussions of poor financial capability yet those on the lowest incomes appear to be most at risk. Some people simply have an income level that is insufficient to enable them to avoid financial exclusion. For many, a low level of income, or a variable income, can lead to diminished access to financial services and other goods and services. This reduced access contributes to the poverty premium, whereby the poor pay more for goods and services. The premium then serves to further exacerbate the effects of poverty and financial exclusion.
47. The policy focus on financial inclusion increased from the late 1990s onwards, with a succession of initiatives culminating in the work of the Financial Inclusion Taskforce. While the Taskforce was closed in 2011, there have subsequently been a number of initiatives of relevance to the inclusion agenda but without the same degree of central focus on inclusion *per se*. What is not immediately clear is the extent to which these initiatives have delivered appropriate support to those, often at the margins of society, who are experiencing the effects of exclusion. We consider this in later chapters, with particular focus on delivering support to those who are most at risk of exclusion.
48. What is clear is that, in an era of increasing bank closures, an ageing population, and declining savings rates, much work is needed. The United Kingdom stands at the forefront of the global financial services and, as such, should lead by example, setting a high standard in seeking to address financial exclusion. We believe that the country must strive to mirror its global standing by committing to the development of a truly financially inclusive society.

53 Written evidence from ABCUL ([FEX0037](#))

CHAPTER 3: LEADERSHIP FROM GOVERNMENT AND PROACTIVE REGULATION

49. Financial services in the UK are provided within a regulated marketplace. The actions of regulators—particularly the Financial Conduct Authority (FCA)—have a major impact upon the nature and extent of financial services provision. Such regulators operate within a legal and policy context that is defined and shaped by the Government.
50. Wider Government policy—social as well as regulatory—also has the potential to limit or exacerbate financial exclusion. The final chapter of this report considers how recent welfare reforms might impact upon financial exclusion. In addition, publicly funded providers of advice and guidance services are responsive to the policy impetus and agenda that is set by Government.
51. The Government, therefore, has a significant number of levers and options at its disposal for addressing financial exclusion and promoting financial inclusion. Working with regulators, advice services and businesses, the Government can shape responses to these issues and help to promote a more inclusive society. In Chapter Seven of this report we give detailed consideration to recent reforms to the high-cost short-term credit sector, where Government leadership and proactive regulation have led to positive change. The reforms to high-cost short-term credit show what can be achieved, in a relatively short period of time, with political leadership, dedicated resources and a degree of focus.
52. While this is to be commended we were, unfortunately, told consistently that efforts to address financial exclusion suffered as a result of limited national leadership from Government, and insufficient co-ordination of policy across central Government departments. This chapter considers how the Government approach to addressing financial exclusion might be refined, in order to add up to more than the sum of its parts; it also gives consideration to the work undertaken by the FCA to address financial exclusion, and how this might be enhanced.

The need for Government leadership and co-ordination

Leadership from Government

53. As described earlier in this report, financial exclusion is a multi-faceted issue with numerous social, economic and financial causes and effects. As such, those initiatives which might help to address exclusion and promote inclusion do not sit easily within the purview of any one Government Minister. It is apparent that numerous Government departments have important roles to play:
 - HM Treasury is of central importance given its responsibility for financial services policy and regulation.
 - The Department for Work and Pensions runs the welfare system and, in doing so, seeks to enable people to achieve financial independence.
 - Financial education and capability is a key building block in allowing people to manage their financial affairs appropriately and, as such, the Department for Education is a key actor.

- The Department for Business, Energy and Industrial Strategy is, through Postal Services Holding Company Ltd, the owner of the Post Office, with its extensive branch network offering an array of financial services.
- The Department for Communities and Local Government has oversight of, and is an important funder of, a range of locally delivered financial support and advice services.

Beyond central Government the devolved administrations, local authorities, voluntary organisations and the wider financial services sector are all involved in work to address financial exclusion.

54. In Chapter Two we discussed the creation of the Financial Inclusion Taskforce. The Taskforce was comprised of independent members drawn from across the industry, voluntary sector and academia. In addition to publishing research and evaluation, the Taskforce provided advice on the design and implementation of initiatives from different Government departments, in order that policy interventions could effectively support wider financial inclusion goals.⁵⁴ In this way, the Taskforce served to promote co-ordination of activity in this field.
55. In March 2011 the Government chose to disband the Taskforce; we were told that this decision meant that financial inclusion should instead be embedded in policy making across different departments, with each department taking responsibility for the particular area of financial inclusion that falls within its remit.⁵⁵ Where necessary, “normal channels of engagement” between departments were used to co-ordinate joint programmes; the Credit Union Expansion Programme was identified as one such example of joint working between HM Treasury and DWP.⁵⁶
56. The loss of the Taskforce was, however, identified as a significant issue in much of the evidence that we heard. Leeds City Council told us that, since the Taskforce was wound up, there had been a breakdown in interaction between Government and regional and local authorities.⁵⁷ The Money Charity suggested that certain initiatives from the Government were now “rudderless and piecemeal”.⁵⁸ Toynbee Hall told us that:

“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.”⁵⁹

57. Martin Lewis bemoaned the lack of co-ordination more widely, stating that:

“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

54 HM Treasury, Financial Inclusion Taskforce, *Terms of Reference* (January 2010): http://webarchive.nationalarchives.gov.uk/20100104214853/http://hm-treasury.gov.uk/fit_terms.htm [accessed 14 March 2017]

55 Q 35 (Gwyneth Nurse)

56 *Ibid.*

57 Written evidence from Leeds City Council (FEX0030)

58 Written evidence from Money Charity (FEX0061)

59 Q 112 (Sian Williams)

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.”⁶⁰

58. The issue of co-ordination across Government cannot be divorced from that of leadership from Government. The aforementioned Taskforce conducted its work within the context of a clear Government focus on promoting financial inclusion, with a £130 million Financial Inclusion Fund used to promote initiatives across a number of departments. This clear impetus from the Government gave a degree of priority to addressing financial exclusion.
59. Witnesses consistently told us that clear leadership and prioritisation from Government on the issue of financial exclusion would be the most important factor in driving improvements in this area. The Money Advice Trust, Age UK, Toynbee Hall, the Financial Services Consumer Panel and M&S Bank, among many others, said that Government leadership was vital.⁶¹
60. The Financial Inclusion Commission considered these matters in detail when producing their 2015 report. In doing so, they concluded that the Government had not, in recent years, provided the leadership needed at national level to co-ordinate and monitor financial inclusion.⁶² They went on to state that “since the end of the Financial Inclusion Taskforce, there has been a lack of momentum and co-ordination at national level. There is no central repository of knowledge and best practice.”⁶³
61. The President of the Commission, Sir Brian Pomeroy, suggested that the Government needed to be proactive in addressing this situation:

“It is really the lead from 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.”⁶⁴

The Chair of the Commission, Sir Sherard Cowper-Coles, expanded upon this theme:

“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.”⁶⁵

62. The Commission set out a number of proposals to address this situation; chief among these was a recommendation that the Government should

60 [Q 143](#) (Martin Lewis OBE)

61 See evidence from [Q 12](#) (Joanna Elson OBE), [Q 68](#) (Lucy Malenczuk), [Q 112](#) (Sian Williams), [Q 131](#) (Sue Lewis) and [Q 230](#) (Sue Fox).

62 Financial Inclusion Commission, *Improving the Financial Health of the Nation* (March 2015) p 12: http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf [accessed 14 March 2017]

63 Financial Inclusion Commission, *Improving the Financial Health of the Nation* (March 2015) p 21: http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf [accessed 14 March 2017]

64 [Q 60](#) (Sir Brian Pomeroy CBE)

65 [Q 60](#) (Sir Sherard Cowper-Coles)

designate a senior Minister⁶⁶ as the lead on financial inclusion and financial capability, with the title of ‘Minister for Financial Health’.⁶⁷ The work of the Minister would be supported by ‘Ministerial Champions’ embedded in each relevant department, and in devolved administrations.⁶⁸ A number of witnesses called for these recommendations to be implemented.⁶⁹

63. The Minister for Welfare Reform⁷⁰ was, however, strongly opposed to this proposal and suggested that the concentration of knowledge within departments around specific inclusion initiatives (such as Universal Credit) meant that it was more appropriate for inter-departmental conversations on key issues to take place as and when required.⁷¹ The Economic Secretary to the Treasury highlighted the various financial inclusion responsibilities that sat within his remit and told us that “as such, I am effectively the Minister for Financial Health.”⁷²
64. **Work to address financial exclusion cuts across a number of Government departments, and extends across the devolved administrations, local authorities, business and civil society. Since the demise of the Financial Inclusion Taskforce these initiatives have lacked central co-ordination and oversight; in addition, the loss of the Taskforce gives the unfortunate impression that financial inclusion is no longer a key priority for the Government. The Government needs to give greater leadership and central co-ordination to initiatives that seek to address financial exclusion.**
65. *We recommend that the Government should appoint a clearly designated Minister for Financial Inclusion. The Minister should have lead responsibility for promoting financial inclusion and should be supported with appropriate resources to co-ordinate effectively work to address financial exclusion.* (Recommendation 1)

Developing and implementing a strategy

66. It is evident that the lack of central Government co-ordination on financial exclusion can lead to gaps in the provision of appropriate services,⁷³ inconsistent objectives across different departments and overlap and duplication of effort between different service providers. We were told that one single body should be tasked with monitoring progress towards financial inclusion, and assessing the financial capability of the country as a whole.⁷⁴
67. Professor Martin Upton told us that:

“There should be one 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

66 Sir Sherard Cowper-Coles suggested that this designation could perhaps be given to the Economic Secretary to the Treasury ([Q 52](#)).

67 Written evidence from Financial Inclusion Commission ([FEX0044](#))

68 *Ibid.*

69 See, for example, [Q 9](#) (Joanna Elson OBE), [Q 102](#) (David Orr), Birmingham Financial Inclusion Partnership ([FEX0049](#)), The Money Charity ([FEX0061](#)) and Toynbee Hall ([FEX0073](#)).

70 At the time this was the Rt Hon. Lord Freud; he retired from this position in December 2016.

71 [Q 233](#) (Rt Hon. Lord Freud)

72 [Q 234](#) (Simon Kirby MP)

73 Written evidence from Association of British Credit Unions Limited ([FEX0037](#))

74 [Q 149](#) (Martin Lewis OBE) and [Q 158](#) (Faisal Rahman OBE)

a number of different bodies. If there is no co-ordination, the risk is things will slip between fingers.”⁷⁵

68. In October 2015 the Money Advice Service (MAS) launched a 10 year financial capability strategy. The Chief Executive of MAS told us that the strategy was:

“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”.⁷⁶

69. In early 2016, however, the Government set out plans for the reform of financial guidance services and the replacement of MAS. These proposals were modified in October 2016, and have since been subject to consultation; we consider them in further detail in Chapter Four.
70. A number of witnesses described the capability strategy as a successful element of the work of MAS.⁷⁷ The British Bankers’ Association (BBA) told us that they supported the principles of the strategy and the long-term goals contained within it, and felt that this work should continue following the implementation of the Government’s reforms to public financial guidance.⁷⁸ The Money Advice Trust told us that the strategy provided a solid framework and a good start, but was missing measurable objectives against which implementation and progress could be tracked.⁷⁹
71. We believe that the Financial Capability Strategy lends valuable co-ordination to provision in this field, and should continue following the closure of MAS. We believe, however, that this work should be led directly by the Government, as part of a wider strategy for addressing financial exclusion.
72. If the Government is to provide greater clarity and leadership on financial exclusion it will need to have a strategy of its own, in which aims, objectives and methods of implementation are set out, and a means of providing periodic reports of attainment against these objectives. In this respect, we believe that a useful parallel can be drawn with the work of bodies such as the Social Mobility Commission (SMC).⁸⁰ The SMC monitors progress towards improving social mobility in the UK, and promotes social mobility in England. Its responsibilities⁸¹ include carrying out and publishing research into social mobility and publishing an annual report setting out the progress made towards improving social mobility in the UK.
73. In a similar vein, there are a number of other bodies which are required to publish annual reports to Parliament—such as the Professional Standards Authority, Care Quality Commission and the Office for Nuclear Regulation,

75 Q 202 (Martin Upton)

76 Q 91 (Caroline Rookes CBE)

77 See evidence from Q 15 (Guy Rigden), Barclays (FEX0074), BBA (FEX0019) and Unum (FEX0028)

78 Written evidence from BBA (FEX0019)

79 Q 5

80 The SMC is co-sponsored by the Cabinet Office, Department for Work and Pensions and Department for Education.

81 Social Mobility Commission, ‘About us’: <https://www.gov.uk/government/organisations/social-mobility-commission/about> [accessed 14 March 2017]

among many others. These are all important matters, which merit regular monitoring of progress and activity.

74. We believe that tackling financial exclusion is a vital step towards delivering a more inclusive economy, and merits similar ongoing attention and reporting. Regular Government reports should provide detailed analysis of levels of financial exclusion and a co-ordinated, coherent assessment of Government, third sector and business initiatives that seek to promote financial inclusion. They should provide monitoring and review of progress against clearly defined objectives for addressing financial exclusion.
75. ***We recommend that the Government should set out a clear strategy for improving financial inclusion in the UK. The Government should lead and co-ordinate on the implementation and monitoring of this strategy. This should be one aspect of a wider Government strategy to address comprehensively the issue of financial exclusion. We believe that the recommendations in the remainder of this report should form a key part of this wider strategy.*** (Recommendation 2)
76. ***We recommend that the Government should also provide an annual report of the progress made towards addressing financial exclusion across the UK, with work on this led by the Minister for Financial Inclusion. The report should be presented to Parliament as a Command Paper. We recommend that the first such report should be presented to Parliament within 18 months of the publication of this Select Committee report.*** (Recommendation 3)

The role of regulators

The Financial Conduct Authority and financial inclusion

77. The Financial Conduct Authority (FCA) was established in April 2013, as a result of the Financial Services Act 2012, which abolished the Financial Services Authority. The FCA regulates the conduct of over 56,000 financial services firms in the UK; its strategic objective is to ensure that relevant financial services markets function well. This is supported by three operational objectives which are to protect consumers, to protect financial markets and to promote competition.⁸²
78. The FCA told us that, under their statutory competition objective, they had regard to how easy it is for consumers to access financial services, including consumers in areas affected by social or economic deprivation. They also explained that, in fulfilling the objective of protecting consumers, the FCA had regard to the differing degrees of experience and expertise of consumers, and the general principle that consumers should take responsibility for their own decisions. They also recognised that consumers can only do this if they have access to appropriate financial services that meet their changing needs.⁸³

82 Financial Conduct Authority, 'About Us': <https://www.fca.org.uk/about/the-fca>. The full text of the objectives, as set out in [sections 1B to 1E](#) of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012).

83 Written evidence from FCA ([FEX0083](#))

Box 1: Co-operation between the FCA and the CMA

The Competition and Markets Authority (CMA) has competition law powers which apply across the whole economy. Sectoral regulators such as the Financial Conduct Authority are able to exercise these competition law powers to enforce the prohibitions on anti-competitive agreements and on abuse of a dominant position, and to make market investigation references, concurrently with the CMA in those sectors for which they have responsibility. The powers of the FCA were enhanced in this regard by the Enterprise and Regulatory Reform Act 2013.

In December 2015 the CMA and the FCA agreed a memorandum of understanding setting out how the two regulators would work together within the context of competition law. The memorandum committed the two regulators to close working, including through the sharing of expertise, information, ideas and experience.

Adam Land, Senior Director at the CMA, explained to us how the two regulators worked closely together:

“We work closely with the FCA and consulted them pretty extensively through our [payday lending] 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.”

Sources: *Memorandum of understanding between the CMA and the FCA, December 2015*⁸⁴ and [Q 191](#) (Adam Land)

79. In May 2016 the FCA published an ‘Occasional Paper’ on access to financial services; the paper was intended to promote debate on financial access by bringing together a range of key issues.⁸⁵ Since the publication of this paper the FCA has held discussions with industry groups, research bodies, the Government and the third sector, in order to promote awareness of some of the issues raised. Previous Occasional Papers published by the FCA have also considered themes relevant to financial exclusion, such as consumer vulnerability; a February 2016 discussion paper also considered the financial services needs of the ageing population.

80. The FCA has, therefore, sought to undertake research and promote debate around issues relevant to financial exclusion. The work, initiative and proactivity of the regulator is, though, limited by the statutory objectives set out by Government. The FCA told us that:

“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.”⁸⁶

84 Competition & Market Authority, Financial Conduct Authority, *Memorandum of understanding between the Competition and Markets Authority and the Financial Conduct Authority – concurrent competition powers* (December 2015): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487999/CMA_FCA_MOU.pdf [accessed 14 March 2017]

85 Financial Conduct Authority, *Access to Financial Services in the UK* (May 2016) p 58: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf> [accessed 14 March 2017]

86 Written evidence from FCA ([FEX0083](#))

They went on to state:

“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.”⁸⁷

81. The limitations of these objectives were highlighted during the course of our inquiry.⁸⁸ In their 2015 report, the Financial Inclusion Commission reported that existing legislation did not give the FCA a clear enough mandate to take decisive action in encouraging the sector to develop services to meet the needs of consumers in vulnerable circumstances and on low incomes. They also noted a view that the FCA was putting little pressure on firms to widen access, since, understandably enough, this is seen as ‘social policy’ rather than a ‘regulatory’ issue.⁸⁹ This interpretation of financial access was echoed by the Economic Secretary to the Treasury, who told the Committee that financial inclusion was “far more of a social, rather than a regulatory issue”, going on to state that it was therefore for “Government to decide what actions should be taken to ensure financial inclusion.”⁹⁰
82. The Financial Inclusion Commission took a different stance, telling us that the Government should give the FCA a specific and clear direction to promote financial inclusion, in order to provide ‘political cover’ for actions that the FCA might undertake in this area.⁹¹ The Commission suggested that this should take the form of a new financial inclusion commitment, sitting within the FCA’s consumer protection objective, rather than within its competition objective. A number of other witnesses argued that such a commitment was required.⁹² Age UK stated that one of their priorities would be to:

“Place a statutory duty on the 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.”⁹³
83. The issue of ‘political cover’ for actions taken by the FCA also arose when considering recent measures taken to impose a cap on high-cost short-term lending.⁹⁴ In this instance, the FCA told us⁹⁵ that it might have been open to legal challenge on the imposition of a cap had it not been for the introduction of a new clause into the Banking Reform Bill, in November 2013, requiring

87 *Ibid.*

88 Written evidence from Age UK (FEX0094), the Finance Foundation (FEX0079), Money Advice Trust (FEX0047) and Neyber (FEX0065)

89 Financial Inclusion Commission, *Improving the Financial Health of the Nation* (March 2015) p 23: http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf [accessed 14 March 2017]

90 Q 240 (Simon Kirby MP)

91 Written evidence from Financial Inclusion Commission (FEX0044)

92 Written evidence from Age UK (FEX0094), the Money Charity (FEX0061) and Consumer Finance Association (FEX0011)

93 Supplementary written evidence from Age UK (FEX0094)

94 This is commonly known as the ‘payday lending’ cap, introduced in January 2015, and is considered in more detail in Chapter 7.

95 Q 203 (Christopher Woolard) and Q 218 (Andrew Bailey)

them to implement such a cap.⁹⁶ This example demonstrates that proactive regulation requires political cover and legal backing.

84. ***We recommend that the Government should expand the remit of the FCA to include a statutory duty to promote financial inclusion as one of its key objectives. Government leadership of the financial inclusion agenda must be supported by proactive regulation. At present, the work of the FCA in this field is limited by the objectives defined in its statutory remit.*** (Recommendation 4)

A duty of care to customers

85. In June 2015 the Financial Services Consumer Panel issued a paper suggesting that the FCA should be required, as part of its consumer protection objective, to make rules specifying what constitutes a reasonable duty of care for financial services providers to exercise towards their customers. In order to implement such a measure the Government would need to amend the Financial Services and Markets Act 2000.
86. Currently, the Act requires that the FCA must have regard to ‘the general principle that consumers should take responsibility for their decisions’.⁹⁷ The Financial Services Consumer Panel told us that consumers could only reasonably be expected to take responsibility for their decisions if firms had exercised a duty of care towards them;⁹⁸ they suggested that such a duty would oblige providers of financial services to avoid conflicts of interest and act in the best interests of their customers.⁹⁹ The Panel proposed that the Act should be amended to require the FCA to make rules on a duty of care; the exact scope would be for the FCA to decide, but the Panel envisaged that the rules would be flexible, and depend on the complexity and risk of the product being sold. The primary intention would be to protect retail and smaller business customers.¹⁰⁰
87. The Panel argued that the introduction of a duty of care would lead to cultural change in the banking sector:

“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 . . . 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”.¹⁰¹

They went on to note that, if properly applied, an over-arching duty of this kind might in fact offset the need for more detailed rules and regulations.¹⁰² The proposal could, therefore, have the potential to limit the overall costs and burdens of regulation.

96 Now [section 131](#) of the Financial Services (Banking Reform) Act 2013.

97 Financial Services and Markets Act 2000, [section 1C](#) (as amended by the Financial Services Act 2012)

98 Written evidence from Financial Services Consumer Panel ([FEX0035](#))

99 Supplementary written evidence from Financial Services Consumer Panel ([FEX0099](#))

100 *Ibid.*

101 *Ibid.*

102 *Ibid.*

88. The True Potential Centre at the Open University suggested that such a duty might strengthen the hand of the regulator when intervening on financial exclusion issues.¹⁰³ The FCA told us that they did not disagree with the principle of a duty of care, but were not convinced that it would add significantly to the regulatory toolkit available to them; they stated that they were willing to continue to debate the proposal, both with the Panel and more widely.¹⁰⁴ The Economic Secretary to the Treasury told us that he had an open mind on the matter, but that it was primarily a matter for the FCA.¹⁰⁵
89. ***We recommend that the Financial Services and Markets Act 2000 should be amended, in order to introduce a requirement for the FCA to make rules setting out a reasonable duty of care for financial services providers to exercise towards their customers. Such a duty will promote responsible behaviour on the part of businesses and support sound financial decision-making by customers.***
(Recommendation 5)

103 Written evidence from Open University ([FEX0009](#))

104 [Q 204](#) (Andrew Bailey)

105 [Q 240](#) (Simon Kirby MP)

CHAPTER 4: FINANCIAL EDUCATION, ADVICE AND CAPACITY BUILDING

Financial education

90. While the recommendations we have set out so far will be vital in addressing financial exclusion they must also be complemented by appropriate measures to increase financial capability. In seeking to tackle exclusion an appropriate balance must be struck between those measures which respond and react to current problems, and those which will develop the capability and capacity of future generations. In this chapter we consider the current nature and extent of provision in this field, and make a number of recommendations for action.
91. Delivery of a more financially inclusive society will require individuals to be equipped with the financial skills and knowledge required to make good, responsible decisions. Those same skills are also an important building block—though not the only solution—in allowing people to avoid debt, hardship and reliance on high-cost products.
92. Support in developing and building financial capability is essential in ensuring that individuals can take responsibility for the financial choices that they make; for this reason, adequate provision of financial education is a vital building block in preventing financial exclusion. We were told that “personal responsibility is closely linked to financial capability, which is why financial education is so important”.¹⁰⁶ Gateshead Council emphasised the importance of adequate teaching within schools:

“Personal responsibility is vitally important but people don’t know what they don’t know . . . If financial education wasn’t taught to them at school who is going to teach them in the real world? . . . 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.”¹⁰⁷
93. Financial capability is not something that, once taught, remains static. Individuals will need to respond to different financial challenges at different points in their life. What is important is that individuals are equipped, from an early age, with the requisite skills to make good financial judgements, and a knowledge of where to seek appropriate advice. Thereon, there needs to be access to good, impartial advice where necessary and the provision of appropriate levels of support for those who encounter debt or difficulty.

The school curriculum

94. Across the UK the extent and nature of financial education provided within schools varies. Box Two provides an outline on the teaching of financial education in the devolved nations, which presents a contrast with the situation in England.

¹⁰⁶ Written evidence from Barclays ([FEX0074](#))

¹⁰⁷ Written evidence from Gateshead Council ([FEX0046](#))

Box 2: Financial Education in Scotland, Wales and Northern Ireland

Financial education is significantly more embedded in schools in the devolved administrations than in England. Personal finance education already forms a part of both the primary and secondary national curricula in each of the devolved nations, with established frameworks for study.

Scotland

Scotland's Curriculum for Excellence (the Scottish national curriculum) provides opportunities for schools to adopt a cohesive, planned and co-ordinated approach to financial education that works across a school's curriculum. Education Scotland provides guidance and support for teachers through a dedicated financial education section on its website.

The four aspects of financial capability in the Scottish provision are:

- Financial understanding
- Financial competence—the ability to apply understanding to a range of real-life contexts
- Financial responsibility—defined as a “caring and responsible disposition” with regard to using money
- Financial enterprise—being “the ability to deploy resources in an imaginative and confident manner, such as knowing how to choose the most suitable forms of spending and saving.”

Wales

In Wales, financial education has been embedded within the statutory primary and secondary curricula since 2008. It is chiefly delivered through Mathematics, where “managing money” is an identified element of “using numbers”. It also features in Personal and Social Education and Careers.

In September 2015, the Welsh Government introduced a new GCSE Numeracy qualification, which includes aspects of financial literacy and tests students in the context of personal and household finance questions.

Wales is in the process of moving towards a thematic—rather than subject-based—curriculum, formed around six areas of learning: expressive arts; humanities; health and wellbeing; languages, literacy and communication; mathematics and numeracy; and science and technology. It is not yet clear where financial education will fit into this new curriculum structure.

Northern Ireland

In Northern Ireland financial education is divided into three connected themes—financial knowledge and understanding, financial skills and competence, and financial responsibility.

The subject is embedded in the primary and secondary curricula and is an element of both mathematics and personal development. Support for teachers is offered through a micro-site developed by the Northern Ireland Council for the Curriculum, Examinations and Assessment (CCEA).

Source: All Party Parliamentary Group on Financial Education for Young People report, Financial Education in Schools: Two Years On—Job Done?

95. While each of the devolved nations has financial education in both the primary and secondary curriculum, provision in England has been more limited; until 2014, in fact, there was no statutory requirement for such teaching in English

schools. When considering provision in English secondary schools it is also important to note that the national curriculum applies only to maintained schools (those run by local authorities), and not to academies, free schools and the independent sector.

96. In September 2014 financial education was added to the statutory national curriculum for secondary schools in England. Since then, schools have been required to include financial education as part of Mathematics and Citizenship teaching at Key Stages 3 and 4. Young Enterprise told us that this addition to the curriculum was a welcome step forward and represented a shift towards greater prevention of financial exclusion.¹⁰⁸
97. There is still, though, no requirement for English primary schools to include financial education as part of their teaching. In addition, as only 35% of state-funded secondary schools are now maintained schools,¹⁰⁹ the obligation to teach financial education does not apply to nearly two-thirds of all state secondary schools.
98. This was highlighted as a concern when considering the impact, since 2014, of financial education being included in the secondary curriculum. Young Enterprise told us that provision remained patchy, and that inclusion on the secondary curriculum did not appear to be the principal driver for providing financial education. They went on to suggest that the attitudes of school leaders towards the issue of financial education were of much greater relevance in determining whether it was taught, noting that this was evident in the level of provision at primary level, despite the subject not being included in the primary curriculum.¹¹⁰
99. Similar concerns were expressed by Demos, the Money Advice Trust, the Financial Inclusion Commission and Christians Against Poverty.¹¹¹ Martin Lewis went slightly further, telling us that:

“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.”¹¹²

108 Written evidence from Young Enterprise (FEX0053)

109 Full Fact, ‘Academies and maintained schools: what do we know?’: <https://fullfact.org/education/academies-and-maintained-schools-what-do-we-know/> sourced from the DfE EduBase March 2016 [accessed 14 March 2017]

110 Q 14 (Russell Winnard)

111 Written evidence from Demos (FEX0063), Money Advice Trust (FEX0047), Financial Inclusion Commission (FEX0044) and CAP (FEX0014)

112 Q 143 (Martin Lewis OBE)

100. Provision at secondary school level is, therefore, patchy and inconsistent, and must be addressed. There is, additionally, a strong case to be made for financial education to be included in the statutory primary school curriculum. Early intervention is particularly important for financial education, with research for MAS finding that attitudes towards money are typically embedded by the age of seven.¹¹³
101. Currently, there are a large number of charities, credit unions, banks and religious organisations involved in providing financial education, and initiatives such as school banks, within primary schools. Examples that were highlighted to us include the Church of England Lifesavers initiative, Credit Union School Savings Clubs in Leeds and education programmes provided by Nationwide Building Society.¹¹⁴
102. These initiatives are to be welcomed, and we commend them. We believe, however, that such work needs to be supported by a strong lead from Government, and an impetus to provide statutory financial education at primary level. A large number of witnesses called for financial education to begin in primary schools.¹¹⁵ Gateshead Council shared this view, and suggested that financial education should develop as children progressed through the school system:

“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 . . . 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”.¹¹⁶

103. ***We recommend that financial education should be added to the primary school curriculum. This measure alone, however, will not be sufficient to enhance the level of financial education provision in schools; experience since the 2014 addition of financial education to the statutory secondary school curriculum in England suggests that additional measures are necessary.*** (Recommendation 6)

The Ofsted Common Inspection Framework

104. A number of our witnesses argued that, in order to secure a more universal implementation of financial education within schools, financial education should be more explicitly addressed in the Ofsted Common Inspection Framework.¹¹⁷ We were told that, without inclusion in the inspection framework, there was little to incentivise schools to prioritise financial education when many competing demands were placed on teachers’ time.¹¹⁸

113 Written evidence from Young Enterprise (FEX0053)

114 See written evidence from Church of England’s Mission & Public Affairs Council & Church Urban Fund (FEX0025), Leeds City Credit Union Ltd (FEX0069) and Nationwide Building Society (FEX0059)

115 Written evidence from Young Enterprise (FEX0053), Church of England’s Mission & Public Affairs Council and Church Urban Fund (FEX0025), CAP (FEX0014), Barclays (FEX0074), Neyber (FEX0065) and Financial Inclusion Commission (FEX0044)

116 Written evidence from Gateshead Council (FEX0046)

117 See evidence from Gateshead Council (FEX0046), Q 95 (Caroline Rookes CBE), Q 9 (Joanna Elson OBE) and Q 20 (Russell Winnard)

118 Written evidence from Demos (FEX0063)

The Personal Social Health and Economic Education (PSHE) Association told us:

“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.”¹¹⁹

105. Ofsted’s current Common Inspection Framework sets out the principles that apply to school inspections, but does not place a focus on specific subjects within them. Financial education does not, therefore, form part of inspections in England, despite its statutory status at secondary level. The Minister of State for School Standards told us—understandably—that it would not be cost-effective for Ofsted to inspect individual subjects as part of their school inspections.¹²⁰
106. Ofsted does, however, use a four-point scale to make graded judgement of schools in four distinct areas. One of these areas concerns ‘personal development, behaviour and welfare’. Within the Framework, guidance under this heading indicates that inspectors will consider the extent to which provision supports children’s “choices about the next stage of their education, employment, self-employment or training, where relevant, from impartial careers advice and guidance” and “employability skills so that they are well prepared for the next stage of their education, employment, self-employment or training”. In addition, the guidance references a range of pastoral, health and safeguarding matters which will be accounted for.¹²¹
107. There is, therefore, a focus within the framework upon learning that will support children in making future life and career choices, and allow them to participate fully in society and the economy. There is, though, no explicit reference to financial capability, education or learning, despite the key role that these elements could clearly play in supporting the personal development of pupils.
108. In May 2016 the All Party Parliamentary Group (APPG) on Financial Education for Young People published a report entitled *Financial education in schools: Two years on - job done?*¹²² In this report, the APPG recommended that:

119 Q 181 (Jenny Barksfield)

120 Q 242 (Nick Gibb MP)

121 Ofsted, *The common inspection framework: education, skills and early years* (August 2015) p 14: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/461767/The_common_inspection_framework_education_skills_and_early_years.pdf [accessed 14 March 2017]

122 All Party Parliamentary Group on Financial Education for Young People report, *Financial Education in Schools: Two Years On — Job Done?* (May 2016): <https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf> [accessed 2 February 2017]

“Ofsted should update the Common Inspection Framework to more explicitly address the extent to which schools provide young people with financial knowledge and skills.”¹²³

We support this recommendation.

109. ***We recommend that the Ofsted Common Inspection Framework should be updated to more explicitly address the extent to which schools provide young people with financial knowledge and skills. Such a measure will help to ensure that schools attach an appropriate degree of priority to financial education and learning.*** (Recommendation 7)
110. The APPG report made a number of other key recommendations¹²⁴ which are germane to financial education provision. In particular, it suggested that statutory financial education should be strengthened in Mathematics and Citizenship at secondary level, in order to better focus on real-life contexts. In addition, the APPG recommended that the Department for Education should embed financial education within the new Initial Teacher Training framework, and that this measure should be supported by encouraging schools to learn and share good practice through CPD initiatives focused on financial education. This is a sensible proposal, which would help to address concerns that we heard regarding the lack of training provided to teachers on financial education matters.¹²⁵
111. We believe that, taken together, the key recommendations of the APPG report would provide a sound footing in financial education for school children, equipping them with the key skills necessary to inform their financial decision making in later life.

Further and higher education

112. We do not believe that financial education should end abruptly at the age of 16. Between the ages of 16 and 24 young people are faced with an array of choices which can affect their financial wellbeing; they are also eligible for an increasing number of financial products and services, with varying degrees of complexity and nuance. Professor Jonquil Lowe set out the situation facing this age group:

“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.”¹²⁶

123 All Party Parliamentary Group on Financial Education for Young People report, *Financial Education in Schools: Two Years On — Job Done?* (May 2016) p 31: <https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf> [accessed 2 February 2017]

124 All Party Parliamentary Group on Financial Education for Young People report, *Financial Education in Schools: Two Years On — Job Done?* (May 2016) pp 9–10: <https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf> [accessed 2 February 2017]

125 [Q 182](#) (Adrian Lyons, Jenny Barksfield)

126 [Q 196](#) (Jonquil Lowe)

113. We were told, however, that this age group are among those most likely to suffer from problems affecting their financial wellbeing. Research suggests that 37% of 18–24 year olds hold one or more credit cards, an overdraft, or other form of borrowing, with average combined debts of £2,989. These figures exclude student loans and mortgages.¹²⁷ We also heard that 51% of the 18–24 age group regularly worry about money.¹²⁸
114. It was suggested that financial education should be provided to this age group, perhaps through incorporation into apprenticeships or courses of study.¹²⁹ We were told, however, that research had identified limited provision within further education settings, with a lack of curriculum time, shortage of suitably qualified tutors and, in part, a lack of interest on the part of some students all contributing to this deficiency.¹³⁰
115. Financial services providers can help to address this situation. We noted with interest the work of the Lloyds Bank Money for Life programme, which is aimed at 16–24 year olds and provides online resources and three Open College Network accredited qualifications.¹³¹ The programme seeks to provide advice and information to support the transition from school education to independent adulthood.
116. In general, however, we received limited evidence on the provision of financial education services to this particular cohort. While there is a certain degree of focus on the financial education needs of those who are under 16—even if provision is often lacking—there is less of a focus on the needs of the 16–24 age group. We believe that it is important that suitable provision is made available to these young people, who are often at a stage in their lives when they are making important decisions with long-term, far-reaching financial consequences.
117. **We believe that the provision of financial education to young adults in further and higher education needs to be improved; this important age group is not particularly well served under current arrangements. We believe that education providers should, where appropriate, incorporate financial education modules into programmes of study.**

Financial guidance and advice services

Replacement of the Money Advice Service

118. Financial learning and guidance does not end when people reach adulthood or begin employment; it is a lifelong requirement. Publicly funded financial guidance is provided by the Money Advice Service (MAS), established in 2010. MAS is funded through a series of levies on the financial services industry, which are operated by the FCA; the FCA appoints the Board of MAS, but the service is operationally independent from both the FCA and the Government. The objectives of MAS are to:
- Improve understanding and knowledge of finance (including the UK financial system).
 - Improve the ability of individuals to manage their own finances.

127 Written evidence from Demos ([FEX0063](#))

128 *Ibid.*

129 Written evidence from Bournemouth Churches Housing Association ([FEX0058](#))

130 [Q 196](#) (Martin Upton)

131 Written evidence from Lloyds Banking Group ([FEX0077](#)) and Demos ([FEX0063](#))

- Fund and co-ordinate debt advice.
119. In early 2016 the Government set out plans for the reform of public financial guidance which would have seen the closure of MAS and the creation of two distinct guidance organisations (one for general money management and the other for pensions). We received a number¹³² of representations highlighting concerns about this proposal; the Money Charity told us that “the split between money guidance and pensions guidance is purely artificial, and increasingly meaningless from a consumer’s point of view”.¹³³
120. These concerns were partially addressed when, in October 2016, the Economic Secretary to the Treasury announced that the proposal for two distinct organisations would not be pursued and that, instead, MAS would be replaced by a single body delivering comprehensive advice.¹³⁴ In December 2016 the Government published a consultation on the form and work of this new single body; the consultation envisages that the new body will commission or deliver services in the following five areas:
- Provision of debt advice for those in problem debt.
 - Provision of information and guidance on matters relating to occupational or personal pensions, accessing defined contribution pension pots, and planning for retirement.
 - Providing information to help consumers avoid financial fraud and scams.
 - Provision of information for people on wider money matters and co-ordinating and influencing efforts to improve financial capability.
 - Co-ordination of non-governmental financial education programmes for children and young people.¹³⁵
121. Witnesses held mixed opinions on the efficacy of the work undertaken by MAS. In recognition of the fact that the Government’s consultation on a replacement body closed last month, and a response is therefore pending, we limit our initial remarks here to highlighting one particularly important area of MAS work which needs to be sustained following its closure—namely the What Works Fund. Later in this chapter we offer some additional conclusions on debt advice.¹³⁶
122. In June 2016 MAS launched a new What Works Fund, backed by up to £7 million of funding, which is intended to develop greater understanding about how financial capability can be improved. The fund operates across the UK and seeks to build evidence on how particular interventions can effectively support individuals to develop their financial capability. MAS told us that it was currently working with 62 organisations (with a further 28

132 Including those from the Financial Services Consumer Panel ([FEX0035](#)), Young Enterprise ([FEX0053](#)) and [Q 68](#) (Lucy Malenczuk).

133 Written evidence from The Money Charity ([FEX0061](#))

134 HM Treasury, Department for Work & Pensions, *New public body offering debt advice, money and pensions guidance to be set up* (9 October 2016): <https://www.gov.uk/government/news/new-public-body-offering-debt-advice-money-and-pensions-guidance-to-be-set-up> [accessed 14 March 2017]

135 HM Treasury, Department for Work & Pensions, *Public financial guidance review: consultation on a single body* (December 2016): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/581438/Public_Financial_Guidance_Consultation.pdf [accessed on 14 March 2017]

136 This is in addition to our comments, in Chapter 3, concerning the Financial Capability Strategy.

in the pipeline) to produce a detailed evaluation of programmes by March 2018.¹³⁷ It was noted that there was currently little hard evidence of ‘what works’ when it came to improving financial capability.¹³⁸

123. Accordingly, the importance of this work being continued following the closure of MAS was also emphasised.¹³⁹ Young Scot told us 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.”¹⁴⁰

We agree that it is important for the Government and service providers to continue to develop a greater knowledge of ‘what works’ when seeking to deliver increased financial capability.

124. **We believe that the new guidance body that replaces the Money Advice Service should continue to focus upon, and fund, evaluation of financial capability programmes.**

Debt and debt advice

125. The levels and types of consumer and other household debt in the UK were a cause of concern for many witnesses. With reports¹⁴¹ suggesting that the average UK household now owes £12,887, we were told that household debt has reached record levels,¹⁴² and that by 2020 it will have reached the same ratio to household incomes as its pre-2008 peak.¹⁴³
126. The Money Advice Trust told us that, in 2007, 69 percent of callers to National Debtline had problems with loans, overdrafts or credit cards and that, by 2014, this figure had fallen to 42 percent. In the same period, however, the service saw a 140 percent rise in calls concerning household debts such as rent arrears, energy and water bills, telephone bills and council tax.¹⁴⁴ This pattern was echoed by a number of debt advice agencies,¹⁴⁵ suggesting a wider shift in the type of problem debt cases being encountered by service providers. StepChange told us that the proportion of clients approaching them with problems relating to council tax arrears doubled between 2011 and 2015.¹⁴⁶
127. This increase coincides, in part, with the abolition of Council Tax Benefit. Since April 2013 local authorities have been responsible for their own Council Tax Support schemes, with variations in provision across the country. While some groups—including pensioners—were protected from the impact of

137 [Q 91](#) (Caroline Rookes CBE)

138 *Ibid.*

139 [Q 151](#) (Mark Lyonette) and [Q 74](#) (John Boagey)

140 [Q 74](#) (Louise MacDonald OBE)

141 BBC, *UK household debt now a record £13,000, says TUC* (January 2017): <http://www.bbc.co.uk/news/business-38534238> [accessed 14 March 2017]

142 Written evidence from Neyber ([FEX0065](#))

143 Written evidence from Carnegie UK Trust ([FEX0032](#)), citing the OBR Economic and Fiscal Outlook, November 2015.

144 Written evidence from Money Advice Trust ([FEX0047](#))

145 Written evidence from StepChange Debt Charity ([FEX0084](#)) and Sunderland City Council ([FEX0081](#))

146 [Q 97](#) (Francis McGee)

these changes we were told that the abolition of Council Tax Benefit had contributed to the growth of council tax arrears among other groups.¹⁴⁷

128. In addition, it was suggested that these debts were sometimes collected in a way that could prove detrimental to long-term financial health and wellbeing. StepChange told us that, in a survey of 1,000 clients with council tax arrears, 65% of people who had contacted their council had received a tough demand or threat of enforcement (such as being threatened with bailiff enforcement or court action, or having a demand for the full bill to be paid in one go).¹⁴⁸ The Financial Services Consumer Panel noted that this approach could actually increase costs for other local authority service areas, who would ultimately need to provide support to the individuals concerned.¹⁴⁹
129. It is clear, though, that practice varies across differing local authorities¹⁵⁰; Leeds City Council highlighted a number of improvements that they had made to their approach in recent years.¹⁵¹ We were also told that local government council tax collection practices had been scored highly in a January 2016 report by Citizens Advice.¹⁵² Citizens Advice have worked, with the Local Government Association (LGA), to produce a best practice guide¹⁵³ for council tax collection and enforcement; we believe that this guidance should be adopted and implemented by all local authorities.
130. It is evident that the methods and practices that creditors employ when dealing with debt can have a material impact on the financial exclusion of the individuals concerned. We were told that forbearance or ‘breathing space’ had a positive effect, with one survey suggesting that 60% of debt clients who had received forbearance from their creditors had seen their financial situation stabilise as a result.¹⁵⁴ It was also suggested that good practice had become more widespread in the financial services sector in recent years.¹⁵⁵
131. While practice on the part of some creditors has therefore improved, long-term funding for the debt advice sector was highlighted as a cause of concern. When visiting Coventry we were told that reductions in local authority budgets from central Government had made it increasingly difficult for councils to fund generalist advice, and that this had been compounded by the removal of many aspects of debt and welfare advice from the scope of Legal Aid provision. The same trend was also highlighted by StepChange, and by MAS.¹⁵⁶ The Salvation Army pointed out the wider cost of failing to provide appropriate services:

“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.

147 [Q 80](#) (Alison Garnham) and Citizens Advice Rossendale ([FEX0043](#))

148 Written evidence from StepChange Debt Charity ([FEX0084](#))

149 Written evidence from Financial Services Consumer Panel ([FEX0035](#))

150 Written evidence from StepChange Debt Charity ([FEX0084](#))

151 Written evidence from Leeds City Council ([FEX0030](#))

152 Written evidence from the Civil Enforcement Association ([FEX0095](#))

153 Supplementary written evidence from LGA ([FEX0090](#))

154 Written evidence from StepChange Debt Charity ([FEX0084](#))

155 [Q 91](#) (Francis McGee)

156 [Q 93](#) (Caroline Rookes CBE, Francis McGee)

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. Is it a false economy not to fund such services?”¹⁵⁷

132. Local authorities are not the sole source of such funding. At present, MAS funds free debt advice across the UK, through a range of partner organisations including Toynbee Hall, Talking Money and Citizens Advice. StepChange, MAS and Citizens Advice all told us that the commissioning and funding of such advice should continue to be a role of the body that succeeds MAS.¹⁵⁸ There were also concerns, however, that the “slimmed down” nature of a new body might lead to a focus on resolving debt issues rather than preventing them through improvements in financial capability.¹⁵⁹ It will clearly be important for the new body to be able to support activities that aim to both prevent, and resolve, financial exclusion.
133. **The loss of debt advice services—particularly those provided at a local level—is a cause for significant concern. This concern is intensified by increasing levels of household debt. The body that succeeds the Money Advice Service must be provided with the appropriate mandate to be able to commission and fund effective and impartial debt advice for all who need it.**

The role of employers

134. Employers can play an important role in preventing financial exclusion and promoting inclusion. There is an imperative for employers to be proactive in this field; we were told of research suggesting that 70% of UK employees admitted to wasting a fifth of their time at work worrying about their finances and that at least 17.5 million working hours are lost each year as a result of workers taking time off due to financial stress.¹⁶⁰ We were also told that stress and mental health problems, which can be triggered by poor financial health, were the third largest cause of sickness absence.¹⁶¹
135. Research published in recent years supports the view that workplace productivity can be negatively affected by financial worries. A 2014 report from Barclays found that 46% of surveyed employees worried about their finances, with one in five stating that their financial situation affected their work.¹⁶² In a similar survey, carried out by the Chartered Institute of Personnel and Development in January 2017, 25% of employees reported that financial problems were affecting their workplace performance; the figure rose to 30% for public sector employees.¹⁶³

157 Written evidence from Salvation Army (FEX0054)

158 Q 93 (Caroline Rookes CBE, Francis McGee), Q 113 (Joe Lane)

159 Written evidence from Unum (FEX0028)

160 Written evidence from Neyber (FEX0065)

161 Written evidence from Responsible Finance (FEX0005)

162 Barclays Bank, ‘Financial Well-being: The last taboo of the workplace?’: https://wealth.barclays.com/global-stock-and-rewards/en_gb/home/research-centre/financial-wellbeing.html [accessed 14 March 2017]

163 Chartered Institute for Personnel and Development, *Money worries affect productivity of one in four UK employees* (11 January 2017): <http://www2.cipd.co.uk/pm/peoplemanagement/b/weblog/archive/2017/01/11/money-worries-affect-productivity-of-one-in-four-uk-employees.aspx> [accessed 14 March 2017]

136. We were told of a number of initiatives through which employers—operating unilaterally or with partners—had sought to provide services, training or guidance that would promote financial inclusion and resilience. One such example highlighted joint working between the Church of England, credit unions and employers to promote payroll savings schemes in the City of London.¹⁶⁴ The Association of British Credit Unions Ltd (ABCUL) noted that such payroll partnerships have significant efficiency and sustainability benefits for credit unions and productivity benefits for employers.¹⁶⁵ Birmingham Financial Inclusion Partnership suggested that employers could be incentivised through Government initiatives to support such schemes.¹⁶⁶
137. Neyber told us that the workplace offered an ideal opportunity to continue financial education, noting that employers have a direct interest in the financial wellbeing of their staff and were partially responsible for continuing professional development. They went on to suggest that employers could add financial literacy to company induction and training programmes.¹⁶⁷ This suggestion was echoed by Gateshead Council, who told us:

“As employers they are well placed to offer financial education courses to employees . . . 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”.¹⁶⁸

Responsible Finance supported this view, suggesting that employers have a “key role to play in supporting adult financial capability”, before going on to suggest, in particular, that larger employers should be under a duty to provide financial capability training to their employees.¹⁶⁹ We believe that employers should play a greater role in this regard, but also acknowledge that this might sometimes be a more practical step for large employers than it is for SMEs.

138. **For financial education to be truly effective it needs to continue throughout adult life. Research suggests that financial worries can negatively affect workplace productivity; employers therefore have a clear self-interest in the financial health and wellbeing of their employees. Supporting the ongoing financial capability of employees will, in the long-term, be of benefit to employers.**
139. **Some employers are open to the idea of providing staff with appropriate financial capability training, and can see the advantages of doing so. More employers should recognise the win-win benefits that could result from this. We believe that the Government and employers’ organisations should work together to develop and implement plans to make such training more widely available.**

164 Written evidence from Dr Christine Allison ([FEX0017](#))

165 Written evidence from ABCUL ([FEX0037](#))

166 Written evidence from Birmingham Financial Inclusion Partnership ([FEX0049](#))

167 Written evidence from Neyber ([FEX0065](#))

168 Written evidence from Gateshead Council ([FEX0046](#))

169 Written evidence from Responsible Finance ([FEX0005](#))

The importance of encouraging savings

140. Recent research from MAS has suggested that around 16.8 million people have less than £100-worth of savings available to them at any time. Furthermore, 13 million people report that, should they experience a 25% cut in income, they do not have access to enough savings to support themselves for one month. These figures are troubling, as savings provide an important buffer¹⁷⁰ to protect people against financial shocks, and reduce the potential for reliance on high-cost lending products or costly unauthorised overdrafts.
141. In addition to protection from financial shocks, there is also a need to promote savings for the long-term, including ensuring that sufficient provision is made to support individuals when they retire. We were told that auto-enrolment into workplace pensions had been a “major success” in addressing exclusion from pension saving¹⁷¹, but it was also suggested that “initially at least many will be retiring with small pension pots”, bringing new challenges for financial inclusion.¹⁷²
142. It was emphasised that there is, at present, limited understanding of ‘what works’ in terms of promoting the concept of saving. Toynbee Hall explained that:

“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”.¹⁷³
143. One product feature that has the potential to help those on low incomes and others at risk of financial exclusion is ‘jam-jarring’. This is a feature of a small number of accounts—chiefly offered by some credit unions and prepaid debit card products—whereby customers can automatically put aside amounts from their income into virtual ‘jam-jars’ for regular essential expenses such as rent and utility bills, preventing money set aside for one expense from being used for another.¹⁷⁴ A number of witnesses suggested that features of this kind would be especially helpful for claimants negotiating Universal Credit¹⁷⁵ for the first time, since its monthly payment structure requires a greater degree of financial planning than current benefits, which are paid weekly or fortnightly (see chapter 8).¹⁷⁶ Indeed, DWP has begun to conduct research into how jam-jar accounts could help Universal Credit customers, though this remains at a very early stage.

170 [Q 96](#) (Francis McGee)

171 Supplementary written evidence from Age UK ([FEX0094](#))

172 *Ibid.*

173 [Q 119](#) (Sian Williams)

174 Written evidence from Leeds City Council ([FEX0030](#)), Leeds City Credit Union ([FEX0069](#)), Mastercard ([FEX0068](#)) and Shelter ([FEX0056](#)). See also Crisis, *Saving Scotland: Credit unions and jam jar accounts* (June 2014): http://www.crisis.org.uk/data/files/Private_Rented_Sector/Factsheets/Credit_Union_and_Jam_Jar_Account_Factsheet_June_2014.pdf [accessed 14 March 2017].

175 A new means-tested social security benefit for working-age people; see Chapter 8 for more details.

176 Written evidence from Mastercard ([FEX0068](#)), citing Department for Work & Pensions, *Evaluation of the prepaid card live test* (July 2016), Research Report No. 926: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535234/rr926-evaluation-of-the-prepaid-card-live-test.pdf; see also [Q 146](#) (Martin Lewis OBE)

144. Some witnesses, however, pointed out that these products all currently involve a monthly fee, which could make them inaccessible to those at risk of exclusion—or perhaps even intensifiers of exclusion.¹⁷⁷ To combat this, some local councils and housing associations have begun work to negotiate subsidised rates and access for their tenants.¹⁷⁸
145. In March 2015 the Government announced its intention to create a Help to Save scheme. The scheme will be open to 3.5 million adults in receipt of Universal Credit, with minimum weekly household earnings equivalent to 16 hours at the National Living Wage. It will also be open to those in receipt of Working Tax Credit. Help to Save works by providing a 50% government bonus on up to £50 of monthly savings into a Help to Save account. The bonus will be paid after two years, with an option to save for a further two years which means that people can save up to £2,400 and benefit from additional government bonuses worth up to £1,200.¹⁷⁹ Help to Save accounts are intended to be available from April 2018.
146. Help to Save was welcomed by witnesses,¹⁸⁰ who also noted that matched funding schemes were one type of savings product that had been proven to work well.¹⁸¹ The Money Advice Trust suggested that the scheme would help many of the people who needed most support in building up a savings buffer.¹⁸² MAS told us that their own research suggested that around half of people who would be eligible for Help to Save currently had no savings and that “it should make a difference to them”.¹⁸³
147. It was also noted, however, that the sums allocated to the Help to Save initiative by the Government were relatively low. Citizens Advice told us that £90 million had been allocated to support Help to Save over the course of the Parliament, while the funding allocated to “incentives to help better-off people save”, such as the Help to Buy ISA, the savings allowance and increasing the amount of tax-free savings held in an ISA amounted to “about £8 billion”.¹⁸⁴
148. In addition, it was suggested that those customers who were likely to be eligible for Help to Save accounts often had variable and uncertain levels of income. As such, the £50 per month cap on savings could prove problematic as it “does not fit those circumstances terribly well”.¹⁸⁵ It was suggested that a £50 per month average limit, spaced over a longer period of time, might be more appropriate.¹⁸⁶

177 See supplementary written evidence from the Money and Mental Health Policy Institute ([FEX0091](#)) and [Q 146](#) (Martin Lewis OBE).

178 Money Advice Service, ‘Managing your money using the jam-jar approach’: <https://www.moneyadviceservice.org.uk/en/articles/managing-your-money-using-the-jam-jar-approach> [accessed 14 March 2017]

179 HM Treasury, *Help to Save, consultation on implementation* (17 October 2016): <https://www.gov.uk/government/consultations/help-to-save-consultation-on-implementation/help-to-save-consultation-on-implementation> [accessed 14 March 2017]

180 Written evidence from the Young Foundation ([FEX0022](#))

181 [Q 119](#) (Sian Williams)

182 Written evidence from the Money Advice Trust ([FEX0047](#))

183 [Q 96](#) (Caroline Rookes CBE)

184 [Q 119](#) (Joe Lane)

185 [Q 96](#) (Francis McGee)

186 *Ibid.*

149. StepChange also argued that, as currently conceived, Help to Save was too narrowly focused. They suggested that a wider approach was required in order to boost low-income savings, recommending that the Government should consider an adaptation of the pensions auto-enrolment scheme in order to boost accessible savings.¹⁸⁷
150. **We believe that the ability to save is an essential element of financial capacity building. Where possible, access to savings is vital in helping people to overcome financial shocks and difficulties, and limits the demand for use of high-cost lending products. We welcome the Government's proposed Help to Save initiative, which will support saving by lower and middle income groups; we encourage the Government to take account of suggestions for improvements to the initiative ahead of its anticipated full launch in April 2018.**

187 Written evidence from StepChange Debt Charity ([FEX0084](#))

CHAPTER 5: FINANCIAL EXCLUSION AND VULNERABLE GROUPS

151. Financial exclusion can affect multiple different groups of people, at different stages of their lives. While the segment of the population that could, at some point in their lives, be exposed to exclusion is larger than might be expected, we heard that there were a number of groups for whom the risk of exclusion was particularly, and consistently, high.
152. Lloyds Bank told us that up to 40% of their customers had characteristics that could lead to them being considered to be ‘vulnerable’ customers.¹⁸⁸ The Money Advice Trust said that:

“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 products and services.”¹⁸⁹

153. In this chapter we consider the effects of financial exclusion on some of these groups—namely older people, those with mental health problems and those living with disabilities—and make recommendations for practical change and improvements.

The risk of financial exclusion for older people

154. In mid-2015 there were 11.6 million people in the UK aged over 65 years of age, with 3.1 million of these aged over 80. These figures are projected to grow to 18 million and 6.3 million respectively by 2039.¹⁹⁰ As people get older their financial position, needs and options can change. We were told that, while older cohorts of the population typically scored highly on measures of financial capability,¹⁹¹ they could also face challenges in accessing particular types of product. The provision of many types of insurance policy, for example, can be subject to restrictions or pricing policies that are weighted against older age groups.¹⁹²
155. In addition older age groups are more likely to be affected adversely by the trend towards an increasing number of bank branch closures. Later Life Ambitions explained how this growing trend could affect older people:
- “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 prevents 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.”¹⁹³
156. We were told that older age groups were more reliant on cash for daily purposes, budgeting and transactions, and that they placed a high value on

188 [Q 170](#) (Nick Williams)

189 Written evidence from Money Advice Trust ([FEX0047](#))

190 Written evidence from Age UK ([FEX0094](#))

191 [Q 199](#) (Jonquil Lowe)

192 Supplementary written evidence from Financial Services Consumer Panel ([FEX0099](#)) and Age UK ([FEX0094](#))

193 Written evidence from Later Life Ambitions ([FEX0050](#))

face-to-face contact.¹⁹⁴ The Finance Foundation told us that physical and cognitive changes could deter older groups from using technology, describing a survey which showed that one-third of people aged over 80 had either never used a cash machine or preferred to avoid them where possible. 4 in 10 cited physical issues limiting their capacity to use an ATM, perhaps due to sight problems or stiff fingers; a similar proportion were concerned about doing something wrong or being expected to be too quick.¹⁹⁵

157. The growing number of bank closures does, therefore, have the potential to have a particularly exclusionary effect upon older age groups. The Economic Secretary to the Treasury highlighted the important role played by the Post Office in providing continuing access for this group, which was also emphasised in evidence from the Consumer Council.¹⁹⁶ This is borne out by surveys which suggest that recognition of the financial services provided by post offices is highest among older age groups.¹⁹⁷ We discuss the issue of bank closures, and the role of the Post Office, in more detail in Chapter Six.
158. The problems caused by diminishing physical and branch access, however, are exacerbated by the fact that this demographic is also more likely to suffer from digital exclusion, which was consistently highlighted in the evidence that we heard.¹⁹⁸ At a basic entry level, the multitude of login details, passwords and PIN numbers required for online and mobile banking platforms can represent a significant barrier to engagement for older people.¹⁹⁹
159. In addition, a lack of familiarity with the online environment also means that older people often need greater practical reassurance of their security in an online environment.²⁰⁰ We were also told that the abilities of older people could change as they age, and that those who were currently digitally skilled might not be so in future.²⁰¹ There is limited provision for those experiencing memory loss to provide trusted carers with safe third-party access to accounts, short of full power of attorney. This means that people who want to retain overall control of their finances but need some assistance to do so have limited options.²⁰²
160. Some high street banks, including Barclays and Lloyds, have taken steps to develop the digital skills of customers who need support. The Barclays Digital Eagles scheme has seen over 15,000 staff trained to provide free technology advice to customers and non-customers; Barclays branches also run ‘tea and teach’ sessions to help people build confidence in using technology.²⁰³ Lloyds now has a network of 22,000 Digital Champions—members of staff who have made pledges to help individuals, small businesses and charities to get online—and also provides signposting for individuals to access online, phone and face-to-face support.²⁰⁴ These initiatives were praised in our evidence.²⁰⁵

194 Written evidence from The Finance Foundation ([FEX0079](#))

195 *Ibid.*

196 [Q 246](#) (Simon Kirby MP) and written evidence from The Consumer Council ([FEX0082](#))

197 Written evidence from The Consumer Council ([FEX0082](#))

198 Written evidence from Money Advice Trust ([FEX0047](#)), Demos ([FEX0063](#)), Gateshead Council ([FEX0046](#)) and supplementary written evidence from Age UK ([FEX0094](#))

199 Written evidence from Mastercard ([FEX0068](#)) and Keep Me Posted ([FEX0020](#))

200 Supplementary written evidence from Age UK ([FEX0094](#))

201 Written evidence from The Finance Foundation ([FEX0079](#))

202 *Ibid.*

203 Written evidence from Barclays ([FEX0074](#))

204 [Q 170](#) (Nick Williams)

205 Written evidence from Later Life Ambitions ([FEX0050](#))

161. The FCA has also sought to take action in this area, publishing research on the impacts of an ageing society in early 2016, with a new strategy to follow later this year.²⁰⁶ In addition, the FCA has also undertaken initiatives to bring together technology firms and larger financial services providers to look at ways in which technology might mitigate the impact of branch closures for some vulnerable customers.²⁰⁷
162. Further measures, though, are required to support access to digital services for this group. The Finance Foundation told us 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.”²⁰⁸ They went on to suggest that the Government and regulators should consider how further innovations in age-friendly design of products, services and technology might be encouraged. This could include the provision of regulatory ‘safe spaces’ to develop, innovate and leverage technology to support older people in staying financially included.²⁰⁹
163. Age UK, in a similar vein, suggested that financial technology (FinTech) solutions should be developed and tailored for older people. They suggested that these would need to be radically simplified in terms of interface, use and ‘passing security’, while also noting the paramount need for security to be maintained.²¹⁰
164. **Older people are at high risk of financial exclusion not least as a result of the growing number of bank closures, and moves towards a greater dependence on online and mobile banking. We welcome initiatives undertaken by the FCA, and some high street banks, that seek to address this situation.**
165. **In part, the needs of older age groups can be served by the Post Office network; we consider the role of the Post Office further in Chapter Six. It is, however, clear that further measures to support the needs of the older age group are required, and that the market alone will not meet these needs.**
166. *We recommend that the Government and regulators should work together to develop an approach to promote further innovations in the provision of online and mobile banking services to older people. The central objective of this initiative should be to develop new platforms and apps that can simplify access, security and interface in an age-appropriate way, while maintaining the high level of integrity and security required to reassure and encourage take-up among the older age group.* (Recommendation 8)

The relationship with mental health

167. People who are living with mental health problems are particularly likely to be victims of financial exclusion.²¹¹ We were told that these people were more likely to be out of work or living unstable lives which were beyond their

206 Q 218 (Andrew Bailey)

207 Written evidence from the FCA (FEX0083)

208 Written evidence from The Finance Foundation (FEX0079)

209 *Ibid.*

210 Written evidence from Age UK (FEX0094)

211 Q 1 (Joanna Elson OBE)

control, meaning that they face multiple hardships due to lack of access to services, including financial services.²¹²

168. There is a two-way relationship between financial exclusion and mental health.²¹³ The experience of facing up to financial exclusion or dealing with financial distress can have a negative impact on the mental health and wellbeing of individuals.²¹⁴ This can, for example, be the result of strains placed on relationships by money worries, stress caused by the actions of creditors, negative effects to wellbeing caused by going without essentials, or restrictions on social activities due to lack of funds. It was suggested that many people in financial difficulty report anxiety, worry, insomnia and depression which can be attributed directly to their financial situation.²¹⁵
169. At the same time, those who are living with mental health problems can find that their condition affects their financial behaviour, in ways that are often to the detriment of their long-term financial inclusion. We received extensive evidence on such behaviours. The Money and Mental Health Policy Institute told us that mental health problems have a substantial and wide-ranging impact on the ability of consumers to navigate the market for financial services, including the ability to choose and use appropriate products to manage their money.²¹⁶ They went on to describe how mental health problems can prevent people from controlling their finances as a result of 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.”²¹⁷
170. While disengagement can be one aspect of this relationship, another effect can come in the form of excessive spending during manic episodes, leading to extensive bills and debts which an individual is then unable to pay. This is to the detriment of their long-term credit rating and access to financial services. We were provided with the following example, drawn from a survey in March 2016:

“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”.²¹⁸
171. Furthermore, we were told that people living with mental health problems were often vulnerable to forms of financial exploitation. It was noted that the chaotic lifestyles of the individuals concerned could lead to them living in temporary accommodation, where they were susceptible to being taken advantage of by other residents.²¹⁹ It was suggested that online retailers typically sent emails and communication to potential customers during the

212 Written evidence from Birmingham Financial Inclusion Partnership ([FEX0049](#))

213 [Q 50](#) (Chris Pond)

214 Written evidence from Prof Stephen McKay ([FEX0029](#))

215 Written evidence from Money and Mental Health Policy Institute ([FEX0071](#))

216 *Ibid.*

217 *Ibid.*

218 Cited in written evidence from Money and Mental Health Policy Institute ([FEX0071](#))

219 Written evidence from Citizens Advice Redcar & Cleveland and Coast & Country Housing Ltd ([FEX0048](#))

night, when lonely or isolated individuals might be at their most vulnerable.²²⁰ In a similar vein, the preponderance of gaming channels being broadcast late at night was also highlighted as predatory behaviour which might target vulnerable customers:

“If you turn on your TV at 3am, pretty much all that you will find is gaming. Ofcom takes the view that hardly anybody is watching between midnight and 6am, so even the public sector broadcasters are allowed to broadcast gaming. But who is watching between midnight and 6am? 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.”²²¹

We believe that exploitation of this nature is unacceptable, and merits further attention from regulators and the Government.

172. While these interactions are complex in nature, and undoubtedly variable across a diverse demographic, we believe that there are some relatively straightforward and pragmatic solutions available. We were told that moves towards open banking, and the greater availability and accessibility of data—particularly transaction data—would present new opportunities for people to take control of their finances.²²²
173. Martin Lewis told us that ‘control options’ should be available to customers, to allow them to manage their money more effectively and to mitigate against the potentially devastating long-term effects of manic or crisis spending:

“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.”²²³

It was suggested that these options could include some or all of the following:

- 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.
- Bank accounts and/or pre-pay cards with third party:
 - Joint control;
 - Partial joint control (such as authorisation of large transactions and/or particular merchant category code types);
 - View-only privileges; or

220 [Q 145](#) (Polly MacKenzie)

221 *Ibid.*

222 [Q 185](#) (Bill Roberts, Adam Land)

223 [Q 144](#) (Martin Lewis OBE)

- Notification of specific behaviours only (such as gambling or large transactions).²²⁴
174. Many of these product features are, in fact, already available in the marketplace. Service providers already undertake monitoring of accounts to check for unusual activity or potentially fraudulent patterns of spending, providing notifications to customers where appropriate. It is possible to provide third-party monitoring and access; we received evidence from SourceCards which detailed the support and mentoring that they give to card holders who were previously financially excluded. This includes the option to allow account holders to give a sponsor, case worker or mentor remote access to their account to assist with budgeting, buying essentials and paying for goods.²²⁵
175. The technological barriers to the development and implementation of control options are, therefore, potentially limited. We believe that banks and financial services providers should do more to provide support, when requested, to customers experiencing mental health problems.
176. ***We recommend that the Government should work with the financial services industry and the FCA to develop and introduce a wider range of 'control options' for those customers who may experience mental health problems. Such options would allow people to opt in voluntarily to a series of controls which limit the potential for financial harm.*** (Recommendation 9)

Disability and financial exclusion

177. We were consistently told that disabled people were likely to be disproportionately affected by financial exclusion; the relationship between disability and poverty was also highlighted.²²⁶ The Equalities and Human Rights Commission (EHRC) told us that 30% of people in families containing a disabled person were living in poverty. They went on to explain that disabled people experienced a wealth and asset gap as compared to the rest of the population, with lower incomes and extra costs having a negative impact upon their capacity to save.²²⁷
178. Scope told us that the extra costs experienced by disabled people amounted to approximately £550 a month. They suggested that 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, while a wheelchair user may have to use taxis more often if public transport is inaccessible.

224 Written evidence from Money and Mental Health Policy Institute ([FEX0071](#))

225 Written evidence from SourceCards ([FEX0098](#))

226 Written evidence from Shelter ([FEX0056](#)), The Advice Shop ([FEX0039](#)), Mencap ([FEX0060](#)) and MAS ([FEX0062](#))

227 Written evidence from the EHRC ([FEX0089](#))

- Spending more on non-specialised goods and services. This may include costs such as higher tariffs for accessible hotel rooms, or having to pay higher premiums for insurance products.²²⁸

The costs of living with ill-health or serious illness were also emphasised in the evidence that we received. Macmillan Cancer Support told us of research which suggests that 4 out of 5 people with cancer are affected financially by their diagnosis, and that such individuals are on average £570 a month worse off as a result.²²⁹

179. An element of support is provided for some costs associated with disability, in the form of Disability Living Allowance (DLA) or Personal Independence Payment (PIP). DLA is in the process of being replaced by PIP. We were told that transition between the two benefits, however, had led to some disabled claimants losing their entitlements.²³⁰
180. We also heard that disabled people were more likely to experience problem debt issues.²³¹ StepChange told us that 9.1% of their debt advice clients were in receipt of Employment Support Allowance or Incapacity Benefit, while only 3.9% of the population at large are in receipt of these benefits.²³² Housing associations noted that those tenants who were in receipt of Employment Support Allowance were likely to be in arrears by the end of the month.²³³
181. There are a number of issues which limit access to financial services for disabled people. Concern was expressed about the closure of bank branches, and the impact upon vulnerable customers who might be more reliant on face-to-face contact with branch staff; we were told that almost half of disabled people, when surveyed, had said that they would prefer to receive advice in person, rather than via phone or email.²³⁴ Despite this, one in eight disabled people had found it difficult to physically access their bank or building society during the past 12 months.²³⁵
182. In this context, it is also important to note that levels of internet usage and access are lower among the disabled population. Only 64% of disabled people have access to the internet, compared to 86% of non-disabled people.²³⁶ The decline of bank branch networks, and moves towards greater reliance on online banking, therefore pose a particular challenge for this part of the population.
183. Technologies and products which have become a familiar part of day-to-day financial services for many can also present difficulties. The problems experienced with using PIN codes by those living with disabilities were consistently emphasised;²³⁷ we were told that such groups could also experience difficulties with security questions that were sometimes used to

228 Written evidence from Scope ([FEX0006](#))

229 Written evidence from Macmillan Cancer Support ([FEX0057](#))

230 Written evidence from Inclusion London ([FEX0067](#)) and Merton Centre for Independent Living ([FEX0003](#))

231 Written evidence from Citizens Advice York ([FEX0036](#))

232 Written evidence from StepChange Debt Advice ([FEX0084](#)); the figures are for 2016.

233 Written evidence from Affinity Sutton ([FEX0080](#))

234 Written evidence from the EHRC ([FEX0089](#))

235 *Ibid.*

236 *Ibid.*

237 Written evidence from Merton Centre for Independent Living ([FEX0003](#)), Inclusion London ([FEX0067](#)) and Mencap ([FEX0060](#))

access banking services.²³⁸ The insistence, by some banks, upon using an ATM to activate new credit or debit cards was highlighted as posing issues for those with limited mobility. We were also told of cases where banks insisted upon contacting deaf customers by telephone, and seemed unable to provide alternative means of contact suitable to the needs of the customer.²³⁹

184. Blind customers can experience a number of difficulties in securing adjustments to services and products from providers. One particular issue concerns PIN numbers, which are typically sent in a format that is unsuitable for blind customers; we were told that problems had been encountered when suitable alternative formats—such as Braille—were requested from banks.²⁴⁰ In addition, blind customers might prefer not to use contactless credit or payment cards, due to concerns about fraud or ‘double payment’; we were told that requests for banks to send cards without this functionality had not always been successful.²⁴¹
185. Requests for alternative formats are particularly important when customers need to read and understand information regarding the financial services that they are using. We were told that such information was, all too often, sent in standardised formats, and that banks found it difficult to cater to the diverse needs and nature of the disabled population.²⁴² The EHRC noted that changes to terms and conditions, or notices of costs incurred from an overdraft were often communicated online or via letter, and that this was not always suitable for disabled people.²⁴³ Mencap suggested that banks could do much more to provide accessible information—such as Easy Read formats—for those with learning disabilities.²⁴⁴
186. Initiatives currently being undertaken across the sector are likely to lead to improvements in some areas of practice. The Competition and Markets Authority, for example, told us that early work on the Open Banking Standard should lead to the publication of much better information about the location and physical accessibility of ATMs.²⁴⁵ Nationwide Building Society also set out some of the good practice that they had undertaken in order to serve disabled customers better:

“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.”²⁴⁶

187. While we welcome this good practice we believe that, across the sector as a whole, much more could and should be done to improve the level of service provided to disabled people. The Disability Discrimination Act 1995 (DDA)

238 Written evidence from Merton Centre for Independent Living ([FEX0003](#))

239 Written evidence from Inclusion London ([FEX0067](#))

240 *Ibid.*

241 *Ibid.*

242 [QQ 61, 65](#) (Philip Connolly)

243 Written evidence from the EHRC ([FEX0089](#))

244 Written evidence from Mencap ([FEX0060](#))

245 [Q 188](#) (Bill Roberts)

246 Written evidence from Nationwide Building Society ([FEX0059](#))

was the first UK statute to make it unlawful for employers and suppliers of goods and services to discriminate against disabled people. The DDA also introduced into legislation for the first time the concept of ‘reasonable adjustment’.²⁴⁷

188. Subsequently, the Equalities Act 2010 brought together provisions that were under four different statutes in order to consolidate, simplify and amplify provisions that related to equalities. The Equalities Act 2010, therefore, provides a current statutory requirement for service providers to make reasonable adjustments when communicating with customers; supporting guidance to financial services providers underlines the central importance of this duty.²⁴⁸
189. We were told, however, that banks are failing to make reasonable adjustments for disabled people and that “requests can be met with outright refusal or long-winded inefficiency, both of which are extremely frustrating.”²⁴⁹ This view was echoed by Mencap,²⁵⁰ who told us that reasonable adjustments that could be made often are not, and by the EHRC, who told us that they had exercised their legal enforcement powers on a number of occasions in respect of discriminatory service by several financial institutions to disabled customers. They suggested that these cases “highlight the recurrent failure of the financial industry to make reasonable adjustments.”²⁵¹
190. We believe that this situation is unacceptable, and that such reasonable adjustments are long overdue. It is over 20 years since the concept of reasonable adjustment was first introduced into statute in the Disability Discrimination Act 1995; we would hope that, by the time the Act reaches its 25th anniversary in 2020, financial services providers will have made the adjustments necessary to ensure that their services can be accessed by disabled people.
191. **We believe that banks and financial services providers should be serving disabled customers by making reasonable adjustments to their services, as required by primary legislation. We are concerned that such adjustments—which are central to improving and increasing accessibility—are not currently being implemented with the appropriate degree of commitment and vigour.**
192. *We recommend that the Government, working with the FCA and the British Bankers’ Association, should carry out a review of reasonable adjustment practices for disabled customers. The review should identify areas of good and bad practice, as well as areas where current provision needs to be improved. The initial review should be published within 18 months of the publication of this Select Committee report. Subsequently, and within the lifetime of this Parliament, a timetable identifying target dates for the delivery of improvements should be set out, monitored and implemented.* (Recommendation 10)

247 The genesis and history of legislation in this area is considered in more detail in the report of the Select Committee on the Equality Act 2010 and Disability, *The Equality Act 2010: the impact on disabled people* (Report of Session 2015–16, HL Paper 117)

248 Written evidence from the EHRC (FEX0089)

249 Written evidence from Inclusion London (FEX0067)

250 Written evidence from Mencap (FEX0060)

251 Written evidence from the EHRC (FEX0089)

CHAPTER 6: ACCESS TO FINANCIAL SERVICES

193. A major theme of the evidence we received was that many people are financially excluded because they are unable to access the standard banking system. The reasons for this can be economic, physical, social or technological. This chapter deals with a number of these obstacles and potential solutions that have been suggested for them.

Opening a bank account

Basic bank accounts

194. Basic bank accounts are a simplified form of current account. Most provide direct debit facilities, a debit card and access to cash machines and over-the-counter banking. It is, however, impossible to go overdrawn on a basic account and therefore impossible to receive overdraft charges.²⁵² This means they can be offered to customers with poor credit scores and others who might not qualify for other products, as well as people who do not want a conventional current account.
195. Basic bank accounts were first introduced to the UK in the mid-1990s, but the offer has expanded and improved in recent years in light of the EU Payment Accounts Directive (PAD)²⁵³, which requires member states to ensure that everyone can access a bank account with “basic features”, and a subsequent agreement between high street banks and HM Treasury.²⁵⁴
196. This agreement, expressed in a Memorandum of Understanding²⁵⁵, was concluded in December 2014 and resulted in a new, entirely fee-free basic bank account product being offered by 12 companies from 1 January 2016.²⁵⁶ Subsequently, and in line with the requirements of the PAD, the provisions of the Payment Account Regulations on basic bank accounts also came into force on 18 September 2016.²⁵⁷
197. A December 2016 report by HM Treasury into the implementation of the industry agreement found that over 4 million of the new basic bank accounts had been opened by the middle of 2016. In addition, there remained open around 3 million basic accounts based on previous industry agreements—

252 Money Advice Service, ‘Basic bank accounts’: <https://www.moneyadviceservice.org.uk/en/articles/basic-bank-accounts> [accessed 14 March 2017]

253 Directive (2014/92/EU), on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, *OJ L 257/214*, 23 July 2014

254 Written evidence from the BBA (*FEX0019*)

255 HM Treasury, *New basic fee-free bank accounts to help millions manage their money*: <https://www.gov.uk/government/news/new-basic-fee-free-bank-accounts-to-help-millions-manage-their-money> (15 December 2014); the full text of the agreement can be read at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386953/141211_basic_accounts_agreement_text.pdf [accessed 14 March]

256 The banks and building societies offering a basic bank account and the corresponding bank products were: Barclays (Barclays Basic Current Account); Santander (Basic Current Account); NatWest (Foundation Account); Ulster Bank (Northern Ireland) (Foundation Account); The Royal Bank of Scotland (Scotland) (Foundation Account); RBS England & Wales (Basic Account); HSBC (Basic Bank Account); Nationwide (FlexBasic); The Co-operative Bank (Cashminder); Lloyds Banking Group (including Halifax and Bank of Scotland Brands) (Basic Account); TSB (Cash Account); National Australia Bank (including Yorkshire Bank and Clydesdale brands) (Readycash Account). See HM Treasury, *Fee-free bank accounts launched* (27 December 2015): <https://www.gov.uk/government/news/fee-free-bank-accounts-launched> [accessed 14 March 2017]

257 The Payment Accounts Regulations 2015 (SI 2015/2038), *Part 4*

largely through Lloyds.²⁵⁸ The report showed a disparity between the numbers of basic bank accounts being opened by the various banks. Lloyds were still opening more than twice as many as any other bank, while the Co-operative and Clydesdale/Yorkshire Banks were opening a notably large number in proportion to their relatively small market share.²⁵⁹

198. Despite these figures, we were told that basic bank accounts are not always very well promoted.²⁶⁰ Citizens Advice Rossendale suggested that they did not appear to be well advertised, and that people who might benefit from them were not always aware of them.²⁶¹ We were also told that even branch staff were sometimes unaware of them.²⁶² Citizens Advice York highlighted a number of examples which suggested that branch staff were sometimes misinterpreting rules and eligibility criteria for the accounts.²⁶³ This lack of availability and awareness can only be exacerbated by the recent trend towards large-scale bank closures, which reduces still further the potential for easy access to basic bank accounts. We heard that 53% of UK bank branches closed down between 1989 and 2016.²⁶⁴ We consider the effects of bank closures later in this chapter.
199. The BBA outlined research which suggested that banks incurred significant costs from the provision of basic bank accounts; the total cost was estimated at £300–£350 million per year.²⁶⁵ Barclays and the Co-operative Bank told us that they were taking on more than their share of these loss-making accounts (the Co-operative Bank reported that basic accounts formed some 20% of all their current accounts), and suggested that this was because too many banks did not currently offer the account. Barclays said:

“The basic bank account is a key component of financial inclusion. That is a loss-making product but part of our investment in society . . . 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.”²⁶⁶

200. The Co-operative expressed the issue as one of fairness to the sector:

“How do we make sure as an industry . . . 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

258 HM Treasury, *Basic Bank Accounts: January to June 2016* (December 2016) pp 5–6: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576033/Basic_bank_account_2016_dec_final.pdf [accessed 14 March 2017]

259 HM Treasury, *Basic Bank Accounts: January to June 2016* (December 2016) pp 5–12: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576033/Basic_bank_account_2016_dec_final.pdf [accessed 14 March 2017]

260 Written evidence from Leeds City Council (FEX0030)

261 Written evidence from Citizens Advice Rossendale (FEX0043)

262 Written evidence from CAP (FEX0014)

263 Written evidence from Citizens Advice York (FEX0036)

264 Federation of Small Businesses, ‘Bank Branch Closures’ <http://www.fsb.org.uk/standing-up-for-you/policy-issues/finance-and-the-economy/bank-branch-closures> [accessed 14 March]

265 Q 156 (Eric Leenders)

266 Q 39 (Catherine McGrath)

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.”²⁶⁷

201. For HM Treasury, the issue of encouraging banks to promote the basic account was also a matter of not wanting to exacerbate financial exclusion even further:

“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.”²⁶⁸

202. Martin Lewis suggested that one way to resolve this situation could be to require banks to mention their basic bank account offer at the point of rejection for a standard account.²⁶⁹ The Competition and Markets Authority suggested that banks should bear the cost of more actively advertising and promoting the accounts:

“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 product, should also be responsible for effectively promoting it.”²⁷⁰

203. **The Committee welcomes the 2014 Memorandum of Understanding on Basic Bank Accounts between HM Treasury and the banking sector, and the significant progress achieved subsequently in reducing the unbanked population. We believe, however, that banks should do more to promote these accounts. In addition, bank branch staff must receive sufficient training to ensure that they can promote the accounts appropriately to eligible customers.**

204. *We recommend that the Government should require banks to promote their basic bank accounts appropriately and effectively, both in store and in advertising. In evaluating the ongoing rollout and uptake of basic bank accounts, the Government should address the concerns expressed to us that not all banks are issuing an equivalent proportion of these accounts, and that the cost burden of offering the accounts is not shared appropriately across the sector.* (Recommendation 11)

Identity and address verification issues

205. Since the 1990s banks in the UK have been subject to several iterations of anti-money laundering legislation, collectively known as ‘know your customer’ regulations. The Money Laundering Regulations 2007 (amended 2012)²⁷¹ require all regulated bodies (which includes all banks, as well as most other financial institutions) to obtain certain information on the identity and address of all new individual customers, in order to prevent accounts being

267 [Q 49](#) (Matthew Carter)

268 [Q 34](#) (Gwyneth Nurse)

269 [Q 143](#) (Martin Lewis OBE)

270 [Q 191](#) (Prof Alasdair Smith)

271 Money Laundering Regulations 2007 ([SI 2007/2157](#))

set up in fake names to enable financial crime. This information is usually obtained by asking customers to produce their passport, driving licence or similar documentation.²⁷²

206. Several witnesses suggested that implementation of these requirements could have severe, if unintended, consequences for people who were not involved in financial crime but who nevertheless could not easily provide acceptable identity documentation to open a bank account. This additional hurdle would represent a significant form of financial exclusion for certain groups:

- Gypsy and Traveller communities can find it hard to access banking services due to being unable to provide evidence for a permanent address.²⁷³
- The same is also true of homeless people, who “do not normally carry around identification”²⁷⁴ and do not have utility bills to prove their address.
- People fleeing abusive partners or families may be unable to take identification documentation with them when they leave, and their proofs of address will be for an address to which they cannot return.²⁷⁵
- Young people leaving local authority care might not have a permanent address or even a readily accessible birth certificate.²⁷⁶
- In addition, people with learning disabilities or experiencing poor mental health may not have the funds or capacity to obtain standard forms of photo identification.²⁷⁷

207. The tension between the need to prevent money laundering and the needs of the financially excluded was highlighted repeatedly. Barclays and Nationwide both told us that finding the balance between these two priorities was “challenging”.²⁷⁸ The Money Advice Trust told us that money-laundering rules can lead to unintended consequences, explaining that:

“...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

272 The required documentation comprises either:

Full name, residential address and date of birth, ideally from a government issued document including a photograph, such as a valid passport or valid photo card driving licence; or:

A government-issued document (without a photograph) which includes the customer’s full name, along with a second document (either government-issued, or issued by a judicial authority, a public sector body or authority, a regulated utility company, or another FCA-regulated firm in the UK financial services sector or in an equivalent jurisdiction), which includes the customer’s full name and either residential address or date of birth.

Taken from PricewaterhouseCoopers, *Know Your Customer: Quick Reference Guide* (January 2015): <https://www.pwc.co.uk/assets/pdf/anti-money-laundering-quick-reference-guide-2015.pdf> [accessed 14 March 2017]

273 Written evidence from Toynbee Hall (FEX0073)

274 Written evidence from Bournemouth Churches Housing Association (FEX0058)

275 See written evidence from Barclays (FEX0074)

276 Written evidence from Lloyds Bank Foundation for England & Wales (FEX0010). The evidence notes that “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”.

277 Written evidence from Mencap (FEX0060)

278 Written evidence from Barclays (FEX0074) and Nationwide Building Society (FEX0059)

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.’”²⁷⁹

208. The Financial Conduct Authority (FCA) Occasional Paper on *Access to Financial Services* reported that:

“A significant barrier for some groups is the way banks implement their obligations to ‘know your customer’ to prevent crime, screen for fraud or check creditworthiness. These practices can exclude individuals who are not able to produce standard forms of identification”.²⁸⁰

209. The FCA noted that the Joint Money Laundering Steering Group²⁸¹ (JMLSG) “makes clear that the type and amount of evidence that is required depends on the risk involved and the quality of the evidence”.²⁸² Guidance notes that “some customers . . . pose higher money laundering risks than others”, and that while “documents issued by the Government are considered to be the highest quality evidence . . . many other types of evidence may also be acceptable”.²⁸³ Despite this, the FCA found that many banks demanded customers produce the same ‘standard’ documentation, such as a driving licence, a passport, or a household bill with their name on it, even though the true range of permissible documents is broader.²⁸⁴
210. The BBA told us that it was working with the industry to bring greater consistency and clarity to identity verification across the sector, with the aim of expanding the list of commonly acceptable documents and ensuring a greater focus on customers who were typically excluded due to a lack of ‘mainstream’ documentation.²⁸⁵ The BBA also noted that the banking industry was “exploring with DWP alternative benefits and Universal Credit-related documentation that may be used for ID purposes,”²⁸⁶ and investigating how to overcome practical hurdles such as the fact that customers often mislay such letters before they have the chance to use it for identification.²⁸⁷
211. Witnesses suggested that electronic verification could potentially help to resolve this issue. Leeds City Council bemoaned the fact that electronic identification was not currently deemed sufficient to open a bank account.²⁸⁸ The BBA informed the Committee of an estimate that as many as eight in ten customers of some financial institutions could be identified electronically²⁸⁹—meaning that this could be a worthwhile area for further work for at least some customers who were financially excluded due to their circumstances or simply by not having had cause to obtain photo identification. Experian pointed to information showing that a form of digital authentication including people’s

279 [Q 1](#) (Joanna Elson OBE)

280 Financial Conduct Authority, *Access to Financial Services in the UK* (May 2016) p 59: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf> [accessed 14 March 2017]

281 An industry body that publishes guidance on how to implement the Money Laundering Regulations.

282 Financial Conduct Authority, *Access to Financial Services in the UK* (May 2016) p 61: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf> [accessed 14 March 2017]

283 *Ibid.*

284 Financial Conduct Authority, *Access to Financial Services in the UK* (May 2016) p 63: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf> [accessed 14 March 2017]

285 Written evidence from BBA ([FEX0019](#))

286 *Ibid.*

287 [Q 157](#) (Eric Leenders)

288 Written evidence from Leeds City Council ([FEX0030](#))

289 [Q 157](#) (Eric Leenders)

rent data could have an extremely positive impact on digital identification for social housing tenants²⁹⁰—a population group known from other evidence to have a high incidence of financial exclusion.²⁹¹

212. However, the BBA also cautioned that:

“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 . . . 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.”²⁹²

213. In December 2016 the Economic Secretary to the Treasury confirmed that an agreement had now been reached between the banks and HM Treasury to accept Universal Credit award letters as a form of verification.²⁹³ He also noted that the Chancellor’s 2016 Autumn Statement had contained an announcement that the JMLSG would be modernising its guidance on electronic identity verification to support the use of technology to access financial services.²⁹⁴

214. The Committee welcomes and encourages the use of Universal Credit letters as identity verification for bank accounts. We are encouraged by the announcement from the Economic Secretary to the Treasury that banks are to accept these as standard procedure.

215. *We recommend that the annual report which we have proposed in recommendation 3 should contain updates on the rollout of electronic identification for bank accounts—particularly in regard to the success of bringing previously unbanked people into the banking system. The annual report should also provide an update on the level of acceptance by banks of Universal Credit and other non-standard but legally sufficient identity documentation.* (Recommendation 12)

Access to bank branches and services

Bank branch closures

216. The Committee was told that the number of bank branches in the UK had more than halved since 1988.²⁹⁵ This decline had been much steeper than in many other parts of Europe. In 2014 the UK had 180 branches per million inhabitants, compared with 447 in Italy, 521 in Germany, 589 in France,

290 Written evidence from Experian ([FEX0078](#))

291 See, for example, written evidence from Barclays ([FEX0074](#))

292 [Q 157](#) (Eric Leenders)

293 [Q 247](#) (Simon Kirby MP)

294 HM Treasury, Autumn Statement 2016, Cm 9362, November 2016, p 31: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571559/autumn_statement_2016_web.pdf

295 Written evidence from Demos ([FEX0063](#)), citing the House of Commons Library, Bank Branch Closures, [Briefing Paper 385](#), June 2015 (updated December 2016) p 5

and 718 in Spain.²⁹⁶ It was reported that this trend was significantly more pronounced in rural and low-income areas.²⁹⁷

217. Banking sector representatives argued that the reason for these closures was a sea-change in the way that people in the UK interacted with banks. The Co-operative Bank told us that in 2015 alone it had experienced a 30% reduction in branch transactions, and that many of the branches it had closed in the previous year were taking as few as 50 or 100 transactions a week.²⁹⁸
218. Witnesses reported that the potential for financial exclusion caused by a lack of physical access to a bank branch was comparatively higher in rural areas as many such areas had relatively poor internet access, making online banking much harder,²⁹⁹ and because the relatively sparse population of these areas meant that the closure of one branch would often require transferring to a different branch many miles away.³⁰⁰ This especially posed a problem for older people,³⁰¹ people with poor mobility,³⁰² and small business owners who needed to bank their takings.³⁰³ The Committee also heard that the loss of face-to-face banking services was a greater problem for people with learning or mental health difficulties, who needed human support to access services.³⁰⁴ Issues specifically affecting some of these groups were considered in more detail in Chapter Five of this report.

The Access to Banking Protocol

219. The Access to Banking Protocol was launched by the BBA in 2015 as a way of mitigating the impact of branch closures. In a press release, the BBA described it as follows:

“The main high street banks, consumer groups and Government have signed up to an industry-wide agreement to work with customers and communities to minimise the impact of branch closures. This agreement will make sure customers still have banking services close at hand if a branch closes. Communities will be given fair notice of any closure and clarity about the alternative places and ways to bank. The agreement

296 Campaign for Community Banking, quoted in *This Money, Need a bank branch? Then head to Europe* (25 February 2015): <http://www.thisismoney.co.uk/money/saving/article-2967619/Need-bank-branch-head-Europe.html> [accessed 14 March 2017]

297 Written evidence from Citizens Advice Rossendale (FEX0043); Later Life Ambitions (FEX0050); see also Financial Conduct Authority, *Access to Banking Services in the UK* (May 2016) p 49: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf> [accessed 14 March 2017] and the Federation of Small Businesses, *Locked Out: The impact of bank branch closures on small businesses* (October 2016) p 11: [http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-\(final\).pdf?sfvrsn=0](http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-(final).pdf?sfvrsn=0) [accessed 14 March 2017]

298 Q 45 (Matthew Carter)

299 Written evidence from Age UK (FEX0094), Citizens Advice Redcar et al (FEX0048), Gateshead Council (FEX0046), Keep Me Posted (FEX0020) and others; see also Financial Conduct Authority, *Access to Banking Services in the UK* (May 2016) p 45: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf> [accessed 14 March 2017]

300 Written evidence from Citizens Advice Redcar et al (FEX0048), Citizens Advice Rossendale (FEX0043)

301 For example, supplementary written evidence from Age UK (FEX0094).

302 For example, written evidence from the Merton Centre for Independent Living (FEX0003).

303 Written evidence from Association of British Credit Unions Ltd (FEX0037); see also the Federation of Small Businesses, *Locked Out: The impact of bank branch closures on small businesses* (October 2016): [http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-\(final\).pdf?sfvrsn=0](http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-(final).pdf?sfvrsn=0) [accessed 14 March 2017]

304 Written evidence from Mencap (FEX0060) and Money and Mental Health Policy Institute (FEX0071)

also commits the industry to making sure there is the right support to help customers use internet or mobile banking.”³⁰⁵

220. The Protocol commits banks to a number of actions. They will carry out an analysis of the potential impact on branch users and how else those users could access banking services. They should communicate with local stakeholders in order to understand how to help the community continue to bank, with particular focus on the impact on small businesses and more vulnerable customers. Where banks determine there is a continuing need for services, suitable alternative ways to bank should be put in place before the branch is closed.³⁰⁶
221. Banks were keen to emphasise that the Protocol did not provide for a consultation process on branch closures themselves, but on what alternative measures could be put in place to maintain access for customers and ease their transition to alternative forms of banking. The Co-operative Bank explained that the Protocol focused on how the closure could be managed in a way that ensured continuity of service, financial inclusion and customer education.³⁰⁷
222. Banks told us that the Protocol had affected how they had administered branch closures and the additional services they had put in place. The Co-operative Bank reported that the Protocol had led it to review and update closure processes,³⁰⁸ while Barclays stated:
- “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.”³⁰⁹
223. No witnesses, however, could point to any occasion where a bank had reversed a branch closure decision following the Protocol process. A November 2016 review concluded that banks were following the Protocol, but recommended that a greater amount of post-closure research into the effects on customers should be carried out.³¹⁰
224. We note that the Protocol is a voluntary exercise drawn up by the BBA. While it is commendable that some banks have been able to give examples of changes they have made to their activities to mitigate the impacts on customers, there is nothing forcing banks to take action to prevent the financial exclusion of people in communities where branches have closed.

305 British Bankers’ Association, *Industry Protocol on Branch Closures* (26 March 2015): <https://www.bba.org.uk/policy/retail/financial-inclusion/access-to-banking/industry-protocol-on-branch-closures/> [accessed 14 March 2017]

306 The full text of the Protocol can be found at British Bankers’ Association, *Industry Protocol on Branch Closures* (26 March 2015): <https://www.bba.org.uk/policy/retail/financial-inclusion/access-to-banking/industry-protocol-on-branch-closures/> [accessed 14 March 2017].

307 Q 45 (Matthew Carter)

308 Written evidence from the Co-operative Bank (FEX0033)

309 Q 45 (Catherine McGrath)

310 Professor Russel Griggs OBE, *Access to Banking Protocol: One year on review* (November 2016): <https://www.bba.org.uk/news/reports/access-to-banking-protocol/> [accessed on 14 March 2017]

Box 3: Nationwide in Glastonbury: an innovative solution

When HSBC closed its Glastonbury branch in 2015, the town of nearly 9,000 residents³¹¹ was left without a single bank branch. We heard how Nationwide Building Society made contact with the local community and stakeholders and expressed an interest in opening a branch in the town provided that enough local people and businesses committed to opening an account with them. Over 1,000 local people and businesses have now signed up, and the new branch is planned to open in 2017.³¹² The building society told us it plans to make the branch cost-effective by using video link technology so customers can conduct their banking business with staff at Nationwide headquarters.³¹³

A greater role for the Post Office

225. The importance of the Post Office in providing financial services was consistently emphasised in the evidence we heard. It was noted that banks (under the Access to Banking Protocol) and Government (in considering its response to the branch closure trend) were placing growing emphasis on the availability of banking services from branches of the Post Office.³¹⁴
226. With over 11,600 branches across the UK,³¹⁵ the Post Office has more physical outlets than all the high street banks combined.³¹⁶ Over recent years the Post Office and the banks have been working to establish a single common and standardised set of banking services available at post offices. This has resulted in 99% of current account customers in the UK being able to access some banking services over a post office counter.³¹⁷
227. Barclays and the Co-operative Bank both told us of the importance of the Post Office in offering customers continued access to physical banking.³¹⁸ The Competition and Markets Authority agreed, saying:
- “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.”³¹⁹
228. Similarly, the Economic Secretary to the Treasury said that post offices played “a valuable part” in financial inclusion, especially in rural areas, and that the Government should be doing all it could to support them. He

311 Office for National Statistics, ‘Neighbourhood Statistics, Glastonbury Parish’: <http://bit.ly/2mkIEhT> [accessed 14 March 2017]

312 Nationwide, *Nationwide tests using technology to bring financial services to communities left without a bank* (November 2016): <http://www.nationwide.co.uk/about/media-centre-and-specialist-areas/media-centre/press-releases/archive/2016/11/18-glastonbury> [accessed 14 March 2017]

313 Q 221 (Stephen Uden)

314 Written evidence from the Post Office Ltd (FEX0101), BBA (FEX0019), HM Treasury (FEX0088); see also Q 191 (Prof Alasdair Smith) and Q 45.

315 Written evidence from the Post Office Ltd (FEX0101)

316 Financial Conduct Authority, *Access to Financial Services in the UK* (May 2016) p 44: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf> [accessed 14 March 2017] which quotes the total at 8,400 at the end of 2015.

317 Written evidence from the Post Office Ltd (FEX0101), see also Post Office, *Post Office and UK banks partnership secure access to local banking services* (24 January 2017): <http://corporate.postoffice.co.uk/our-media-centre/#/pressreleases/post-office-and-uk-banks-partnership-secure-access-to-local-banking-services-1761968> [accessed 14 March 2017].

318 Q 45

319 Q 191 (Prof Alasdair Smith)

concluded that post offices were likely to become even more important in an era of increasing branch closures and moves towards online banking.³²⁰

229. Several witnesses suggested innovative ways in which Post Office branches could support access to financial services. One suggested that branches could host video terminals through which bank customers could talk over more complex financial matters with staff from their own banks.³²¹ Others suggested that the Post Office could provide an access platform for either commercial or not-for-profit personal loans.³²² Another suggested that “pop-up” branches could be set up in empty units in rural areas,³²³ while others pointed out that the positive public perception of the Post Office brand meant that it could be a good host for identity verification, setting up basic bank accounts and even debt advice.³²⁴ It was also suggested that the Post Office could follow the example of the New Zealand Post Office’s Kiwibank and provide a full retail banking service of its own.³²⁵ However, it was also repeatedly noted that, for the Post Office to be able and willing to provide such services, they would have to represent a realistic income stream, with financial support possibly provided by the banking sector or via the Government.³²⁶
230. It is important to note the evidence from witnesses that there are some major issues around the increasing reliance on Post Office branches to maintain physical access to banking services. Firstly, many customers are simply unaware that these services exist.³²⁷ We were told of a representative survey of the public in Northern Ireland in which just over half of responders were unaware that banking services could be accessed at the Post Office.³²⁸ A second problem is that some services, such as cash and cheque clearing facilities, also appear to be processed more slowly than in bank branches, which for customers without cash reserves in their current account could mean the difference between a bill bouncing and being paid.³²⁹
231. A third concern, which was raised by numerous witnesses, is the fact that some Post Office branches themselves are under threat of closure.³³⁰ It was noted that, despite being publicly owned, the Post Office has to operate as a business, and thus cannot justify keeping branches open where they are making a loss.³³¹ In particular, in January 2017 the Post Office announced plans to close 37 Crown Post Offices, with services in these locations to be delivered instead through retail partnership arrangements. This followed an announcement in April 2016 that services at 61 branches would be transferred to WHSmith stores over the following year. All of this is part of

320 Q 247 (Simon Kirby MP)

321 Written evidence from The Open University (FEX0009)

322 Written evidence from Oakam Ltd. (FEX0064), ABCUL (FEX0037), Birmingham Financial Inclusion Partnership (FEX0049) and Leeds City Credit Union (FEX0069)

323 Written evidence from Shelter (FEX0056)

324 Written evidence from Citizens Advice Redcar et al (FEX0048) and Shelter (FEX0056),

325 Q 45 (Catherine McGrath), see also Kiwi Bank, *Homepage* <https://www.kiwibank.co.nz/> [accessed 14 March 2017]

326 Written evidence from the Post Office Ltd (FEX0101) and Birmingham Financial Inclusion Partnership (FEX0049); see also Q 211 (Christopher Woolard)

327 Q 208 (Andrew Bailey)

328 Written evidence from The Consumer Council (FEX0082)

329 Federation of Small Businesses, *Locked Out: The impact of bank branch closures on small businesses*, (October 2016) p 5: [http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-\(final\).pdf?sfvrsn=0](http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-(final).pdf?sfvrsn=0) [accessed 14 March 2017]

330 Such as the written evidence from Housing Rights (FEX0021) and Later Life Ambitions (FEX0050)

331 Q 211 (Christopher Woolard), written evidence from the Post Office Ltd (FEX0101)

a long-term plan to retain services while reducing costs, by integrating Post Office services into mainstream retail outlets.³³²

232. It should, however, be acknowledged that the number of Post Office branches has now stabilised, after significant declines in the 1990s and 2000s, and the current Government and its predecessor have determined not to allow the total number of post offices in the UK to fall below 11,500.³³³
233. We acknowledge the important role of the Post Office in preventing financial exclusion through the provision of money transfer services in those areas where bank branches have closed, and the commitment by the Government and the Post Office itself to maintain access to Post Office services in a context of increasing bank closures.³³⁴ We note, however, the limited levels of awareness among the general public regarding the banking services that can be accessed from the Post Office.
234. We note also the number of creative ideas put forward by witnesses for improving the Post Office's provision of access to banking services, and acknowledge that the banking services provided by equivalent institutions in other countries are often more developed. We believe these ideas merit further analysis and consideration.
235. We are concerned that the growing trend towards integrating Post Office services within retail stores will require effective training for staff, in order to maintain the high quality of service expected by Post Office customers. This is particularly true where the management of their money is concerned, and forms an important element of developing confidence in, and awareness of, the financial services operated by the Post Office.
236. **The trend towards a growing number of bank branch closures is contributing towards financial exclusion, particularly for vulnerable customers who experience difficulties accessing alternative services. The Post Office, with its extensive branch network, has the potential to meet the needs of such customers. This potential is currently unrealised, due to low levels of public awareness of the financial services available through Post Offices. It is essential that the Government, and the banking sector, do more to promote and support the role that can be played by the Post Office in providing access to physical banking services.**
237. *We recommend that the Government work proactively with the Post Office and banks to fund and launch an extensive public information campaign on the banking services that are available through Post Office branches. The Government—as sole shareholder in Post Office Ltd—should also ensure that the Post Office provides*

332 Post Office, Press release: *5,000th modern Post Office milestone reached in largest ever branch investment programme* on 3 December 2016: <http://corporate.postoffice.co.uk/our-media-centre/pressreleases/5000th-modern-post-office-milestone-reached-in-largest-ever-branch-investment-programme-1266841#/pressreleases/5000th-modern-post-office-milestone-reached-in-largest-ever-branch-investment-programme-1266841> [accessed 14 March 2017]

333 Department for Business, Innovation and Skills, *Securing the Post Office Network in the Digital Age* (November 2010) pp 8–9: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31809/10-1260-securing-the-post-office-network.pdf [accessed 14 March 2017]

334 Written evidence from the Post Office Ltd. (FEX0101); see also Department for Business, Innovation and Skills, *Securing the Post Office Network in the Digital Age* (November 2010): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31809/10-1260-securing-the-post-office-network.pdf [accessed 14 March 2017].

adequate training for staff at branches within retail outlets, so that they can carry out banking services for customers with confidence and competence. (Recommendation 13)

Insurance

238. We received some written evidence regarding exclusion from certain insurance products and services. It was noted that some groups can find it hard to obtain some kinds of insurance on account of being viewed as a higher risk by the industry. We were told that people living with HIV³³⁵ or other conditions including cancer³³⁶—even those in long-term remission—sometimes have to pay significantly more for travel, health and life insurance. This is if they can obtain it at all; the Financial Conduct Authority and Macmillan Cancer Support reported that many people with long-term conditions are denied such products altogether.³³⁷ The charity Clinks, which works with ex-offenders, noted that all forms of insurance can be hard to obtain for people who have been in prison.³³⁸ The British Insurance Brokers' Association suggested that the popularity of price comparison websites had resulted in a “computer says no” scenario for many customers who posed “non-standard” risks, going on to state that such groups could include older people or those with pre-existing medical conditions.³³⁹
239. Representatives of the insurance industry explained that a joint Code of Practice had been launched between the Association of British Insurers and the British Insurance Brokers' Association. The Code aims “to help insurers and brokers recognise potentially vulnerable customers who may need extra support” in renewing some kinds of insurance, and defines vulnerable people as those “who may be particularly at risk in their interaction with financial services”.³⁴⁰ The Code of Practice does not, however, encompass the health, travel and life insurance products that witnesses told us posed a particular problem for some customers.
240. Beyond this, however, the topic of insurance did not figure prominently in our oral evidence sessions or wider written evidence base. We were unable, within a time-limited inquiry, to pursue these issues further; we note, however, that such matters would fall within the remit of the long-established House of Lords Economic Affairs Committee.

Digital exclusion and financial technology (FinTech)

Online banking

241. Online banking and use of financial services has seen an enormous rise in recent years; the BBA reported that one large high-street bank now sees 93% of contact from its customers completed via the telephone, internet or smartphone, while 97% of cash withdrawals are made via an ATM.³⁴¹
242. Banking online can offer better value for money due to online-only bank accounts with rewards and benefits attached to them. The Lloyds Banking Group Consumer Digital Index has calculated that low-income families can

335 Written evidence from the National AIDS Trust ([FEX0042](#))

336 Written evidence from Macmillan Cancer Support ([FEX0057](#))

337 Written evidence from FCA ([FEX0083](#)) and Macmillan Cancer Support ([FEX0057](#))

338 Written evidence from Clinks ([FEX0026](#))

339 Written evidence from the British Insurance Brokers' Association ([FEX0075](#))

340 Written evidence from the Association of British Insurers ([FEX0085](#))

341 Written evidence from BBA ([FEX0019](#))

save around £516 a year through taking their custom online—the ‘digital dividend’.³⁴² The Committee also heard that online banking could deliver improved access to banking services for people with certain vulnerabilities such as mobility or sensory impairments.³⁴³

243. Many witnesses, however, expressed the fear that an increasing reliance on online services—and the accompanying atrophy of the physical bank branch infrastructure—would exacerbate financial exclusion for people who were less capable or connected online.³⁴⁴ It was pointed out that nearly a quarter of UK households still did not have access to broadband in their home. This rose to nearly a third of households in Scotland, and in some places—such as Glasgow—the figure was closer to 40%.³⁴⁵ Some 5.3 million adults in the UK—just over 10% of the population—said that they had never been online, and 13% of UK adults did not use the internet regularly.³⁴⁶
244. This issue does not affect all population groups equally. 42% of disabled people, for instance, are not online,³⁴⁷ while online banking can also pose challenges for people with learning difficulties,³⁴⁸ as well as people experiencing poor mental health.³⁴⁹ Furthermore, 37% of retired people are not regular internet users compared to just 6% of the general population, according to the Money Advice Service’s 2015 Financial Capability Survey.³⁵⁰
245. There is, therefore, extensive evidence counselling against too heavy a reliance on online channels to address financial exclusion, as those who cannot easily access the internet can be doubly excluded, both digitally and financially. It was suggested that digital inclusion needed to be tackled in parallel with financial inclusion, to ensure that it did not cause or exacerbate financial exclusion.³⁵¹
246. Indeed, witnesses from many sectors—not least the banking and financial technology industries—strongly indicated that, for an online offering to be truly financially empowering, it must have an offline presence, be that by phone or ideally face-to-face. Age UK cautioned that, in dealing with older customers, “we will not get rid of the need for non-digital options for several decades to come, if we ever do.”³⁵² Lloyds Bank and the Good Things Foundation³⁵³ noted the value of local support from libraries, bank branches and other sources—“trusted faces in local places”—in encouraging bank customers to make the transition to online banking and other online activities in order to reap the benefits of being connected in this way.³⁵⁴

342 Lloyds Bank, *Consumer Digital Index 2016* (January 2016) p 19: http://www.lloydsbank.com/assets/media/pdfs/ConsumerDigitalIndex_280715AP_0116_v9_Web.pdf [accessed 14 March 2017]

343 See, for example, [Q 170](#) (Nick Williams).

344 See, for example, written evidence from CAP ([FEX0014](#)).

345 Douglas White, *Across the Divide: Tackling digital exclusion in Glasgow*, Carnegie UK Trust (April 2013) p 5: <http://www.carnegieuktrust.org.uk/carnegieuktrust/wp-content/uploads/sites/64/2016/02/pub14550115961.pdf> [accessed 14 March 2017]

346 [Q 169](#) (Adam Micklethwaite)

347 [Q 65](#) (Philip Connolly)

348 Written evidence from Mencap ([FEX0060](#))

349 Written evidence from the Money and Mental Health Policy Institutes ([FEX0071](#))

350 Money Advice Service, *Financial Capability in the UK 2015* (November 2015) p 51: https://prismic-io.s3.amazonaws.com/fincap-two%2Fd08746d1-e667-4c9e-84ad-8539ce5c62e0_mas_fincap_uk_survey_2015_aw.pdf [accessed 14 March 2017]

351 Written evidence from Barclays ([FEX0074](#))

352 [Q 67](#) (Lucy Malenczuk)

353 Known until November 2016 as the Tinder Foundation.

354 [Q 169](#) (Nick Williams)

247. The Co-operative Bank told us that mobile and digital banking were crucial, but only as part of a multi-channel approach.³⁵⁵ Lloyds echoed this view, emphasising that digital banking must remain only one of several pathways for customers to access their bank:

“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.”³⁵⁶

248. A strong expression of this approach came from Virraj Jatania, Co-Founder of the pre-paid debit card provider Pockit, who told us:

“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.”³⁵⁷

Financial technology (FinTech)

249. We considered the increasing array of financial inclusion products that relied on the use of financial technology, or FinTech. A number of web- and app-based solutions were mentioned by witnesses, including the aforementioned Pockit,³⁵⁸ budgeting apps and jam-jarring products such as Squirrel,³⁵⁹ payroll-based services such as Neyber,³⁶⁰ and income-smoothing products such as Wollit.³⁶¹ Some witnesses expressed concern that any positive impact that these had on financial inclusion would be limited to people with the capability and the money to have a smartphone, tablet or other convenient access to the internet.³⁶²
250. Toynbee Hall suggested there was a risk of FinTech development addressing “perceived” rather than “real” needs, and warned against unsubstantiated assumptions such as “everyone has a smartphone now” and “young people are all digitally included”. They concluded that FinTech providers must acknowledge and test their assumptions carefully in order to avoid designing solutions which were unwanted and ineffective.³⁶³
251. Responsible Finance set some of these concerns out in more detail, noting that new entrants to the financial services market were mainly targeting the

355 Q 48 (Matthew Carter)

356 Q 170 (Nick Williams)

357 Q 161 (Virraj Jatania)

358 Pockit, ‘Homepage’ www.pockit.com [accessed 14 March 2017] see also the oral evidence from its co-founder, Virraj Jatania, QQ 159–167.

359 Squirrel, ‘Homepage’ <https://squirrel.me/> [accessed 14 March 2017]

360 Neyber, ‘Homepage’ <https://www.neyber.co.uk/> [accessed 14 March 2017] see also written evidence from Neyber (FEX0065) and oral evidence from its Co-Founder Monica Kalia, QQ 159–167

361 Wollit, ‘Homepage’ <http://wollit.com/> [accessed 14 March 2017]

362 Q 146 (Martin Lewis OBE)

363 Written evidence from Toynbee Hall (FEX0073)

financially included, rather than those who were currently excluded. They suggested that:

“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.”

They went on to state:

“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.”³⁶⁴

252. In light of these pressures on FinTech companies, a number of witnesses mentioned the potential of the FCA’s ‘regulatory sandbox’.³⁶⁵ This is an initiative that allows for a slightly lighter-touch approach to regulation for businesses to provide the solution to a specific problem or need, when the product concerned represents something genuinely innovative, with a real consumer benefit, and largely focused on consumers in the UK.³⁶⁶ The sandbox enables businesses to test out new financial products in a ‘safe space’ without immediately having to meet all the usual regulations when doing so, while also ensuring that consumers are still protected.³⁶⁷
253. This was seen as a positive way of encouraging potential FinTech solutions to aspects of financial exclusion, since the FCA chooses a limited number of projects for each iteration of the sandbox and would be free to select projects designed to combat financial exclusion in the range of projects picked each time.
254. Other witnesses, without specifically mentioning the sandbox, suggested that there was a role for repayable investment funding³⁶⁸ in financing FinTech projects to create products that would be specifically appropriate for people experiencing financial exclusion. They noted that this was not something that the market was likely to do on its own and that it would therefore require co-ordination and leadership from the Government.³⁶⁹
255. We are pleased to note the popularity of the FCA’s regulatory sandbox and the healthy environment that it creates for innovation; we also note, however, the potential danger that FinTech companies might, for understandable commercial reasons, be drawn towards developing products for customers who are already financially and digitally included, at the expense of those who truly need support to access financial products and make them work in their favour.
256. **We welcome innovation in the provision of new financial services products and technologies, especially when such innovations help to meet the specific needs of consumers. As such, we support the work of the FCA’s ‘regulatory sandbox’; we hope that future rounds of the**

364 Written evidence from Responsible Finance ([FEX0005](#))

365 [Q 164](#) (Virraj Jatania) and [Q 158](#) (Faisel Rahman OBE)

366 Financial Conduct Authority, ‘Regulatory sandbox’ <https://www.fca.org.uk/firms/project-innovate-innovation-hub/regulatory-sandbox> [accessed 14 March 2017]

367 Written evidence from FCA ([FEX0083](#))

368 [Q 158](#) (Faisel Rahman OBE)

369 [Q 131](#) (Damon Gibbons)

sandbox can be used to prioritise products that will help to meet the needs of those vulnerable customers who are at particular risk of financial exclusion.

Digital by default

257. The Government has made clear that Universal Credit is to be ‘digital by default’, and many aspects of the claimant journey have been specifically designed with this in mind. Claimants are invited to claim online in the first instance, and the helpline is encouraged for use only if a claimant cannot access the required website.³⁷⁰
258. Lord Freud told us that this encouragement to use digital channels had been successful, with 90% of customer contact for Universal Credit taking place online. He was encouraged that this mode of access had been chosen by a wide range of customers, not only the younger adults who had been involved in the initial stages of Universal Credit rollout.³⁷¹
259. Some witnesses, however, expressed concern at a perceived rush to provide a ‘digital by default’ service. We were told that “digital by default should not mean digital only”.³⁷² Keep Me Posted, which campaigns to ensure customers retain the right to choose paper-based communication, told us:
- “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.”³⁷³
260. **We believe that digital by default should not mean digital only. It remains vital to ensure the presence of, and access to, offline means of communicating with service providers. We have consistently heard that digital exclusion is likely to have a particularly significant impact on those who are already most at risk of financial exclusion.**
261. *We recommend that the Government should ensure that non-digital access to social security benefits, and other services, remains possible. Access via free telephone lines, and through face-to-face meetings where appropriate, should remain available indefinitely.* (Recommendation 14)

370 HM Government, ‘Universal Credit: How to claim’ <https://www.gov.uk/universal-credit/how-to-claim> [accessed 14 March 2017]

371 [Q 235](#) (Rt Hon. Lord Freud)

372 [Q 170](#) (Peter Wells)

373 Written evidence from Keep Me Posted ([FEX0020](#))

CHAPTER 7: FINANCIAL EXCLUSION, CREDIT AND BORROWING

262. The Committee heard a wide variety of evidence on the relationship between financial exclusion and the use of various forms of consumer credit. We heard that, for the many low-income households who lack a savings buffer, credit of various kinds was an essential way of managing the family finances in a world where both income and expenditure needs can spike at unrelated times.³⁷⁴

High-cost credit

What is high-cost credit?

263. High-cost credit refers to certain parts of the consumer credit market where the interest rates and other costs are significantly higher than in standard consumer credit agreements.
264. Four parts of the sector considered during the Committee's inquiry were:
- Unarranged current account overdrafts, where customers are not prevented from paying out more money than they have, or than is agreed on their usual overdraft, for a charge.
 - High-cost, short-term credit (HCSTC), which includes payday loans and short-term high street loans. Interest rates for this kind of loan are now capped at 0.8% a day.
 - Home credit, which involves providing relatively small, short-term cash loans to consumers typically on lower-than-average incomes. The system is defined by an agent's visit to a customer's home, normally on a weekly basis.³⁷⁵ APR interest rates in this sector range between 300% and 1,500% depending on the size and length of the loan.
 - Rent-to-own, where a company sells consumer goods and provides the credit products that enable people to buy them. They can be store-based, online-only or online-based but with a measure of home visiting to collect repayments. APR interest rates in this sector cluster around 69%.³⁷⁶

Unarranged overdrafts

265. The first of these forms of high-cost borrowing—unarranged overdrafts—is somewhat different from the others. We were told that HCSTC, home-credit and rent-to-own are in large part used by 'credit-restricted' individuals who "struggle to secure credit at reasonable interest rates" and are typically declined by mainstream banks and lenders.³⁷⁷ They are often in work, but may have irregular work patterns, including zero-hours contracts, or are

374 See [Q 126](#) (Damon Gibbons) and written evidence from Leeds City Council ([FEX0030](#)).

375 Written evidence from the Consumer Credit Association ([FEX0051](#)).

376 See the websites of the largest providers, Brighthouse, www.brighthouse.co.uk, Buy as you View, www.bayv.co.uk and PerfectHome, www.perfecthome.co.uk [all accessed 14 March 2017].

377 Written evidence from SalaryFinance ([FEX0034](#)).

moving in and out of part-time employment and social security benefits, so their ability to repay a regular amount is uncertain.³⁷⁸

266. By contrast, the evidence we received suggested that unarranged overdraft use is common at all income levels. Analysis by the Competition and Markets Authority, for instance, “did not find large differences in demographics between customers who do not use an overdraft and those who use unarranged overdrafts”.³⁷⁹ Those on lower incomes and at risk of financial exclusion, however, did use unarranged overdrafts, and were less likely to have any arranged overdraft provision than people on higher incomes.³⁸⁰
267. Restrictions on some forms of high-cost credit were imposed by the Financial Conduct Authority in 2014 and 2015 (see paras 284–286). Unarranged overdrafts were specifically exempted from the FCA’s definition of high-cost, short-term credit.³⁸¹ We were, however, told that many unarranged overdraft facilities involved similar levels of cost to the more traditional high-cost credit products, and could be worthy of inclusion within the FCA’s restrictions on HCSTC.³⁸² The Financial Services Consumer Panel in particular argued that unarranged overdrafts ought not to be explicitly exempted from HCSTC credit restrictions:

“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 in the UK.”³⁸³

268. Research published by *Which?* in February 2017 supports this view. This research compared the cost of borrowing £100 for 30 days and found that unarranged overdraft charges at some high street banks were over seven times higher than the maximum permitted interest of £24 per £100 borrowed³⁸⁴ on a HCSTC loan. The research concluded that some high street banks would charge customers borrowing £100 up to £156 more than HCSTC providers are allowed to charge for the same borrowing period.³⁸⁵
269. The BBA told us that unarranged overdrafts were often triggered by standing payments such as utility bills, council tax or rent, suggesting that it was important to consider the cost of the unarranged overdraft relative to the cost of the regular payment being declined.³⁸⁶ They noted, however, that it might be possible to improve current practices by ensuring that internal policies flagged up, and provided support to, regular users of unarranged overdraft facilities.³⁸⁷ We also heard that many banks are already using services such as

378 Centre for the Study of Financial Innovation, *Reaching the poor: The intractable nature of financial exclusion in the UK* (December 2016) p 15: <http://financialhealthexchange.org.uk/wp-content/uploads/2017/01/CSFI-Reaching-the-poor-release-version.pdf>, [accessed 14 March 2017]

379 Written evidence from the Competition and Markets Authority ([FEX0092](#))

380 *Ibid.*

381 Financial Conduct Authority Handbook glossary, ‘High-cost short-term credit’: <https://www.handbook.fca.org.uk/handbook/glossary/G3328.html> [accessed 14 March 2017]

382 [Q 149](#) (Polly Mackenzie) and [Q 126](#) (Sue Lewis)

383 Written evidence from the Financial Services Consumer Panel ([FEX0035](#))

384 Financial Conduct Authority, *PS14/16: Detailed rules for the price cap on high-cost short-term credit - Including feedback on CP14/10 and final rules* (November 2014): <https://www.fca.org.uk/publications/policy-statements/ps14-16-detailed-rules-price-cap-high-cost-short-term-credit> [accessed 14 March 2017]

385 *Which?*, *Overdraft charges could cost £156 more than payday loans* (8 February 2017): <https://press.which.co.uk/whichpressreleases/overdraft-charges-could-cost-156-more-than-payday-loans/> [accessed 14 March 2017]

386 [Q 155](#) (Eric Leenders)

387 *Ibid.*

text alerts to warn customers when they are approaching their overdraft limit so they can put funds in their account and avoid any charge.³⁸⁸

270. In August 2016 the Competition and Markets Authority (CMA) published the final findings of its review into the retail banking market.³⁸⁹ The CMA recommended, as part of its findings, that each bank should be required to set a maximum monthly charge (MMC) for unarranged overdraft charges. The MMC would specify a maximum amount that the bank can charge a customer during any given month, taking together all unarranged overdraft charges including debit interest and unpaid items fees that the bank charges. Banks would be required to disclose the MMC associated with each of the accounts that they offer.
271. We were told that many of the major banks already set, and publicise such a cap, but that this was not effective:

“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”.³⁹⁰

It was suggested, therefore, that the regulator should instead directly impose a cap on overdraft charges of this nature, to be set at an appropriate level.³⁹¹

272. We considered this proposal with Professor Alasdair Smith, Chair of the CMA Retail Banking Market Review. Prof Smith explained that the imposition of a defined cap, at a level set by the regulator, could have wider detrimental effects. In particular, he noted concerns that banks might withdraw the provision of unarranged overdraft facilities to affected customers, leading to utility bills and other payments being unmet, suggesting that:

“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”.³⁹²

He noted, however, that the FCA has agreed to undertake further work on unarranged overdraft charges, as part of the wider review discussed later in paragraph 293 of this chapter.³⁹³

273. **We note the concerns that have been expressed regarding the particularly high costs that can be accrued through unarranged overdraft charges. It is clear that unarranged overdraft fees are unacceptably high, and that intervention to moderate the negative effect of these excessive charges is urgently required.**

388 Written evidence from Barclays ([FEX0074](#)), BBA ([FEX0019](#)) and the Money and Mental Health Policy Institute ([FEX0071](#))

389 Competitions & Markets Authority, *Making banks work harder for you* (9 August 2016): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544942/overview-of-the-banking-retail-market.pdf [accessed 14 March 2017]

390 [Q 99](#) (Francis McGee)

391 *Ibid.* See also written evidence from the Co-operative Bank ([FEX0033](#)) and the Financial Services Consumer Panel ([FEX0035](#)).

392 [Q 187](#) (Prof Alasdair Smith)

393 *Ibid.*

274. *We recommend that regulations to limit and manage the negative impact of unarranged overdraft charges should be introduced. The potential for such regulations should be assessed as part of the ongoing FCA review into high-cost credit.* (Recommendation 15)

High-cost consumer credit products

275. The other forms of high-cost credit highlighted in paragraph 264 are typically experienced by a narrower group of customers—those ‘credit-restricted’ individuals who “struggle to secure credit at reasonable interest rates” and are typically declined by mainstream banks and lenders.³⁹⁴
276. It is often also the case that these borrowers cannot access more mainstream credit sources because their credit records are either ‘thin’ (that is, they have not taken out much credit and there is therefore very little evidence as to their behaviour with it) or ‘poor’ (that is, they have failed to repay credit agreements before).³⁹⁵
277. We were also told that there were some parts of the high-cost credit market where demand had, to a degree, been artificially created through marketing. Rather than being an issue of latent demand, with an untapped customer base waiting to find a solution to its credit needs, it was suggested that television advertising was being used to market a quick, easy and tempting technological offer. Martin Lewis highlighted the “nightmare scenario” of “people watching a payday loan advert at 11pm while they are drunk and then a gambling advert” immediately afterwards, and said there was evidence that this had an impact on behaviours.³⁹⁶ This concern was shared by the Money Advice Trust, who noted 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”, purely because the marketing was so “slick” and the online experience so easy.³⁹⁷
278. We were told that the higher costs of these products could be related to the commercial feasibility of providing them to the customer base concerned, with two particular elements emphasised:
- The higher risk of default from providing loans to a certain cohort of customers. The fact that borrowers in this sector have been refused credit from mainstream providers, alongside the fact that many are borrowing specifically in order to smooth out uneven income from irregular work, leads lenders to perceive an increased risk that money will not be repaid. This risk is reflected in the price of credit.³⁹⁸
 - The small size of the loans involved. The initial amount that can be borrowed on a payday loan site is generally limited.³⁹⁹ Credit suppliers argue that this means that the cost of doing business per loan is increased: running a credit check, for example, has the same cost per

394 Written evidence from SalaryFinance ([FEX0034](#))

395 See, for example, [Q 132](#) (Hamish Paton) and [Q 133](#) (Russell Hamblin-Boone), and written evidence from Provident Financial Group ([FEX0038](#)) and Non-Standard Finance ([FEX0055](#)).

396 [Q 149](#) (Martin Lewis OBE)

397 [Q 6](#)

398 [Q 133](#) (Russell Hamblin-Boone)

399 On Wonga.com the maximum is £400. The maximum initial sum borrowable through home-collected credit company Provident is £1,000. The rent-to-own sector, epitomised by stores such as BrightHouse and Pay As You View, focuses on providing credit for buying household items costing up to a few hundred pounds.

transaction regardless of the amount of credit involved, and the same is true for manual processes such as underwriting or data capture. Economies of scale are therefore lost and the cost as a proportion of the loan rises.⁴⁰⁰

The problems with high-cost credit

279. It could be argued that the use of these kinds of credit is often in itself evidence of financial exclusion, as many customers turn to high-cost credit sources only when they do not have the choice of other sources.⁴⁰¹ BrightHouse told us that its customers had limited options, beyond the use of a rent-to-own service, when they need a new household item.⁴⁰² Martin Lewis took this argument further:

“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.”⁴⁰³

280. In addition, we heard that high-cost short-term credit can reinforce financial exclusion and exacerbate the ‘poverty premium’ because of the higher interest and charges associated with it. Demos noted that:

“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”.⁴⁰⁴

281. StepChange told us that people using credit as a ‘safety net’ to meet essential needs were much more likely to be struggling financially. They reported that 36% of people using credit in this way were falling behind on bills and credit commitments compared to just 7% of the overall population.⁴⁰⁵ In 2016 the charity had found that clients with high-cost credit debts were more likely than other clients to have rent, Council Tax, utility or water arrears as well.⁴⁰⁶
282. We heard that extra costs were partly due to the high interest rates associated with these products, but also because of the additional costs bundled into them. This, we heard, was especially the case in the rent-to-own sector, where some companies regularly come under criticism for their “high interest rates, lack of transparency and practice of compulsorily bundling warranty and other charges into the total cost of the product”.⁴⁰⁷ This leads to a concern

400 Q 153 (Faisal Rahman OBE), see also written evidence from Provident Financial Group (FEX0038)

401 It should be acknowledged that this is not the only reason, however. Some customers of home-collected or high-street based credit may prefer this because they may value the personal contact with their collector, perhaps because of a lack of digital or literacy capability, or because those services are long embedded within their community. See Q 153 (Faisal Rahman OBE). Others may value the speed and convenience of the web-based payday loan offer.

402 Q 132 (Hamish Paton)

403 Q 145 (Martin Lewis OBE)

404 Written evidence from Demos (FEX0063)

405 Written evidence from StepChange Debt Charity (FEX0084)

406 StepChange Debt Charity, *Payday Loans: The next generation* (2016) p 11: <https://www.stepchange.org/Portals/0/documents/Reports/Payday-loans-next-generation.pdf> [accessed 14 March 2017]

407 Written evidence from Buy as You View (FEX0013)

that these companies are generating “high levels of income from non-lending sources, such as late fees, arrangement fees, exit fees, change of contract terms, warranties and insurances”.⁴⁰⁸

283. There were also concerns regarding the affordability checks carried out by companies in the sector, with suggestions that these could push customers deeper into financial exclusion. StepChange told us that one-third of the debt advice clients they saw regarding high-cost credit had more than one loan being repaid at once, arguing that this showed “there are still issues with affordability assessments and responsible lending”.⁴⁰⁹ In contrast, however, BrightHouse was keen to emphasise its affordability checking process, which they said was “one of the most stringent . . . in the market today”.⁴¹⁰

Financial Conduct Authority regulations on the high-cost, short-term credit sector

284. In 2014 and 2015 the Financial Conduct Authority introduced new regulations on the HCSTC sector.⁴¹¹ These new regulations included limiting the number of times a loan could be rolled over, stopping lenders from using Continuous Payment Authorities⁴¹² to collect payment more than twice, introducing stronger mandatory affordability checks, and setting caps on interest rates and overall costs to the customer.
285. The price cap on HCSTC loans was established to protect consumers from excessive charges, and was introduced under Section 131 of the Financial Services (Banking Reform) Act 2013.⁴¹³ Firms offering HCSTC loans must meet the following criteria:
- An initial cost cap of 0.8% per day—interest and fees charged must not exceed 0.8% per day of the amount borrowed;
 - A £15 cap on default fees—if borrowers default, fees must not exceed £15. Firms can continue to charge interest after default but not above the initial rate; and
 - A total cost cap of 200%—borrowers must never pay more in fees and interest than 100% more than the original sum they borrowed.⁴¹⁴
286. The regulations do not cover all areas of high-cost credit, however. They are limited to loans where the APR is 100% or more, the length of the loan is less

408 Written evidence from Fair for You Enterprise CIC ([FEX0004](#))

409 [Q 98](#)

410 [Q 138](#) (Hamish Paton)

411 See Financial Conduct Authority, ‘Tougher rules for payday lenders take effect’: <https://www.fca.org.uk/news/news-stories/tougher-rules-payday-lenders-take-effect> [accessed 14 March 2017]

412 The following explanation is from www.money.com: “Most payday lenders will use a CPA (Continuous Payment Authority) to collect payment. This is a way of taking money from your bank account that gives the lender the right to take payment on any date they like, and any amount they like. This is important because although lenders should let you know when they plan to take payment and how much it’ll be, not all do. Under the new FCA rules, lenders will be limited to only two failed CPA attempts. This means that they can’t continually try to withdraw money from your account when you don’t have the funds available, and instead will need to contact you to find out what’s going on.” Money, ‘Payday loan guides’: <http://paydayloans.money.co.uk/payday-loans-the-new-rules-for-lenders.htm> [accessed 14 March 2017]

413 Financial Services (Banking Reform) Act 2013, [section 131](#). The cap came into force on 2 January 2015. See Financial Conduct Authority, *FCA confirms price cap rules for payday lenders*, (11 November 2014): <https://www.fca.org.uk/news/press-releases/fca-confirms-price-cap-rules-payday-lenders> [accessed 17 March 2016]

414 Financial Conduct Authority, *Price cap on high-cost short-term credit* (23 November 2015): <https://www.fca.org.uk/firms/price-cap-high-cost-short-term-credit> [accessed 14 March 2017]

than 12 months and the loan is not secured by a mortgage, charge or pledge. In their current form, the regulations also explicitly exclude home-collected credit and unarranged or emergency overdrafts.

287. The FCA told us that they had warmly welcomed what might be described as the legislative and political cover that had been provided by the Financial Services (Banking Reform) Act 2013, as this had enabled them to set the requirements and caps without fear of the legal challenge that might have come from the HCSTC industry if they had imposed the cap under their own powers.⁴¹⁵
288. They also set out the consideration they had given to design of the cap, including the rate at which it was set and the products it applied to, suggesting that this 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 [it] would, on average, benefit from no longer borrowing HCSTC.”⁴¹⁶

In addition, the continued commercial feasibility of the HCSTC sector was accounted for; the FCA told us that they had sought to ensure that they did not suffocate the HCSTC industry entirely, for fear that people in need of short-term credit would instead resort to illegal lenders.⁴¹⁷

The effect of the restrictions

289. We were informed that the introduction of these regulations had had a major impact. The Association of British Credit Unions Ltd (ABCUL) pointed out—and many witnesses agreed⁴¹⁸—that “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.”⁴¹⁹
290. It was reported that 54% fewer payday loans had been issued in the first quarter of 2014 than in the same period in 2013,⁴²⁰ and that the number of loans made in the first half of 2015 had dropped to 1.8 million, compared to 6.3 million in the first half of 2013.⁴²¹ The Consumer Finance Association estimated that the market as a whole had contracted by almost 70% as a result of the new regulations, and that the number of firms offering the products had fallen from 240 to around 60.⁴²²

415 [QQ 203, 218](#) (Christopher Woolard)

416 Written evidence from FCA ([FEX0083](#))

417 [Q 215](#) (Andrew Bailey)

418 Written evidence from 2 Shires Credit Union ([FEX0016](#)), Carnegie UK Trust ([FEX0032](#)), Experian ([FEX0078](#)), Financial Services Consumer Panel ([FEX0035](#)), Money Advice Trust ([FEX0047](#)) and StepChange Debt Charity ([FEX0084](#))

419 Association of British Credit Unions Ltd ([FEX0037](#))

420 Written evidence from Carnegie Trust ([FEX0032](#))

421 Written evidence from FCA ([FEX0083](#))

422 [Q 132](#) (Russell Hamblin-Boone)

291. Tellingly, the Consumer Finance Association also reported that it had seen member organisations' business structures change significantly:

"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."⁴²³

This chimed with the findings of the FCA, who told us there had "been 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."⁴²⁴

Future developments

292. The Financial Services Consumer Panel told us that the new FCA restrictions had led to companies creating new products that fitted just outside the FCA's rules. They suggested that "gaming the system is inevitable when such a small part of the lending market is subject to strict rules."⁴²⁵
293. This is an example of what the FCA referred to as 'a waterbed effect'—where an attempt to squash an activity in one part of the market only leads to its rising up in another sector.⁴²⁶ It is partly with this in mind that the FCA launched a wide-ranging review of the HCSTC regulations in November 2016, beginning with a 'call for input' from the government, banking and third sectors. The review will consider the effectiveness of the HCSTC restrictions in protecting consumers, their impact on the industry, and whether it would be of value to extend the restrictions to other high-cost products.⁴²⁷
294. It was suggested to us that the success of the HCSTC regulations might provide justification for broadening their scope. The Centre for Responsible Credit expressed dismay and incomprehension that home-collected credit had been left out of the cap.⁴²⁸ The Money and Mental Health Policy Institute, meanwhile, noted the similarity of the exempted home credit and rent-to-own sectors to HCSTC,⁴²⁹ while HM Treasury agreed that "there are aspects of [the rent-to-own sector] that look very much like the payday lending practices that we introduced the new regulations to stop".⁴³⁰
295. The rent-to-own sector was often highlighted as an area where increased regulation on the part of the FCA would be welcomed.⁴³¹ It was suggested that capping just one area of the market had had the effect of encouraging

423 [Q 138](#) (Russell Hamblin-Boone)

424 Written evidence from FCA ([FEX0083](#))

425 Written evidence from the Financial Services Consumer Panel ([FEX0035](#))

426 [Q 203](#) (Andrew Bailey)

427 Financial Conduct Authority, *Call for Input: High-cost credit Including review of the high-cost short-term credit price cap* (November 2016): <https://www.fca.org.uk/publication/call-for-input/call-input-high-cost-short-term-credit.pdf> [accessed 14 March 2017]

428 [Q 126](#) (Damon Gibbons)

429 [Q 149](#) (Polly Mackenzie)

430 [Q 34](#) (Gwyneth Nurse)

431 [Q 127](#) (Damon Gibbons)

different high-cost lenders to step in to serve the customer base concerned. We were told, in this context, that “things such as rent-to-own in particular have expanded in recent years, and they are extraordinarily expensive ways to borrow”.⁴³²

296. Dr Christine Allison highlighted the recent high growth rate of the rent-to-own sector:

“Like most forms of high cost borrowing in the UK, the rent-to-own 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 . . . It has proven to be recession proof, more than doubling in size over the last five years since the onset of the economic crisis”.⁴³³

She went on to explain that:

“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 repayment means customers face losing goods . . . A number of other unfair practices have also been highlighted - all shown to compound the debt trap for many low income families”.⁴³⁴

297. StepChange supported this view, noting that:

“There are still some quite difficult practices in that market. We want to see [regulation] 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”.⁴³⁵

298. The FCA suggested that the Authority was considering issues relating to the rent-to-own sector:

“You then have the other aspects of highcost credit, which are still there, and that includes the socalled ‘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”.⁴³⁶

299. **We welcome the significant positive impact that high-cost, short-term credit regulations have had on the market so far. We note the importance of the political and legislative cover provided by the**

432 [Q 128](#) (Damon Gibbons)

433 Written evidence from Dr Christine Allison ([FEX0017](#))

434 *Ibid.*

435 [Q 98](#) (Francis McGee)

436 [Q 214](#) (Andrew Bailey)

Government amendment to the Financial Services (Banking Reform) Act 2013. This is evidence of the positive change that can be secured through Government leadership and proactive regulation. In this context, we welcome the launch of the Financial Conduct Authority's review on high-cost credit and look forward to its findings. It is our strong belief that this review should result in further regulation of other high-cost credit sectors, and particularly the rent-to-own sector.

300. *We recommend that the Government provide all necessary assistance, including legislation where needed, to further combat financial exclusion caused or exacerbated by high-cost credit. We believe that the FCA review of the wider high-cost credit sector should consider seriously the potential value of further regulatory action. Regulations should be put in place in other parts of the high-cost credit sector, particularly the rent-to-own sector; we hope that the FCA review will give full consideration to this possibility.* (Recommendation 16)

Provision of credit by the third sector

301. Concerns relating to the high cost of credit led witnesses to emphasise the greater promotion of and support for credit unions and community development finance institutions (CDFIs) to fill the gap in affordable provision.⁴³⁷
302. Credit unions—which are not-for-profit co-operatives owned by their members—provide unsecured personal loans at a relatively low cost: interest rates are legally capped at 3%, which amounts to 42.6% APR.⁴³⁸ We heard that credit unions had a relatively low market share in Great Britain (just under 3%) compared to the rest of the world (8%),⁴³⁹ the United States (44%)⁴⁴⁰ or even Northern Ireland (36.9%).⁴⁴¹
303. The limited size of the credit union sector is one reason why it is not ready to absorb the demand for unsecured credit that has hitherto been, and still is, taken up by the high-cost sector.⁴⁴² We considered the reasons behind the limited share of the market held by credit unions; one reason given was simply that credit unions had a limited history in Britain. ABCUL pointed

437 See, for instance, [Q 59](#) (Chris Pond) and [Q 149](#) (Martin Lewis OBE).

438 Find Your Credit Union, 'About credit unions': <https://www.findyourcreditunion.co.uk/about-credit-unions/> [accessed 14 March 2017]

439 Centre on Household Assets and Savings Management, University of Birmingham, *Briefing Paper BP9/2015, Credit unions in the UK—balancing social benefit with economic viability* (August 2015) p 2: [http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/briefing-papers/2015/bp9-2015-credit-unions-uk\(2\).pdf](http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/briefing-papers/2015/bp9-2015-credit-unions-uk(2).pdf) [accessed 14 March 2017]

440 *About 100 million Americans are now using credit unions. Should you join them?*, The Washington Post, (5 August 2014): https://www.washingtonpost.com/news/wonk/wp/2014/08/05/about-100-million-americans-are-now-using-credit-unions-should-you-join-them/?utm_term=.1bd967ef5df2 [accessed 14 March 2017]

441 Bank of England, *Introduction to credit union statistics* (29 July 2013): <http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art1jul13.pdf> [accessed 14 March 2017]

442 Written evidence from Buy As You View ([FEX0013](#)), Fredericks Foundation ([FEX0040](#)), Carnegie UK Trust ([FEX0032](#)). It should also be noted that credit unions have previously said that they should not be seen solely as a way of providing affordable credit to financially excluded people, as this was commercially unsustainable. See in particular HM Treasury, *British Credit Unions at 50: Response to the call for evidence* (December 2014) p 9: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/389657/credit_unions_response_to_call_for_evidence.pdf [accessed 14 March 2017]

out that in some parts of the world credit unions had taken root at a time when most people (up to 97%) were outside the retail bank account network. Thus credit unions had had the opportunity to bed into mainstream life without the obstacle of a mature retail banking system. By contrast, when legislation first provided for credit unions in the 1970s in Britain, the retail banking market was already well established.⁴⁴³

304. In addition, it was noted that legislation in some countries required banks to provide a greater degree of support and investment to third sector lenders. We were told that, in the USA, the Community Reinvestment Act requires banks to invest in responsible finance providers as a way of demonstrating that they are reinvesting into the communities in which they take deposits.⁴⁴⁴ The Centre for Responsible Credit suggested that, as a result, “trillions of dollars have flowed from banks through credit unions and other local economic development in the United States”.⁴⁴⁵ It was suggested that it is currently difficult for UK banks to lend to credit unions and CDFIs due to assessments regarding the risk attached to smaller organisations, and related regulatory requirements.⁴⁴⁶ However, ABCUL noted that a number of banks were currently providing their highest ever levels of support to the UK credit union sector.⁴⁴⁷
305. Other witnesses highlighted structural issues affecting the growth of the credit union sector. Credit unions had traditionally obtained their deposits from their members, who were by definition the same, generally low-income customer base as the cohort to whom they would lend. In addition, credit unions tended to be small, locally run organisations—perhaps necessarily, on account of the ‘common bond’ rule, whereby members must have something in common such as a local area, a social landlord or membership of a church. This small scale led, we were told, to duplication of work and failure to harness economies of scale, which could make expansion difficult. The Centre for Responsible Credit suggested that “this is a recipe for very slow growth”.⁴⁴⁸
306. Despite this, we were told that the sector had strengthened rapidly over the last decade, and that this was, in part, due to Government intervention beginning with the Financial Inclusion Growth Fund:

“Credit unions’ participation in the Growth Fund from 2006 to 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.”⁴⁴⁹

443 [Q 152](#) (Mark Lyonette)

444 Written evidence from Responsible Finance ([FEX0005](#))

445 [Q 125](#) (Damon Gibbons)

446 [Q 154](#) (Faisal Rahman OBE)

447 [Q 154](#) (Mark Lyonette)

448 [Q 130](#) (Damon Gibbons)

449 Written evidence from Association of British Credit Unions Ltd ([FEX0037](#)).

The Growth Fund was a fund provided by the DWP in 2006–11. Its aim was to raise levels of access to affordable credit by building the capacity of third sector lenders to serve financially excluded households. In doing so, the Growth Fund aimed to disrupt the role of high cost credit in the lives of borrowers. See Collard, Hale and Day, University of Bristol, *Evaluation of the DWP Growth Fund*, (December 2010) p 5: <http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc1101.pdf> [accessed 14 March 2017]

307. From 2013 to 2015 the DWP's Credit Union Expansion Project invested £38 million into capacity building measures for the sector, involving technology, organisational structures, resourcing and, most practically, a shared online banking system, onto which a number of larger credit unions are now slowly but successfully transitioning.⁴⁵⁰
308. The Credit Union Expansion Project has been channelled through ABCUL, which is the UK's largest trade association for credit unions representing credit unions throughout England, Scotland and Wales.⁴⁵¹ It is also worth noting that there are other trade bodies for credit unions—UK Credit Unions (UKCU) and ACE in particular, while credit unions in Northern Ireland are represented by other bodies including the Ulster Federation of Credit Unions⁴⁵² and the Irish League of Credit Unions.⁴⁵³
309. These programmes have had a notable positive effect. The credit union sector has doubled its membership and tripled its asset base in the last 10 years.⁴⁵⁴ Leeds City Credit Union praised the capitalised nature of the funding received under the Growth Fund (as opposed to grant funding to cover running costs), and reported that the capital from that project was now embedded in the credit union's own resources and continued to be recycled as lending for the financially excluded.⁴⁵⁵ ABCUL explained that the Credit Union Expansion Project also included some capitalised funding, which it too reported had enabled the sector to begin to expand further.⁴⁵⁶
310. In a similar vein, the Centre for Responsible Credit supported the injection of "patient capital" rather than grant funding going forward:
- "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 [before they get] to scale."⁴⁵⁷
311. We were told that capital funding was also coming from the private sector, and that Lloyds had invested £4 million of capital into credit unions. ABCUL described how this had helped its members:
- "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

450 Q 152 (Mark Lyonette). Evidence on the impact of the Credit Union Expansion Project was not, however, universally positive, with Leeds City Council and Leeds City Credit Union reporting that the costs of taking part in the project—particularly the aspects involving the unified banking platform—were becoming unsustainably high for larger credit unions.

451 ABCUL, *Making a difference* <http://www.abc.ul.org/about> [accessed 14 March 2017]

452 University Federal Credit Union, 'Homepage': <https://www.ufcu.org/> [accessed 14 March 2017]

453 Credit Union, 'Homepage': www.creditunion.ie [accessed 14 March 2017]

454 Centre for the Study of Financial Innovation, *Reaching the Poor: the intractable nature of financial exclusion in the UK* (December 2016) p 32: <http://financialhealthexchange.org.uk/wp-content/uploads/2017/01/CSFI-Reaching-the-poor-release-version.pdf> [accessed 14 March 2017]

455 Written evidence from Leeds City Credit Union (FEX0069)

456 Written evidence from ABCUL (FEX0037)

457 Q 129 (Damon Gibbons)

party. Lloyds is doing exactly that. That has completely transformed the process of investing in the sector.”⁴⁵⁸

312. There was also some interest from witnesses in changing the regulation of credit unions to allow them to operate in markets hitherto occupied by for-profit and often high-cost lenders. ABCUL, for example, suggested that credit unions might be permitted to operate in the rent-to-own and credit card sectors to provide competition to the companies there, and remarked that this kind of broadening of scope was very common in parts of the world where credit unions were more widespread.⁴⁵⁹ Leeds City Credit Union told us that enabling credit unions to have greater access to the ATM network would make their services more readily accessible to all, including those experiencing financial exclusion.⁴⁶⁰
313. One innovative proposal for increasing the reach of credit unions comes from Affordable Lending Ltd, whose ‘Affordable Loans’ project is a joint piece of work between a group of credit unions and CDFIs (see paragraph 323 below), and a group of private sector providers—including Barclays and Asda Money—to provide access to affordable, local third-sector credit solutions for people in their local area. The organisation told us that:

“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).”⁴⁶¹
314. Affordable Lending told us that its model would be sustainable for both lenders and referring organisations through a system of minimal fees for referrals and because the retail partners such as Asda would reap the benefit of customers spending less money servicing their debts.⁴⁶²
315. Some witnesses noted that wider changes to the credit union sector could be seen to represent a loosening of the “common bond”—the central principle of credit unions where by borrowers are borrowing from members of their own community—and that some credit unions, especially smaller, more locally-based ones, might have reservations about these processes, or are content with their legally prescribed role as it is.⁴⁶³
316. Notwithstanding this, we believe that the credit union sector has an invaluable role to play in meeting a demand for small-scale credit to smooth income and expenditure among people on low incomes. This sector provides an important alternative source of credit that could enable customers to avoid using high-cost lenders.
317. We note, however, that the credit union sector is not large enough to satisfy this demand at present, nor can it focus solely on financially excluded customers. We acknowledge that credit unions play a much bigger role in other European countries and the United States, and regret that their structure and the range of services they can provide in this country appear to limit their growth rate.

458 [Q 154](#) (Mark Lyonette)

459 *Ibid.*

460 Written evidence from Leeds City Credit Union ([FEX0069](#))

461 Written evidence from Affordable Lending Ltd ([FEX0102](#))

462 *Ibid.*

463 [Q 59](#) (Sir Brian Pomeroy CBE) and [Q 30](#) (Gwyneth Nurse)

318. We welcome the work of the DWP and ABCUL, through the Credit Union Expansion Project, to address some of the issues limiting the growth of the sector in Great Britain.⁴⁶⁴ The new investment streams that credit unions have accessed—both private and public sector—will, we hope, lead to further expansion on a stronger financial basis. We also welcome the capacity-building and technological aspects of the Expansion Project, and urge credit unions to take the opportunities represented therein.
319. We note with interest the innovative ideas put forward by some witnesses to broaden the scope of credit unions—for instance, that credit unions could provide a greater array of products and, in particular, could provide services which are currently delivered through the rent-to-own and credit card sector; that future Government funding provided to the sector should take the form of repayable long-term investment capital rather than grant funding for ongoing expenses; and that banks should play a greater role in the provision of investment capital to the sector.
320. However, we are aware that a defining feature of credit unions has traditionally been the common bond and that many of the innovations mentioned above would make credit unions more like banks. We acknowledge that some parts of the credit union sector might be unwilling to risk the loss of this distinctive feature.
321. ***We recommend that the Government should expand the scope of products that credit unions can choose to provide to their members and, where appropriate, should amend the rules under which credit unions operate in order to enable them to take up these opportunities.*** (Recommendation 17)
322. ***We recommend that the Government funding provided to the sector should take the form of repayable, long-term investment capital rather than grant funding for ongoing expenses—following the pattern of the successful Financial Inclusion Growth Fund. We also recommend that the Government should work with representatives of the banking and credit union sectors to develop proposals to increase the lending, at reasonable rates, of investment capital to credit unions.*** (Recommendation 18)

Community development finance institutions

323. The Committee also heard evidence concerning community development finance organisations (CDFIs). CDFIs are not-for-profit enterprises, lending to individuals and small businesses at rates much lower than banks or commercial short-term credit providers. They do not, however, have a ‘membership’ to take savings deposits from, instead relying on investment capital from commercial and public-sector sources, which is then recycled through lending at interest rates which, while higher than credit unions (normally around 100% APR) are still far more reasonable than the commercial sector. They are themselves social enterprises, providing support as well as finance, giving extra help and advice where needed. Each CDFI is unique, serving local needs. CDFIs are currently a small part of the

⁴⁶⁴ Credit union policy in Northern Ireland is devolved to the Northern Ireland Assembly, and so, while credit unions in Northern Ireland are still regulated by the UK-wide FCA and their customers have recourse to the Financial Ombudsman Service, their rules are not set by the Westminster Government and neither the Growth Fund nor the Expansion Programme have worked with credit unions in Northern Ireland.

third-sector lending landscape with only 60 enterprises operating in the UK, serving around 50,000 customers.⁴⁶⁵

324. **While community development finance institutions are, at present, only serving a small part of the credit market we believe that they, too, could play a role in providing more affordable lending to those who are currently accessing the high-cost credit market. As such, they merit inclusion and consideration in future work which seeks to provide solutions for this segment of customers. We note in particular that, while some parts of the credit union sector may be wary of taking investment funding from Government or the private sector, or providing more complex financial products than personal loans, we have not heard such reservations from the CDFI sector. The Government might therefore consider how to promote such options for this sector.**

⁴⁶⁵ Community Development Finance Association, *Just Finance: Fair and affordable finance for all* (May 2014): <http://responsiblefinance.org.uk/wp-content/uploads/2015/09/Just-Finance-web-version.pdf> [accessed 14 March 2017]

CHAPTER 8: WELFARE REFORM AND FINANCIAL EXCLUSION

325. In recent years the social security system has been subject to comprehensive and far-reaching reforms, beginning with the Welfare Reform Act 2012. The relationships between financial exclusion and the welfare system—and the effects of recent reforms—were consistently highlighted in the evidence that we heard.
326. We did not seek to conduct detailed post-legislative scrutiny of the Welfare Reform Act 2012; this was not within our terms of reference. What we did, however, set out to do was to understand the ways in which changes resulting from the Act have helped to address, or served to intensify, financial exclusion. We received extensive evidence on this theme. Changes that were particularly highlighted as having had an impact included:
- The introduction of Universal Credit to replace a number of previous income related benefits.
 - A tightening of the ‘conditionality’ and sanctions regime for DWP-administered benefits, including longer and more severe penalties for benefit claimants who fail to fulfil their obligations under the ‘claimant commitment’ that they sign in order to receive benefits.
 - The closure of much of the DWP’s Social Fund, which provided grants and loans to people on low incomes, to be replaced by locally administered services.

Universal Credit

327. Universal Credit is the biggest new development in the 2012 Act. It aims to simplify and streamline the benefits system for claimants and administrators, to improve work incentives, to tackle poverty among low income families, and to reduce the scope for fraud and error.⁴⁶⁶ It is a single benefit for claimants of working age (16–65), replacing six previous benefits paid to people who had low incomes and fulfilled certain other conditions—namely:
- Income-Related Jobseeker’s Allowance;
 - Income-Related Employment and Support Allowance;
 - Income Support;
 - Child Tax Credit and Working Tax Credit; and
 - Housing Benefit.
328. Universal Credit is still in the process of being rolled out nationally. The benefit was first paid, from 2013, to a number of childless, single jobseekers in good health through a number of Jobcentres in the north-west of England, and has gradually rolled out to a wider range of claimants. The Government

⁴⁶⁶ House of Commons Library, Universal Credit: an introduction, Library Note, [SN0649](#), 9 November 2012

currently expects that all eligible claimants will have been moved onto the new benefit by the end of 2018.⁴⁶⁷

329. By wrapping these benefits up into one, the Government has sought to simplify the benefit system. The existing system has developed piecemeal over the years, resulting in “an array of benefits, each with its own rules and criteria, interacting in complicated ways, creating perverse incentives and penalties, confusion, and administrative cost”.⁴⁶⁸ By contrast, Universal Credit does not require the claimant to end one claim and begin another if, for instance, their health improves and they become able to work, or if they find work and move from out-of-work to in-work support.
330. Furthermore, when a claimant does begin work, their Universal Credit claim does not immediately end. Instead, their Universal Credit payment ‘tapers’, being reduced at 65 pence per additional £1 earned (this taper falls to 63 pence in 2017),⁴⁶⁹ while for many claimants the first £192 per month (or £397 if they are not also claiming for their housing costs) does not affect their entitlement at all, as a result of the ‘work allowance’ from which claimants benefit if they are responsible for children or have limited capability for work.⁴⁷⁰ These measures are intended to ensure that it is always worthwhile for individuals in paid work to take additional hours.
331. Unlike the existing suite of benefits, which have traditionally been paid weekly or fortnightly, Universal Credit is paid monthly in arrears. This, again, is aimed at easing the transition back into work at the end of the claim: the argument is that, since 75% of wage-earners are paid in this way, making the Universal Credit experience as similar to this as possible will help people gain the financial capability that they will need once they enter work.⁴⁷¹
332. Moreover, unlike the previous Housing Benefit system, housing costs under Universal Credit are not given as a separate payment but rolled into the one Universal Credit payment, and are not (as was previously the case for social housing) paid direct to the claimant’s landlord. The then⁴⁷² Minister for Welfare Reform, Lord Freud, told us that paying housing costs to landlords might well be easier for both tenants and landlords at the beginning of a benefit claim, but it presented a “hassle factor” at the point of returning to work, which then “becomes a non-financial barrier to going into work”. This, he explained, was counterproductive to a system where the “prime objective is to give people the independence to be able to go into work and earn their own money”.⁴⁷³

467 Department for Work & Pensions, *Universal Credit Transition Rollout Schedule—April 2017 to September 2018* (November 2016): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571711/universal-credit-transition-rollout-schedule-phase-4-to-6-2017-to-2018.pdf [accessed 14 March 2017]

468 Department for Work & Pensions, *Universal Credit: Welfare that works*, Cm 9757, November 2010, p 7: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf [accessed 14 March 2017]

469 Entitledto, ‘Universal Credit earnings taper rate’: <http://www.entitledto.co.uk/help/Earnings-taper-Universal-Credit>, [accessed 14 March 2017]

470 Entitledto, ‘Work Allowance for Universal Credit’ <http://www.entitledto.co.uk/help/Work-allowance-Universal-Credit>, [accessed 14 March 2017]

471 Department for Works & Pensions, *Universal Credit: Welfare that works*, Cm 9757, November 2010 p 34: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf [accessed 14 March 2017]

472 Lord Freud retired from this role in December 2016.

473 [Q 238](#) (Rt Hon. Lord Freud)

333. In addition, Universal Credit is designed to be digital by default. The main application process is entirely online, takes around 40 minutes and must be completed in one go; it is not possible to save a part-finished application. The only additional method for accessing the benefit is to call an 0345 number, which is charged at standard rates, and go through the same online form with an adviser who completes it for the claimant.⁴⁷⁴
334. Of the 19 million people who will be affected by the move to Universal Credit, it has been suggested that 2.5 million will require assistance with money management.⁴⁷⁵ Assistance for recipients is provided through Personal Budgeting Support. This support consists of money advice; formal budgeting support around financial products; and alternative payment arrangements for claimants who cannot manage a single monthly payment and money advice.⁴⁷⁶ Officials from the Department for Work and Pensions (DWP) explained:
- “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.”⁴⁷⁷
335. There are also plans to produce a more in-depth support system for people to improve their digital skills and financial capability. Known as Universal Support Delivered Locally (USdl), this will be led by local authorities and delivered in partnership with Job Centres. USdl has so far only been piloted in 11 local authorities across England, Scotland and Wales,⁴⁷⁸ and the lessons from these trials are now being used to prepare for a broader rollout of the system.
336. Lord Freud reported that there are hopes to expand the Universal Support offer further, so that a broader range of support is provided for claimants by local authorities in conjunction with DWP:

“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. What we are looking at [now] 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 . . . and get on an organised journey to handle all of your barriers. The information then is shared on a safe basis round that circuit”.⁴⁷⁹

474 Entitledto, ‘Universal Credit: claiming online’: <http://www.entitledto.co.uk/help/Making-an-online-claim-Universal-Credit> [accessed 14 March 2017]

475 Work and Pensions Committee, *Universal Credit implementation: meeting the needs of vulnerable claimant* (Third Report, Session 2012–2013, HC 576)

476 HM Government, *Personal Budgeting Support and Alternative Payment Arrangements* (April 2016): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/541512/pbs-and-apa-guidance.pdf [accessed 14 March 2017]

477 Q 26 (Neil Couling)

478 Department for Works & Pensions, Government Social Research, *DWP ad hoc research report no. 33: Evaluation of the Universal Support delivered locally Trials* (July 2016) p 3: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/537089/ad-hoc-report-33-evaluation-of-the-universal-support-delivered-locally-trials.pdf [accessed 14 March 2017]

479 Q 238 (Rt Hon. Lord Freud)

337. Despite the promised support, the Committee heard numerous claims that some of these changes have exacerbated or contributed to financial exclusion for some claimants. These are now considered in more detail.

The initial waiting time

338. It was reported that the delay between the onset of need for Universal Credit and the initial payment being made amounted to at least six weeks and in many cases longer, if there were administrative complications in the application process. This delay is an outcome of two parts of the Universal Credit design—the payment monthly in arrears and the initial seven-day waiting period for which claimants are not entitled to any money.
339. The initial waiting days are “days served after a benefit claim has been made but in respect of which claimants, who would otherwise satisfy the conditions of entitlement, are not entitled” to any money.⁴⁸⁰ The Government identified a number of vulnerable groups that might be affected especially severely by the introduction of waiting days, and these claimants will not be required to serve those days. There are also rules to ensure that claimants will not serve waiting days if they are migrating from legacy benefits, moving in and out of Universal Credit due to earnings within a six month period, or getting a new Universal Credit award after a previous award has finished.⁴⁸¹
340. A 2015 report by the Social Security Advisory Committee criticised the waiting days policy because of the time it adds to claimants receiving their first payment—especially since, under Universal Credit, this will include their rent. The report recommended that the Government should reconsider the policy.⁴⁸²
341. A number of our witnesses echoed the concern of the Social Security Advisory Committee. CPAG noted that “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”.⁴⁸³ The Birmingham Financial Inclusion Partnership told us:
- “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 have sufficient savings or final salary payment to see them through this waiting period. However . . . 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”.⁴⁸⁴
342. Lord Freud defended this initial waiting period by explaining that, since employment is generally paid in arrears, claimants moving out of work would begin their period of unemployment with money still coming in. Universal

480 Department for Work & Pensions, *The Universal Credit (Waiting Days) (Amendment) Regulations 2015* (S.I. 2015 No. 1362): *Report by the Social Security Advisory Committee* (June 2015) p 4: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/434281/universal-credit-waiting-days-report.pdf [accessed 14 March 2017]

481 *Ibid.*

482 Department for Work & Pensions, *The Universal Credit (Waiting Days) (Amendment) Regulations 2015* (S.I. 2015 No. 1362): *Report by the Social Security Advisory Committee* (June 2015) p 5: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/434281/universal-credit-waiting-days-report.pdf [accessed 14 March 2017]

483 Q 81 (Alison Garnham)

484 Written evidence from Birmingham Financial Inclusion Partnership (FEX0049)

Credit was intended to match up with that, ‘kicking in’ when wages were more likely to be running out. He noted that the original intention was that “people should be able to maintain themselves for the first week”, as “Universal Credit was not designed for short periods”.⁴⁸⁵

343. The National Housing Federation told us how lengthy delays can arise:

“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”.⁴⁸⁶

344. Lord Freud noted that this did create a “flow issue”.⁴⁸⁷ He explained that advance payments can be requested by claimants who will face difficulty keeping up with payments during this period, which will cover up to half the relevant sum. These can be requested at a Jobcentre or by telephone.⁴⁸⁸ However, he also conceded that only around 40% of customers take this offer up, leaving the rest with potentially no income for those weeks.⁴⁸⁹

345. In subsequent evidence to a House of Commons Select Committee, however, Lord Freud suggested that, if additional funding were to be made available for Universal Credit, he would like to see changes made to the initial waiting period:

“Universal Credit is oddly generous on the way out but not on the way in. I would look at two things to improve that. I think waiting days does not help in the introduction of Universal Credit. I also think you would look at a housing run-on for a fortnight, a housing rent in the old system, and that would start bridging that gap. Those wouldn’t cost a lot of money”.⁴⁹⁰

346. There was evidence that the lack of income at the outset of a person’s Universal Credit journey can have an extremely negative impact on their finances. A May 2016 report by the Association of Retained Council Housing indicated that 79%⁴⁹¹ of new Universal Credit claimants went into rent arrears, and that 49% of these had no history of rent arrears—and that this was very likely to have been caused by the initial wait.⁴⁹²

485 [Q 236](#) (Rt Hon. Lord Freud)

486 [Q 105](#) (David Orr)

487 [Q 236](#) (Rt Hon. Lord Freud)

488 Citizens Advice, ‘Get an advance payment of Universal Credit’: <https://www.citizensadvice.org.uk/benefits/universal-credit/apply/get-advance-payment/> [accessed 14 March 2017]

489 [Q 236](#) (Rt Hon. Lord Freud)

490 Oral evidence taken before the House of Commons Work and Pensions Committee, 8 February 2017 (Session 2016–17), [Q 129](#) (Rt Hon. Lord Freud)

491 It should be observed here that we found a degree of disparity among witnesses as to the proportion of Universal Credit claimants experiencing rent arrears. The figure of 79% given above was quite widely quoted, but DWP officials disputed it, mentioning figures from the Chartered Institute of Housing which they said showed much lower levels of arrears.

492 See written evidence from Housing Rights NI ([FEX0021](#)) and oral evidence from the Money Advice Trust ([Q 10](#)) and CPAG ([Q 81](#), Alison Garnham). See also National federation of ALMOs, Association of Retained Council Housing, *Universal Credit — One Year On* (June 2016) p 2: <http://www.almos.org.uk/include/getDoc.php?did=7534&fid=8807> [accessed 14 March 2017].

347. DWP reported that this could in part be explained by the initial Universal Credit claimant cohort. The benefit was initially given only to single unemployed people. They explained:

“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 . . . in that gap in between arrears build-up”.⁴⁹³

348. In considering this issue, however, we find it especially interesting to note that Lord Freud, the former Minister for Welfare Reform, now sees the initial seven-day waiting period as uncondusive to maintaining claimants’ financial inclusion and stability. We believe, therefore, that the Government needs to take urgent steps to address this situation.

349. ***We recommend that the Government abolish the seven-day waiting period at the start of a Universal Credit claim; the waiting period contributes to sometimes lengthy delays in claimants receiving their first payment. These delays put claimants at significant risk of falling into arrears.*** (Recommendation 19)

Monthly payments

350. The move towards monthly payments, which is central to Universal Credit, will require claimants to exercise greater control over budgeting. As such, the change is intended to require people to exercise a greater degree of personal responsibility over their finances. In part, this initiative is to be welcomed if it is to encourage greater financial capability and capacity-building; we were told that “taking ownership and personal responsibility are key in overcoming financial exclusion”.⁴⁹⁴ We also heard, however, that this element of the reforms could give rise to difficulties:

“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”.⁴⁹⁵

351. In light of this, there was serious concern among witnesses that the move to monthly payments could have a negative effect on people’s finances. This was partly as a result of the increased budgeting skills required to make a single payment last for the full month. Citizens Advice told us:

“Around two-fifths of the people [whom Citizens Advice] 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”.⁴⁹⁶

493 [Q 26](#) (Neil Couling)

494 Written evidence from Bournemouth Churches Housing Association ([FEX0058](#))

495 Written evidence from ABCUL ([FEX0037](#))

496 [Q 115](#) (Joe Lane)

352. The Child Poverty Action Group (CPAG) noted that the DWP itself had undertaken a survey which revealed that around 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”.⁴⁹⁷

353. Witnesses not only commented on claimants’ fear of not managing their money adequately—they confirmed that these fears might often be well-founded. The Financial Inclusion Commission said:

“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”.⁴⁹⁸

354. MoneySavingExpert.com founder Martin Lewis was even more strident:

“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”.⁴⁹⁹

355. Some witnesses even questioned whether this additional level of financial capability was really needed among the population that would be receiving Universal Credit. The LGA noted that anecdotally “hourly paid workers tend to get paid by the week” rather than the month.⁵⁰⁰ CPAG noted research by the Social Market Foundation that found that “of the people earning less than £10,000 a year . . . more than half” are not paid monthly, and concluded that paying these people monthly would be “culturally very different” for them.⁵⁰¹

356. The Department for Work and Pensions reassured the Committee that it recognised the “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”.⁵⁰² This was why, it explained, it had set up a support programme, including:

- Direct payment of rent to social landlords in certain circumstances (see paragraph 363–364);
- Splitting of payments in certain, rare circumstances;
- Signposting and actively referring to local or national guidance and advice services as appropriate;

497 [Q 83](#) (Alison Garnham)

498 [Q 57](#) (Chris Pond)

499 [Q 146](#) (Martin Lewis OBE)

500 [Q 111](#) (Cllr John Fuller)

501 [Q 83](#) (Alison Garnham); see also written evidence from CAP ([FEX0014](#)).

502 [Q 25](#) (Neil Couling)

- Advance payments for claimants facing hardship during the initial waiting period.⁵⁰³

357. We welcome the scale and ambition of the welfare reform project. The design of Universal Credit incorporates a number of features that could encourage greater financial inclusion, such as the payment of money into a bank account as standard; the tapers and allowances that ensure that claimants are not penalised for taking on paid work; and the budgeting and computer literacy support available through JobCentres. We also note the overall concern that the social security system should help rather than hinder people's return to work where possible. We believe that Universal Credit has the potential to be instrumental in giving force to the Prime Minister's concern to "make the system work"⁵⁰⁴ for ordinary working people.
358. However, we also acknowledge the widely expressed concerns that some of these inclusive effects risk being undone by other features built into the design of the benefit. In particular, we note with concern the period of at least six weeks at the start of a claim where individuals will not receive any money, and therefore risk having no income at all, and the body of evidence suggesting that this is leading a large proportion of claimants into debt where they previously had none. This is utterly counterproductive to financial inclusion.
359. We note that there is a system for advance payments to ease this transitional period for customers; figures we were given, however, suggest that only 40% of eligible claimants appear to take these up. It is therefore concerning that information about these payments may not be as widely available as it should be. We also note that the Scottish government has already provided for Universal Credit payments to be made twice-monthly,⁵⁰⁵ and that Northern Ireland has chosen to issue payments twice-monthly as standard from September 2017.⁵⁰⁶
360. ***We recommend that the Government should allow for greater flexibility in the frequency of Universal Credit payments in England and Wales so that, where monthly payments would contribute to a claimant's financial exclusion, payments can be made twice-monthly, as will be possible in Scotland and Northern Ireland. This could be on the basis of a DWP decision-maker decision or on the basis of a Trusted Partner scheme with local authorities or social landlords.*** (Recommendation 20)

Housing costs

361. We were told that the payment of housing costs to claimants by default rather than to their social landlord was causing concern among advice agencies, local government and housing associations. Advice providers feared that some residents might not manage to pay their rent, either through lack

503 *Ibid.*

504 Prime Minister Theresa May MP, The Shared Society: Prime Minister's, speech at the Charity Commission annual meeting, 9 January 2017: <https://www.gov.uk/government/speeches/the-shared-society-prime-ministers-speech-at-the-charity-commission-annual-meeting> [accessed 14 March 2017]

505 Scottish Government, *Scottish Flexibilities for Universal Credit* (January 2017): <http://news.gov.scot/news/scottish-flexibilities-for-universal-credit> [accessed 14 March 2017]

506 NI Direct, 'Universal Credit' <https://www.nidirect.gov.uk/articles/universal-credit> [accessed 14 March 2017]

of budgeting capability or because of a sheer lack of money. The Money Advice Trust, for instance, noted “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”.⁵⁰⁷ It was suggested that residents’ failure to cope with housing costs could in fact be caused by even more fundamental problems—which the resultant financial exclusion would only worsen. The Local Government Association mentioned “cases . . . 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”.⁵⁰⁸

362. Witnesses feared that residents in this situation could potentially lose their homes, or at least fall into severe arrears and have the additional costs and stresses associated with court processes. Gateshead Council reported “unprecedented levels of rent arrears” since Universal Credit was introduced in its area, and that “from 231 Universal Credit claimants renting [from that local authority] 221 now have rent arrears at an average of over £800”.⁵⁰⁹
363. There is already a system in place to protect tenants against the worst of these problems. Under these Alternative Payment Arrangements (APA), rent can be paid direct to the landlord where one of two conditions is met:
- A claimant is in arrears with their rent for an amount equal to, or more than, two months of their rent; or
 - A claimant has continually underpaid their rent over a period of time, and they have accrued arrears of an amount equal to or more than one month’s rent.

The APA can be initiated by the DWP or by a social landlord. It can be requested by the tenant but the final decision rests with the DWP,⁵¹⁰ and the decision process is complex, as CPAG explained:

“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”.⁵¹¹

364. Furthermore, Lord Freud noted the success of a new “trusted partner” pilot scheme, whereby a number of registered social landlords have now been enabled to request direct payment of rent costs to them without the above conditions having previously been met.⁵¹²
365. Despite this, a large number of witnesses wanted the options to go further. Several strongly promoted the idea that individuals should be able to decide for themselves whether their rent should be paid direct to their landlord.⁵¹³ The National Housing Federation argued that the exclusion of this choice

507 Written evidence from the Money Advice Trust ([FEX0047](#))

508 [Q 106](#) (Cllr John Fuller)

509 Written evidence from Gateshead Council ([FEX0046](#))

510 National Housing Federation, ‘Alternative pay arrangements’: <http://www.housing.org.uk/topics/welfare-reform/universal-credit/alternative-pay-arrangements/> [accessed 14 March 2017]

511 [Q 82](#) (Alison Garnham)

512 [QQ 236, 238](#) (Rt Hon. Lord Freud)

513 See oral evidence from the Money Advice Trust ([Q 11](#)), CPAG ([Q 82](#)), the National Housing Federation ([Q 106](#)) and the LGA ([Q 106](#)), and written evidence from the Money Advice Trust ([FEX0047](#)), Homeless Link ([FEX0052](#)) and St Leger Homes of Doncaster ([FEX0072](#)).

from the structure of Universal Credit demonstrated “a misunderstanding of the relationship that people have between themselves, benefit payments and their landlords”. It considered that, far from betraying a culture of dependency on the part of tenants, it was “an entirely rational and thoughtful proposition” for them to want to ensure that their housing costs were safe from other pressures.⁵¹⁴

366. We were also told that the limited choice afforded to claimants in this respect ran contrary to the wider theme, running through recent welfare reforms, of encouraging greater personal ownership and responsibility for financial management:

“Changes brought in by Universal 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”.⁵¹⁵

367. We welcome the importance placed by the Government on removing as many obstacles as possible from benefit claimants’ transition into work; we also acknowledge the Government’s argument that the transition of responsibility for housing costs onto tenants when they begin work could be one of those obstacles. On a wider note, we welcome the Minister’s reports that worklessness among households in social housing has fallen from 46% at the nadir of the recession to 38% today.⁵¹⁶
368. We are, however, concerned by the evidence from a wide range of sectors that the inflexibility of the housing costs policy could well be causing arrears, increasing precarity in housing and exacerbating financial exclusion among people already experiencing vulnerability. Beyond Government, those witnesses who addressed this matter were united in the view that Universal Credit claimants should be given the choice of whether their housing costs should be paid to them or their landlords.
369. We have no desire to recommend changes that would fundamentally undermine the operation and implementation of Universal Credit. On a practical level, however, we believe that the systems architecture to enable this particular change already exists. Residents can already request that housing costs are paid to their landlords—albeit through a complex process and only once they have already accrued significant arrears. Additionally, the Scottish government already plans to offer tenants this choice on a wider basis. In Northern Ireland, where Universal Credit is due to be introduced from September 2017 onwards, the housing element of Universal Credit will be paid direct to landlords, although a payment directly to the claimant will be made available on request.⁵¹⁷
370. We value the potential of Universal Credit to support financial inclusion, and are supportive of the principle within Universal Credit that claimants should be empowered as far as possible to take control of the decisions

514 Q 106 (David Orr)

515 Written evidence from Citizens Advice Redcar & Cleveland and Coast & Country Housing Ltd (FEX0048).

516 Q 238 (Rt Hon. Lord Freud)

517 Nidirect, ‘Universal Credit’: <https://www.nidirect.gov.uk/articles/universal-credit> [accessed 14 March 2017]

that affect their lives as they move towards greater financial capability and independence.

371. *We recommend that tenants in receipt of Universal Credit in England and Wales should be allowed to decide for themselves whether their housing costs should be paid to them or direct to their landlord.* (Recommendation 21)
372. **We believe that the successful Trusted Partner pilots should be rolled out more urgently to all registered social landlords and local authority landlords, so that claimants experiencing vulnerability do not have to fall into arrears before having payment arrangements amended.**

Sanctions in the social security system

373. Since the Welfare Reform Act 2012 came into force, the minimum length of sanction for income-replacement benefits such as Jobseeker's Allowance is four weeks, and the maximum possible length of sanction is three years. A sanction typically amounts to the whole of the 'personal allowance' portion of the benefit—not including any additional amounts awarded for disability, incapacity, childcare or caring responsibilities.⁵¹⁸ In the 2016/17 financial year this amounted to £73.10 per week for claimants aged 25 or over and £57.90 for claimants aged 18–24.⁵¹⁹ Sanctions were incurred by, for example, not attending a meeting with a DWP adviser, not attending mandatory training, or not taking up an offer of work.⁵²⁰ To miss a mandatory training session, for instance, could lead to a 26 year old claimant losing £73.10 per week for a period of four weeks for a first or second infraction and 13 weeks for a third or more. What is more, in certain circumstances, a claimant could lose the entire personal allowance portion of their benefit for three years if, for instance, they refused to accept an offer of a job more than once within a 52-week period.
374. We were told that sanctions of this nature could contribute to financial exclusion.⁵²¹ It was suggested that claimants who are subject to sanctions will look “at all options to survive” including reducing payments towards priority expenditure (such as rent, council tax, gas, electricity), high cost loans, borrowing from friends and approaches to loan sharks. The Advice Shop concluded that “ultimately more clients will have been financially excluded”.⁵²²
375. A number of witnesses suggested that sanctions have had a particularly significant impact on vulnerable groups such as the disabled and those experiencing mental health problems,⁵²³ and in particular that the process of

518 Department for Work & Pensions, *Jobseeker's Allowance Sanctions: How to keep your benefit payment* (December 2016): <https://www.gov.uk/government/publications/jobseekers-allowance-sanctions-leaflet/jobseekers-allowance-sanctions-how-to-keep-your-benefit-payment> [accessed 14 March 2017]. Sanctions rules are the same across Jobseeker's Allowance and Universal Credit.

519 HM Government, 'Jobseeker's Allowance: Overview': <https://www.gov.uk/jobseekers-allowance/overview> [accessed 14 March 2017]

520 Department for Work & Pensions, *Jobseeker's Allowance Sanctions: How to keep your benefit payment* (9 December 2016): <https://www.gov.uk/government/publications/jobseekers-allowance-sanctions-leaflet/jobseekers-allowance-sanctions-how-to-keep-your-benefit-payment> [accessed 14 March 2017]

521 Written evidence from 2 Shires Credit Union (FEX0016) and Bournemouth Churches Housing Association (FEX0058)

522 Written evidence from The Advice Shop (FEX0039)

523 Written evidence from Homeless Link (FEX0052), Clinks (FEX0026) and Merton Centre for Independent Living (FEX0003)

informing people of sanctions was imperfect and left those with poor mental health or a poor reading level unable to manage the benefit claim well. The Merton Centre for Independent Living noted a 2014 report by the DWP's JSA Sanctions Independent Review Team that observed that many claimants could not read a letter or complete a form without support, and that written letters from Jobcentre Plus or a Work Programme provider might not be the most appropriate way to inform such claimants of compulsory appointments or mandated activities.⁵²⁴

376. There are hardship payments available to claimants during a sanction, amounting to up to 60% of the sanctioned benefit. These must be applied for by the claimant at a Jobcentre. Claimants must be able to show that they are experiencing difficulty paying for their essential needs and have stopped non-essential payments. They must also show that they have tried to find the money through other means—up to and including borrowing from friends or family, but not including trying to obtain a loan or using a credit card. Hardship payments are generally repayable—a deduction is made from the benefit once it is restored for as long as it takes to pay off the hardship payment.⁵²⁵
377. According to a 2016 report by the National Audit Office, nearly one quarter of all Jobseeker's Allowance (JSA) claimants have at some point been subject to a sanction. In 2015, however, 11% of sanctions issued by Jobcentres were overturned at appeal; in the same period some 26% of sanctions issued by Work Programme⁵²⁶ providers were overturned at appeal.⁵²⁷ Sanctions appeals are particularly successful among lone parents and young people leaving care, which could mean sanctioning officials had an inadequate understanding of the particular difficulties inherent in jobseeking for these cohorts of claimants.⁵²⁸
378. The Committee was told on its visit to Coventry that communication with claimants about sanctions and hardship payments was often poor. CPAG told us that there was no mention of hardship payments on the letters that informed people about their sanction.⁵²⁹ The Rees Foundation, a charity supporting young people who have left local authority care, said that their

524 Matthew Oakley, *Independent review of the operation of Jobseeker's Allowance sanctions validated by the Jobseekers Act 2013*, (July 2014) p 39: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/335144/jsa-sanctions-independent-review.pdf [accessed 14 March 2017] mentioned in written evidence from the Merton Centre for Independent Living (FEX0003)

525 Citizens Advice, 'Get a hardship payment if you've been sanctioned': <https://www.citizensadvice.org.uk/benefits/universal-credit/sanctions/hardship-payment/> [accessed 14 March 2017]

526 The Work Programme is a mandatory Government scheme for people claiming Jobseeker's Allowance and the lower rate of Employment and Support Allowance. It "provides support, work experience and training for up to 2 years to help people find and stay in work" (gov.uk). It requires claimants to take part in specific work experience or volunteering opportunities on pain of a sanction—to be decided and administered by the Work Programme provider. Work Programme providers are private-sector bodies contracted to administer the Programme. Despite the Programme's being hailed by the Government as "central to the Coalition Government's ambitious programme of welfare reform" Department for Work & Pensions, *The Work Programme* (December 2012) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/49884/the-work-programme.pdf [accessed 14 March 2017] the Department for Work & Pensions decided not to renew it after 2015 (see <https://www.gov.uk/government/news/department-for-work-and-pensions-settlement-at-the-spending-review> [accessed on 14 March 2017]).

527 National Audit Office, *Benefit Sanctions*, HC 628, Session 2016–17: <https://www.nao.org.uk/wp-content/uploads/2016/11/Benefit-sanctions-Summary.pdf> [accessed 14 March 2017]

528 Q 78 (Sarah Milan) and Q 83 (Sumi Rabindrakumar)

529 Q 81 (Alison Garnham)

clients reported a failure to inform them how long and how severe the sanction would be.⁵³⁰

379. The National Audit Office (NAO) issued a report in November 2016 which echoed the concerns of witnesses. It found:

“While some people [who have been sanctioned] move into work, studies also suggest that other people respond less well to sanctions. Sanctions encourage some claimants to become ‘inactive’—stopping their claim without finding work. Reasons for inactivity vary. Some people may experience hardship. Others may rely on unreported income or support from local authorities, charities, or friends and family”.⁵³¹

380. The NAO concluded that the DWP “has not used its own data to evaluate the impact of sanctions in the UK” and needs to “do more to understand these sanctions outcomes”. As such, it is simply not known whether sanctions have the desired effect of increasing jobseeking in this country, and the DWP has not yet attempted to conduct research to find out.

381. Of particular concern to the NAO was the possibility that costs notionally saved in imposing sanctions may be incurred elsewhere in the public sector. This could be through “extra public spending in areas such as local authority funded welfare support”, or through costs to the NHS and other services from “negative impacts on mental health, including depression and anxiety” or to local authorities from “falling into arrears with rent and bill payments”.⁵³²

382. **We are extremely concerned at the lack of evidence for the effectiveness of sanctions in the welfare system—especially given the evidence received from many witnesses highlighting the ways in which sanctions can contribute to financial exclusion. We also note that recent research from the National Audit Office has highlighted the limited current understanding of the effects of sanctions.**

Local welfare assistance—the localisation of Social Fund responsibilities

383. The DWP Social Fund is a set of grants and interest-free loans payable to people on very low incomes to facilitate living through particular income or expenditure pinch points.⁵³³ The Welfare Reform Act 2012 removed some of the services provided by the Social Fund and provided for equivalent funding to be given to upper-tier local authorities in England, and the devolved administrations of Scotland, Wales and Northern Ireland, to provide equivalent services.

384. One of the services removed was Community Care Grants. These were cash grants which enabled people to set up or maintain themselves in an independent home, usually by paying for white goods. Among others, they were given to young people leaving care, ex-prisoners, people fleeing violent partners or people who would otherwise not be able to live independently. The other service which was withdrawn was Crisis Loans, which were cash

530 Q 78 (Sarah Milan)

531 National Audit Office, *Benefit Sanctions*, HC628, p 39

532 National Audit Office, *Benefit Sanctions*, HC628, p 44

533 See HM Government, *The Social Fund: technical guidance* (September 2013): <https://www.gov.uk/government/publications/the-social-fund-technical-guidance> [accessed 14 March 2017].

loans to help with living expenses in an emergency situation or to pay rent in advance to fill the gap between applying for a benefit and payment starting.⁵³⁴

385. When these services were removed from the Social Fund, Wales and Northern Ireland created a centralised service, while in Scotland provision is now administered through local councils with centralised standards, such as levels of priority and amounts that can be awarded.⁵³⁵ The Government placed no new duties on English councils to deliver local welfare provision and did not place any monitoring requirements on them. The Department for Work and Pensions did, however, write to local authority chief executives in August 2012 to say it expected them to provide “flexible help to those in genuine need”.⁵³⁶
386. For the first year of the localised provision, 2013–14, local authorities were provided with £133.3 million in funding to create local schemes, equivalent to the level used in their area under the national system in the previous year.⁵³⁷ By 2015–16, however, funding had been cut to £74 million.⁵³⁸ Currently, the funding is no longer ring-fenced or even separately identified in the annual local government settlement but is instead incorporated in the general settlement, which, according to the LGA, is set to “fall away to almost zero” by 2019.⁵³⁹
387. Witnesses were broadly positive about the decision to localise these services, at least in principle. The Birmingham Financial Inclusion Partnership noted that it allowed local authorities to “respond to local need” in a way that central Government could not.⁵⁴⁰ The LGA elaborated this point, explaining that “an overly national approach would stifle innovation”, and that “different areas”, such as urban or rural areas, “need a slightly different approach, delivered at a geography that people can recognise and relate to”. It therefore concluded that “local councils should have the freedom and flexibility to look to local circumstances” and should be funded adequately to provide the joined-up local services that would help local residents.⁵⁴¹
388. The localised and unregulated nature of provision, however, was a cause for concern. Affinity Sutton explained that “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.”⁵⁴² CPAG elaborated:

“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

534 See Citizens Advice, ‘Help for people on a low income: the Social Fund and other welfare schemes’: <https://www.citizensadvice.org.uk/benefits/help-if-on-a-low-income/help-for-people-on-a-low-income-the-social-fund-and-other-welfare-schemes/> [accessed on 14 March 2017].

535 National Audit Office, *Local Welfare Provision: Full report* (January 2016) p 24: <https://www.nao.org.uk/wp-content/uploads/2016/01/Local-welfare-provision.pdf> [accessed 14 March 2017]

536 National Audit Office, *Local Welfare Provision: Summary* (January 2016) p 5: <https://www.nao.org.uk/wp-content/uploads/2016/01/Local-welfare-provision-Summary.pdf> [accessed 14 March 2017]

537 Local Government Association, *Delivering Local Welfare: How councils are meeting local crisis and community care needs*, (September 2014) p 6: <http://www.local.gov.uk/documents/10180/11531/LGA+delivering+local+welfare+-+how+councils+are+meeting+local+community+care+needs/92c88e3c-ca8e-4caf-9bd7-6b236e27d500> [accessed 14 March 2017]

538 Q 107 (Cllr John Fuller)

539 *Ibid.*

540 Written evidence from Birmingham Financial Inclusion Partnership (FEX0049)

541 Q 102 (Cllr John Fuller)

542 Written evidence from Affinity Sutton (FEX0080)

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”.⁵⁴³

389. In particular, witnesses noted that the varying criteria between local authorities for residence within an area were a risk for people fleeing domestic violence, who might well move over a local council border but could be ineligible for help under their new authority for lack of a ‘local connection’, even though this was “precisely the circumstance in which you [would] want a crisis loan or a community care grant”.⁵⁴⁴
390. The LGA suggested that this was down to a failure of planning and funding at central Government level, reporting that localisation had “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”.⁵⁴⁵ A major concern for many witnesses was the constant reduction in the funding for these schemes from central Government. The cuts to the budget outlined earlier were described as a “decimation” by the Birmingham Financial Inclusion Partnership, particularly in the context of a level of need that had not reduced—with the result being that food banks and other voluntary organisations were having to pick up excess demand.⁵⁴⁶
391. Some witnesses were also concerned that local welfare funding was not ring-fenced or even separately identified. The National Housing Federation warned that “you almost never see those funds increased after they are disaggregated; they almost always go”.⁵⁴⁷ CPAG expressed the view that “unless [funding] is earmarked for this there is a danger that it will disappear altogether”, noting that eight local authorities had already abolished their schemes.⁵⁴⁸
392. The potential impact of this on financial exclusion was made clear by StepChange, whose statistical evidence suggested a real threat that people who could not obtain local welfare assistance would be tempted to access unaffordable short-term credit. They reported that, of individuals they had surveyed:
 - Only 7% thought they would be eligible for a local welfare loan. This contrasted with 21% who thought they would be eligible for a payday loan.
 - Just 5% knew how to apply for a local welfare loan—but 12% knew how to apply for a payday loan.
 - Only 2% of people believed they would get a local welfare loan quickly, but 16% believed they would get the money quickly with a payday loan.

543 [Q 84](#) (Alison Garnham)

544 *Ibid.*

545 Written evidence from the LGA ([FEX0090](#))

546 Written evidence from Birmingham Financial Inclusion Partnership ([FEX0049](#))

547 [Q 107](#) (David Orr)

548 [Q 84](#) (Alison Garnham)

- 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 had used credit because it was less embarrassing than getting help from benefits or local welfare assistance.⁵⁴⁹

393. **We acknowledge the examples of good local practice that have arisen from the devolution of Social Fund responsibilities to local councils, but are concerned at the future funding outlook for this area of work, especially amid the ongoing planned reduction of the block grant to local authorities. We believe that it would be beneficial for Government to disseminate best practice from councils among all local authorities.**
394. **Throughout the whole area of welfare reform, we have not seen any comprehensive research on the cumulative impact of aspects of the Welfare Reform Act 2012 on the financial wellbeing and inclusion of individuals and families affected by it.**
395. *We recommend that the Government conduct a detailed, comprehensive cumulative impact study of how changes in social security policy resulting from the Welfare Reform Act 2012 might have adversely affected financial wellbeing and inclusion. This research should consider the extent to which these changes have contributed to debt and arrears and to any greater reliance on high-cost lending.* (Recommendation 22)

549 Written evidence from StepChange Debt Charity ([FEX0084](#))

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

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
 Baroness Primarolo
 Lord Shinkwin
 Baroness Tyler of Enfield (Chairman)

Declarations of interest

Bishop of Birmingham
Member, Banking Standards Board.
Member, Church of England's General Synod (in support of the Archbishop of Canterbury's Task Group on Responsible Credit and Savings).
Chair, University of Birmingham, Birmingham Policy Commission on Distribution of Wealth.

Viscount Brookeborough
Operates agricultural and tourism business in Northern Ireland, with a normal banking facility.

Lord Empey
No relevant interests declared.

Lord Fellowes
Vice-Chairman, Barclays Private Bank (1999–2000).
Chairman, Barclays Private Bank (2000–2009).

Lord Harrison
No relevant interests declared.

Lord Haskel
No relevant interests declared.

Lord Holmes of Richmond
Vice Chair, All Party Parliamentary Group on FinTech.
Non-Executive Director and Chair of Disability Committee, Equality and Human Rights Commission.

Lord Kirkwood of Kirkhope
Governor, Pensions Policy Institute.
Commissioner, Financial Inclusion Commission.
Member of Expert Advisory Group, Neyber Ltd (affordable borrowing for employees).

Lord McKenzie of Luton
Trustee, NOAH Enterprise (social enterprise charity assisting disadvantaged people in Luton and surrounding areas).
Shadow Spokesperson on Work and Pensions for Labour in the House of Lords.

Lord Northbrook

No relevant interests declared.

Baroness Primarolo

No relevant interests declared.

Lord Shinkwin

No relevant interests declared.

Baroness Tyler of Enfield

Chair, Make Every Adult Matter (MEAM)—a coalition of charities helping people with complex needs.

Lead Spokesperson on Mental Health for the Liberal Democrats in the House of Lords.

During the Committee's visit to Coventry on 23 November 2016 a working lunch was provided by Coventry City Council

A full list of Members' interests can be found in the Register of Lords Interests: <http://www.parliament.uk/mps-lords-and-offices/standards-and-interests/register-of-lords-interests/>

Professor Karen Rowlingson (Specialist Adviser)

Professor of Social Policy, University of Birmingham.

The University of Birmingham receives funding from the Friends Provident Foundation and the Barrow Cadbury Trust for research into financial inclusion and exclusion, with which Professor Rowlingson is involved.

Member, Child Poverty Action Group.

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at www.parliament.uk/financial-exclusion and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with ** gave both oral evidence and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

**	Joanna Elson OBE, Chief Executive, Money Advice Trust	QQ 1–12
*	Guy Rigden, Chief Executive, MyBnk	QQ 13–22
**	Russell Winnard, Head of Programme and Services (Financial Education), Young Enterprise	
**	Neil Couling, Director General of Universal Credit, Department for Work and Pensions	QQ 23–37
**	Gwyneth Nurse, Director of Financial Services, HM Treasury	
**	Catherine McGrath, Managing Director, Transactions, Insurance and Mass Market, Barclays	QQ 38–49
**	Matthew Carter, Director of Products and Marketing, Co-operative Bank	
**	Sir Sherard Cowper-Coles, Chair, Financial Inclusion Commission	QQ 50–60
**	Sir Brian Pomeroy CBE, President, Financial Inclusion Commission	
**	Chris Pond, Vice-Chair, Financial Inclusion Commission	
*	Philip Connolly, Policy and Communications Manager, Disability Rights UK	QQ 61–68
**	Lucy Malenczuk, Senior Policy Manager, Age UK	
*	Jon Boagey, Associate Director, National Youth Agency	QQ 69–78
*	Louise Macdonald OBE, Director, Young Scot	
*	Sarah Milan, Director, Rees Foundation	
*	Alison Garnham, Chief Executive, Child Poverty Action Group (CPAG)	QQ 79–89
*	Sumi Rabindrakumar, Research Officer, Gingerbread	
**	Francis McGee, Director of External Affairs, StepChange Debt Charity	QQ 90–101
**	Caroline Rookes CBE, Chief Executive, The Money Advice Service	

**	Cllr John Fuller, Vice-Chairman of the Local Government Association's Resources Board and Leader of South Norfolk District Council	<u>QQ 102–111</u>
**	David Orr, Chief Executive, National Housing Federation	
*	Joe Lane, Senior Policy Researcher, Citizens Advice	<u>QQ 112–121</u>
**	Sian Williams, Head of National Services, Toynbee Hall	
*	Damon Gibbons, Director, Centre for Responsible Credit	<u>QQ 122–131</u>
**	Sue Lewis, Chair, Financial Services Consumer Panel	
**	Russell Hamblin-Boone, Chief Executive, Consumer Finance Association	<u>QQ 132–141</u>
*	Hamish Paton, Chief Executive, Bright House	
**	David Rees, Chairman, Law Committee, Consumer Credit Association	
*	Martin Lewis OBE, Founder and Chair, MoneySavingExpert.com	<u>QQ 142–149</u>
**	Polly Mackenzie, Chief Executive, Money and Mental Health Policy Institute	
**	Eric Leenders, Managing Director, Retail and Commercial Banking, British Bankers' Association	<u>QQ 150–158</u>
**	Mark Lyonette, Chief Executive, Association of British Credit Unions Limited (ABCUL)	
*	Faisel Rahman OBE, Chief Executive, Fair Finance	
*	Virraj Jatania, Co-Founder and CEO, Pockit	<u>QQ 159–167</u>
**	Monica Kalia, Co-Founder and Chief Strategy Officer, Neyber	
*	Adam Micklethwaite, Director of Business and Innovation, Tinder Foundation	<u>QQ 168–174</u>
*	Peter Wells, Policy Associate, Open Data Institute	
**	Nick Williams, Director of Consumer Digital, Lloyds Banking Group	
*	Jenny Barksfield, Deputy Chief Executive and Senior Subject Specialist, PSHE Association	<u>QQ 175–184</u>
*	Adrian Lyons, National Lead for Economics, Business and Enterprise, Ofsted	
**	Adam Land, Senior Director, Remedies, Business and Financial Analysis, Competition and Markets Authority	<u>QQ 185–192</u>

- ★★ Bill Roberts, Remedies Director, Lead for the “Open API” remedy, Competition and Markets Authority
- ★★ Professor Alasdair Smith, Chair, Retail Banking Market Investigation, Competition and Markets Authority
- ★★ Jonquil Lowe, Senior Lecturer in Economics and Personal Finance and Member, True Potential Centre for the Public Understanding of Finance (PUFin), Open University [QQ 193–202](#)
- ★★ Martin Upton, Senior Lecturer in Finance and Director, True Potential Centre for the Public Understanding of Finance (PUFin), Open University
- ★★ Andrew Bailey, Chief Executive, Financial Conduct Authority [QQ 203–218](#)
- ★★ Christopher Woolard, Executive Director of Strategy and Competition, Financial Conduct Authority
- * Sue Fox, Chief Executive, M&S Bank [QQ 219–230](#)
- ★★ Stephen Uden, Head of Social Investment, Nationwide Building Society
- ★★ The Rt Hon. Lord Freud, Minister of State for Welfare Reform, Department for Work and Pensions [QQ 231–250](#)
- ★★ Nick Gibb MP, Minister of State for School Standards, Department for Education
- ★★ Simon Kirby MP, Economic Secretary to the Treasury, HM Treasury

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- Dr Lindsey Appleyard, Coventry University and Dr Shaun French, University of Nottingham [FEX0086](#)
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The Young Foundation

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APPENDIX 3: CALL FOR EVIDENCE

The House of Lords Select Committee on Financial Exclusion was set up on 25 May 2016. The remit of the Committee is “to consider financial exclusion and access to mainstream financial services”.

The Committee will explore the following key issues in detail and would welcome your views on any or all of the following questions. Please note that questions are not listed here in any particular order of importance.

Submissions from across the UK are welcome; the Committee would also be interested in receiving evidence setting out international comparisons where appropriate and relevant. The final report and recommendations of the Committee will be aimed at, and focus upon the policies of, the UK Government.

This is a public call for written evidence to be submitted to the Committee. The deadline is Wednesday 14 September 2016.

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

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?

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?
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?

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

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?
11. What has been the impact of recent welfare reforms on financial exclusion?
12. 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 local and regional authorities, and the devolved administrations?
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)

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?

APPENDIX 4: ACRONYMS AND GLOSSARY

ABCUL	Association of British Credit Unions Limited
APA	Alternative Payment Arrangements
APPG	All Party Parliamentary Group
APR	Annual Percentage Rate
ATM	Automated Teller Machine
BAYV	Buy As You View
BBA	British Bankers' Association
CAP	Christians Against Poverty
CCEA	Council for the Curriculum, Examinations and Assessment
CDFIs	Community Development Finance Institutions
CFA	Consumer Finance Association
CfRC	Centre for Responsible Credit
CMA	Competition and Markets Authority
CPA	Continuous Payment Authority
CPAG	Child Poverty Action Group
CPD initiatives	Continuing Professional Development Initiatives
Credit Union	A not-for-profit co-operative offering affordable credit to its members, owned by its members.
CSFI	Centre for the Study of Financial Innovation
DDA	Disability Discrimination Act 1995
Debt to income ratio	A measure comparing an individual's debt payments to an individual's income.
DfID	Department for International Development
Digital exclusion	A difficulty, inability or reluctance to using online and digital services.
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
EHRC	Equality and Human Rights Commission
FCA	Financial Conduct Authority
FIC	Financial Inclusion Commission
FinTech	Financial Technology
FSA	Financial Services Authority
HCSTC	High Cost Short Term Credit
HM Treasury	Her Majesty's Treasury
JMLSG	Joint Money Laundering Steering Group
JSA	Job Seeker's Allowance

LGA	Local Government Association
MAS	Money Advice Service
NAO	National Audit Office
OECD	Organisation for Economic Co-operation and Development
OFT	Office of Fair Trading
PAD	EU Payment Account Directive
PARs	Payment Account Regulations
Payday loan	A relatively small sum of money lent at a high rate of interest on the agreement that the borrower will repay the sum when they receive their next wages.
PIP	Personal Independence Payment
Regulatory Sandbox	An initiative by the Financial Conduct Authority that allows for a slightly lighter-touch approach to regulation for businesses to test out new financial products on the market without immediately having to meet all the usual regulations when doing so, while also ensuring that consumers are still protected. Businesses can apply to test out their products and services under the sandbox regime and a certain number are chosen for inclusion each time. The first cohort of applications to the sandbox closed in July 2016 and 18 products were accepted; the second will close in April 2017. Sandbox rules apply to a product for up to six months.
SMC	Social Mobility Commission
UC	Universal Credit
UKCU	UK Credit Unions
Unbanked	A situation whereby an individual does not have access to a bank account or equivalent service.
USdl	Universal Support Delivered Locally

APPENDIX 5: NOTE ON COMMITTEE VISIT TO COVENTRY CITY COUNCIL AND COVENTRY CITIZENS ADVICE: WEDNESDAY 23 NOVEMBER

On Wednesday 23 November the Select Committee undertook a visit to Coventry City Council and Coventry Citizens Advice. The Committee met with a number of representatives of the local authority, advice sector, credit unions and the voluntary sector.

The following members of the Committee attended the visit:

Lord Empey, Lord Harrison, Lord Kirkwood of Kirkhope and Baroness Tyler of Enfield (Chairman).

The Specialist Adviser to the Committee, Professor Karen Rowlingson, was also in attendance. The following note provides a summary of key points raised during the visit.

Introduction from Coventry City Council

The Committee was welcomed to Coventry City Council by Cllr George Duggins (Leader of the Council), Martin Reeves (Chief Executive) and Gail Quinton (Executive Director of People). A great deal of work had taken place to try to integrate related services within the Council structures, to ensure a co-ordinated response to more challenging financial circumstances since 2008. This had included bringing together public health, education, adult care and children's services within one Directorate. The West Midlands Combined Authority was also important in this regard, allowing labour market intelligence and responses to be co-ordinated and delivered across a functional economic area.

The Council had sought to support businesses opening locally in recruiting local people to fill new vacancies. The Jobs Strategy and Job Shop were important in this regard, and the Cabinet Office had taken an interest in this work. It was suggested that central Government departments—particularly the DWP and the Department for Education—needed to give greater emphasis to the fact that labour markets were local in nature and, accordingly, local circumstances could play a particular role in determining the extent and nature of financial exclusion in a particular area.

Local challenges and the nature of financial exclusion in Coventry/Warwickshire

Representatives from Coventry Law Centre and Coventry Independent Advice Service took the Committee through some of the challenges faced by their financially excluded clients.

The first point raised was the increasingly tight constraints faced by people living on benefits. The speakers explained that households' expenditure was being stretched by increases in rent, utility and transport costs, while income was being reduced as a result of the overall Benefit Cap, size criteria in both social and private rented sectors and the reduction of all benefit income in real terms due to the freeze on benefit rates in comparison with rising prices.

The point was made that many people living on benefits are in fact financially highly capable, but that it is very hard to successfully manage such a low income

without falling into debt. One representative said this was as sure “as night follows day”.

The Committee was shown a series of pre-recorded video interviews with clients of advice services in Coventry, discussing the issues they had experienced with the benefits system. It was also provided with written anonymised case studies. Issues that came out of these stories included repeated, poorly explained and sometimes erroneous use of Jobcentres’ powers of sanction; delays in administrative processes, particularly in regard to benefits for disability; administrative errors in the new benefit Universal Credit; rent arrears caused by the benefit cap; and incorrect entitlement decisions made by the DWP—for example, between July and September 2016, 88% of appeals against refusals of Employment and Support Allowance were successful.

The second aspect of financial exclusion was the effect of financial exclusion on those working on low incomes. The speakers noted that zero-hours contracts with the attendant precariousness and unpredictability of income, were on the rise; that this meant it was difficult for people to plan and make use of the direct debit system; and that this was very likely to be exacerbated by Universal Credit. The issue of Universal Credit was discussed in some detail. It was explained that, for people in low-paid work, the amount of Universal Credit they receive will be updated automatically in line with the *previous* month’s income. Thus, if a person had a month where they could not work as many hours as usual, their Universal Credit would only compensate for this in the following month. Meanwhile, the person would have suffered and might well have fallen into arrears—including rent and utility arrears—during that lean month.

The participants noted that the reduction in central government funding for local councils and the cuts to legal aid since 2010 had meant, in many areas of the country, a reduction in funding for local advice services and a dwindling in the local welfare services provided by local authorities in lieu of the DWP Social Fund. However, it was reported that Coventry City Council had been “very enlightened” and had ensured that funding remained forthcoming for advice services. Nevertheless, there had been some cuts to advice services, which had been countered by greater joint working.

Local initiatives and schemes to address financial exclusion

Representatives from Coventry Law Centre, New Central Credit Union and Coventry and District Credit Union outlined some of the local initiatives and programmes which had sought to address financial exclusion in the city.

Within Coventry a number of advice services had been brought together, since 2005, under one umbrella as ‘Advice Services Coventry’ (www.adviceservicescoventry.org.uk). Member organisations included Age UK, Coventry Independent Advice Service, Citizens Advice Coventry and Central England Law Centre. This allowed for a co-ordinated advice service with web-based referrals and an agreed split of casework and handover points.

Coventry Independent Advice Service delivered face-to-face advice and support to around 2,100 people a year; of these enquiries, 68% were related primarily to welfare benefits, and 15% were primarily debt related. The work of the advice service had brought over £2.1 million in financial gains and seen over £1 million of debt managed or written off in 2015. An important element of this work was the delivery of advice through community outreach venues, which enhanced access for those people who needed to use the services.

Central England Law Centre had been funded by Coventry City Council to provide a benefits appeal representation service, with over 400 people represented at appeals annually. Success rates from the work of the Centre were much higher than national averages, with an 84% success rate in Personal Independence Payment cases (compared with 60% nationally) and 63% success rate in Disability Living Allowance (compared with 58% nationally). This work had resulted in almost £2.5 million of gains annually in benefits restored, increased and backdated.

The Law Centre had developed a number of outreach methods which were intended to engage more directly with people who were in financial difficulty. One such approach was a service level agreement with the Whitefriars Housing Association, whereby the Law Centre was engaged to work with 200 customers of Whitefriars Housing each year, providing them with specialist debt advice.

The Law Centre also had two advisers embedded within the City Council Children's Services department; advisers would make home visits to clients alongside the designated key worker. Over a three-year period 823 families had been assisted through this approach, with £1.1m worth of gains in weekly benefits and £896,000 worth of debt managed. This work had demonstrated the importance of 'sticking with' people, with engagement over the longer-term being an important factor in determining the success of these initiatives.

The Law Centre offered a 'wish list' for policy and practice around financial exclusion. This included:

- More funding for financial capability work with debt clients, new social tenants and vulnerable families;
- Work by central Government to reduce errors that give rise to benefit overpayments, and lower recovery rates on benefits when overpayments occur;
- Improving availability of and access to banking and credit products appropriate to people on low incomes;
- A more humane and rounded benefits sanctions regime;
- A return to annually uprating benefits levels in line with inflation; and
- The reversal of a number of cuts to benefits, including:
 - The overall Benefits Cap,
 - The cuts to Universal Credit work allowances, and
 - The cut of Employment and Support Allowance for most claimants down to the same level as Jobseeker's Allowance.

There were two credit unions operating in Coventry—the New Central Credit Union (since 2000) and the Coventry and District Credit Union (since 1990). There was significant competition, with more than 12 high interest or payday loan companies in Coventry City Centre. Since 2014, however, New Central Credit Union had operated from a city centre premises, with five-days-a-week opening for cash, loans and memberships. This high street prominence and visibility—which had been supported with a Coventry City Council grant—was seen as an important factor in allowing the Union to compete with other high street lenders.

Basic credit union savings accounts were offered for people with no passport or driving licence, with benefits and wage transfers into the accounts also possible. Customers could also be provided with prepaid cards for access to ATM cash

or online purchases. The Unions also offered budgeting accounts which enabled members to manage their money; these accounts could receive Housing Benefit payments and make payments of rent and council tax.

The Credit Unions offered loans to customers who might be ineligible for credit from high street lenders; typical loan member profiles included individuals with poor credit histories, the unemployed, single parents and those with very low disposable incomes. When loans had been agreed, repayment data was reported back to Experian on a monthly basis to improve members' credit scores, increasing the possibility for enhanced access to a wider range of services in future.

Aspirations and possible solutions

Following this, the Committee received a presentation from Caroline Leighton, Chief Executive, Coventry Citizens Advice, outlining some of their core work in relation to financial exclusion alongside some of their more general work. Caroline explained that a wide range of clients seek their advice with a variety of complex issues that often leave them in financially excluded situations; more than 80% of cases had more than one issue.

Staff at Coventry Citizens Advice aimed to resolve these issues with face-to-face contact and, more recently, webchats and phone support. The introduction of these services had engaged a different group of clients, including those who were unable to make it to the Coventry Citizens Advice premises. It was suggested that some of the major causes of financial exclusion among their clients stemmed from barriers such as a lack of English-language proficiency, a low level of financial education and mental health issues. Clients experiencing these issues were also more likely to experience some form of digital exclusion.

Coventry Citizens Advice highlighted their support for credit unions in Coventry City Centre, stating that they were extremely important for the residents of Coventry; this built on earlier examples of Coventry residents expressing their support for credit unions in the area.

The presentation was followed by a roundtable discussion with input also provided by earlier speakers. A key theme arose around the need for financial education in addressing financial exclusion. A shift to early action was suggested as being a preferable route rather than fixing problems that arose further down the line. Coventry City Council spoke of their 'Specialist Family Team' and described how early preventative actions taken to help children could help them and their family in the long term with relation to financial issues.

Visit to Coventry Citizens Advice

The Committee then travelled to the offices of Coventry Citizens Advice, in order to meet with staff and volunteers. In 2015/16, Coventry Citizens Advice's core service had provided advice to around 10,000 people on a total of more than 24,000 issues; this does not include additional cases dealt with under separately-funded projects. Of queries dealt with by the core service, benefits was the number one issue (30% of enquiries) and debt was second (22%), with housing (7%) third. Recently, the organisation had undertaken an extensive programme of work to support Syrian refugees who were settling in the city; Coventry had agreed to accommodate a relatively high number of such refugees, reflecting its historic focus as a city of peace and reconciliation.

A key issue which volunteers and staff regularly had to deal with concerned the complexity and difficulty of benefits claims and processes. A high degree of training and experience was required to successfully navigate the benefits system, and claim forms and documentation were not always easy to understand. Some clients' issues could take up to two hours to discuss, meaning that this was a resource-intensive service. While the majority of staff providing this support were volunteers, there was a cost attached to training and supervision, and there were also some paid staff with particular levels of expertise (funded through a local authority core grant). Other staff were funded on particular projects by particular funding sources (such as PensionWise and the Big Lottery Fund).

Additionally, advisers were often approached by clients when particular benefit payments had stopped or reduced, with clients sometimes unsure of the reason behind this development. Advisers were then required to understand the history behind the claim, provide advice on whether the recent changes to payments were correct or appropriate and, if not, work with clients to address the situation.

Literacy was an issue for some people—not just those for whom English was a second language, but also for those who spoke English as their first language. This problem was exacerbated by official documents which were written in ways that made it difficult even for advisors to understand. Basic language education was therefore important, but an emphasis should also be placed upon official documents being written in plain English.

Citizens Advice Coventry was delivering an ongoing project alongside the Trussell Trust in which financial advice and support was made available in food banks. While this was an important outreach initiative, allowing the organisation to reach out to people in financial difficulty, it was not without some problems. Food banks often operated in large, open spaces, which were not particularly well suited to the provision of confidential advice. In addition, food bank users did not always want to be seen to be using the food bank, and were sometimes keen to depart quickly.

The organisation explained that its core services played a crucial role in identifying new issues that were arising. There had, for example, been an increase in single men under 25 coming through the door when Universal Credit was being rolled out. Citizens Advice then collated statistics on these cases nationally to provide evidence on trends in problems facing people.

Locally, Citizens Advice had helped to deliver or recover around £12 million a year for its clients; it was suggested that this increased income was largely spent locally, and helped to support local economic activity.

APPENDIX 6: NOTE ON COMMITTEE VISIT TO TOYNBEE HALL, LONDON: WEDNESDAY 30 NOVEMBER

On the morning of Wednesday 30 November the Committee travelled to the offices of Toynbee Hall, Old Castle Street, London, to meet with staff, volunteers and clients of Toynbee Hall.

The following members attended the visit:

Viscount Brookeborough, Lord Empey, Lord Fellowes, Lord Haskel, Lord Holmes of Richmond, Lord McKenzie of Luton, Lord Northbrook and Baroness Tyler of Enfield (Chairman).

This note summarises key points from the visit; it is not a verbatim record.

Introductory presentations and discussion

An introduction to Toynbee Hall was provided by Damian Brady, Director of Operations, and Sian Williams, Head of National Services. Mr Brady provided some oversight of the work of Toynbee Hall, explaining that the organisation operated with a £3.2 million central budget and provided support and advice to over 16,000 clients annually. Much of this work was reliant on volunteers. The charity operated a range of youth and older people's projects, advice services and financial inclusion work, focused upon addressing poverty and social injustice.

Toynbee Hall had begun its work in 1884, seeking to address issues of deprivation in Tower Hamlets. Recent years had seen an increase in the number of clients drawn from outside the Borough of Tower Hamlets—around two-thirds of current service users were from outside the Borough. The original Toynbee Hall premises—which had been in use since 1884—were currently being redeveloped. This redevelopment would allow services to be adapted and expanded for the 21st century, while preserving important heritage features of the Hall. Support had been provided by the Big Lottery Fund and Heritage Lottery Fund.

Daniel Bunn, Information and Systems Manager, then provided an overview of recent research which had been carried out into the poverty premium. It was suggested that, in 2014, the poverty premium amounted to around £1,000 a year of extra payment for goods and services. This extra cost was largely a result of higher fees charged to service users who were, for example, on pre-payment meters or unable to arrange payments by direct debit. Gas, electricity and financial services payment methods were particularly common elements of the poverty premium.

Toynbee Hall research, which had been carried out with a limited sample size, had considered who was paying the poverty premium. This had shown that men were four times more likely to be paying extra for goods and services, although women were more likely to seek debt advice. This posed questions around the targeting of services. People in their 50s, people in black, Asian and minority ethnic communities and people who lived alone were all more likely to pay the poverty premium. One in two council tenants were likely to be paying the poverty premium in some form. The research would be used to inform future debt advice and financial inclusion work; in addition, it was likely that further research would be carried out to develop and supplement the findings of this initial work.

Small group discussions

The Committee then broke into small groups to meet with various clients who had used the services of Toynbee Hall. Key themes arising from these discussions are set out below:

Universal Credit payment delays were the cause of problems for a significant number of people. Delays which were ‘built-in’ to the operating system of universal credit meant that claimants sometimes went without payment for a number of weeks. Some people had had to resort to food banks as a result of this; others had been unable to pay utility or rent bills.

More generally, a lack of clarity around benefit payments was reported. Individuals who had taken up work, or taken on more hours, reported unexpected reductions in benefit payments which had not been clearly communicated in advance. It was suggested that Job Centre Plus and DWP staff were not always well versed in the intricacies of benefit payments, and were unable to provide definitive advice. One participant had been erroneously refused Jobseeker’s Allowance for taking part in study, resulting in multiple debts.

Universal Credit claims were made online—there was no paper application—and this was the cause of problems for people with limited online access or experience.

There was a general feeling that payment systems and processes—whether around benefit claims or utility bills—were complicated and overly complex. One mistake or error could lead to large amounts of letters and communication, some of which were overlapping or contradictory. Navigating through this required a great deal of time and aptitude, and was the cause of significant difficulties. It was suggested that, once an individual was ‘behind’ with this paperwork, it was very difficult to get back on an even keel.

Participants keenly felt the loss of previous income smoothing devices such as DWP crisis loans, which had previously enabled low-income families to withstand income shocks but which no longer existed.

It was suggested that agencies and service providers had a tendency to presume that claimants were ‘guilty’, and that processes were either designed or applied in a way that made people feel regretful about having to use them.

People leaving prison sometimes experienced significant problems with identification and address verification, limiting their ability to access financial services. Prisoners often left custody with no passport or driving licence, and sometimes with no fixed address. The resulting inability to access full financial services meant that specialist support was required to help them adapt successfully to life outside prison.

Some benefit was ascribed to financial education. Participants who had had financial education felt more confident about their finances and found themselves more able to avoid problem debt than they had before experiencing that education.

It was suggested that some banking customers had found themselves digitally excluded in areas where banks had increased the use of technology. Some everyday tasks had become more difficult for particular groups of customers since the introduction of online banking services.