A Snapshot of Financial Inclusion

Policy and Practice in the UK 2007

New Policy Institute

FRIENDS PROVIDENT Foundation

Further information
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Friends Provident Foundation
Friends Provident Foundation is a grant-making charity working to create the conditions throughout the UK for improved access to appropriate financial services for those who are currently excluded, particularly those on low incomes or otherwise vulnerable to market failure. It particularly wants to encourage thinking that deals with the cause of the problem. Established as part of the demutualization of Friends Provident Life Office in 2001 and the flotation of Friends Provident plc, it is independent and has its own board of Trustees. www.friendsprovidentfoundation.org

New Policy Institute
This paper was written by Peter Kenway of the New Policy Institute. The New Policy Institute is an independent think tank, founded in 1996, devoted to ending all aspects of poverty and social exclusion. A major element of exclusion in the UK is the poor quality and limited provision of some key services to low income and other disadvantaged groups. www.npi.org.uk

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Executive summary

This review explores issues relating to banking, affordable credit, insurance, savings including pensions and money advice (debt and budgeting). It tracks policy and practice progress in reducing financial exclusion in these areas, covering the period between the Treasury's 2004 report, *Promoting Financial Inclusion*, and the 2007 report, *Financial Inclusion: The way forward*. This executive summary draws together the key issues for policy and practice that need to be addressed.

Banking

- With preliminary figures showing a fall of about a third in the number of people without a bank account from 2002/03 to 2005/06, how much more progress should the banks be required to make, both in total and for higher risk groups?
- How are concerns about the features and operation of basic bank accounts to be addressed?
- The take-up for the Post Office Card Account has been high. What is therefore to replace it when the contract for it ends in 2010?

Credit

- How much more is Government prepared to reform the way the Social Fund works?
- What could be done to strengthen and support the Competition Commission's remedies for the home credit market?

Insurance

- Apart from home contents insurance, what aspects of insurance properly fall within the scope of financial inclusion? Besides non take-up, should issues such as price discrimination be considered?
- Should the PAT14 target for home contents insurance be resurrected with a 'shared agreement' with the insurance industry introduced to meet this target?

Savings

- What happens beyond the end of the second round of Savings Gateway? Is there any evidence to suggest that savings schemes run by/with housing associations have untapped potential?

- Should the strategic response to the collapse of Farepak be to try to move people away from 'doorstep' products, or should it be directed at improving and even extending those products?

Money and debt advice

- Will any of the current round of Face to Face Debt Advice and Legal Services Commission 'outreach' pilots be established on a longer term basis?

- What are the implications of a national generic money advice service for the prospects of other money and debt advice initiatives?

- How are potential conflicts in this area to be resolved, notably regarding the best way to deliver advice (via the established and familiar or the new and specific?), and should different types of advice (money, debt) be delivered separately or together?

Chapter 1
Introduction

Background

This review has been commissioned by the Friends Provident Foundation in support of its objective of providing information and intelligence about financial inclusion. The starting point of the review is the Treasury's 2004 report, *Promoting Financial Inclusion*, the updating of which is an explicit aim of this review. The review has also been written with the Foundation's other three objectives for financial inclusion in mind, namely, fostering innovation, exercising influence and building the infrastructure for sustainability. The topics covered in the review are:

- banking;
- affordable credit;
- insurance;
- other assets (savings, pensions); and
- money advice (debt as well as budgeting).

For each topic, the review presents material that has emerged since 2004 on: facts and trends; players; new or ending funding streams; developments in policy; new models and approaches; and learning and gaps in the knowledge. In addition, the final chapter brings out the main issues that we, the authors, see as arising from the material in the review and the questions that it raises for future work on financial inclusion.

The scope of the report

The list of topics covered in this review matches that given in *Promoting Financial Inclusion* (hereafter referred to as 'the 2004 report') as constituting the scope of 'financial exclusion'. Financial *inclusion* is to be understood as referring to all those policies and projects that aim to reduce financial *exclusion*.

Arising from that report, the last two years has been a period of considerable activity on financial inclusion, much of it led by Government. One body with a central role in this is the Financial Inclusion Taskforce, a group of 14 people with expertise in the field, working in a voluntary capacity and supported by staff from the Treasury.

A key source on recent developments has been the three reports of the Treasury Select Committee and the evidence presented to them published in November 2006. They are:

- *Financial Inclusion: Credit, savings, advice and insurance*;
- *'Banking the Unbanked': Banking services, the Post Office Card Account, and financial inclusion*; and
- *Financial Inclusion: The roles of the Government and the FSA, and financial capability*.

The review also includes the new actions in this field, up to 2011, set out in HM Treasury's 2007 report on this subject, *Financial Inclusion: The way forward.*

Chapter 2
Banking

Main developments and main players

The 2004 report identified increased access to banking as one of the main areas for action to tackle financial exclusion. A 'shared goal' between the Treasury and the banks is to make 'significant progress towards halving the number of adults in households without bank accounts by November 2006'. Post Office accessible basic bank accounts, offered by 17 banks, are a key component of this.[1]

In partnership with the Co-operative Bank, nine credit unions, in Scotland, London and Yorkshire, have begun offering banking services to their members from around the end of 2006. The process to allow a second wave of credit unions to do the same is under way. The accounts do not have cheque books or overdrafts but they do include a debit card and also allow standing orders and direct debits.[2] The Treasury Select Committee has called upon Government actively to support this credit union transactional bank account.[3]

There are also a number of ongoing initiatives by voluntary and community organizations that have among their aims to help people access financial products, including bank accounts that are suitable for them. Notable among them is the SAFE project in east London.[4]

An agreement was reached in December 2006 by the banks and ATM (cash machine) operators to provide some 600 new cash machines in lower income areas in Britain. This represents some 1 per cent of all ATMs (somewhat over half of which are free to use). The work has identified 1,700 local areas that lack a machine and the process of finding suitable sites is ongoing.[5]

Trends, facts and research

Although the most recent published data available at the moment is inconsistent with earlier data, the trend in the numbers without a bank account has certainly been downward, both recently and over the longer term. So:

- The most recent published data, for 2004/05, show 5 per cent of households (1.1 million households containing 1.8 million adults) lacking any kind of account.[6] This is a third fewer than the figures for 2002/03 – 1.9 million or 8 per cent of households, containing 2.8 million adults – reported in the 2004 report.
- The problem with this data is that it counts the Post Office Card Account (POCA) as

a basic bank account. In April 2006, there were some 4.7 million POCAs of which 4.3 million were active.[7] Because of its limited functionality, people whose only account is a POCA are not regarded by the Treasury as 'fully' financially included.[8] Nevertheless, even if all 'basic bank accounts' are ignored, there were still 0.3 million fewer households in 2004/05 without any kind of account than two years earlier.

- The number without a current account was also down 0.5 million, from 12 per cent of all households in 2002/03 to 9 per cent in 2004/05. A decade ago, this figure stood at 20 per cent.

At the end of 2005, there were some 6.4 million basic bank accounts. Of these:[9]

- 1.6 million were Post Office accessible and had been opened since 2003.
- 0.75 million were Post Office accessible and were opened before 2003.
- 4.0 million were not Post Office accessible.

It is evident from various sources that some people still face difficulties opening bank accounts, as well as in some of the practices of the banks in operating the accounts. A Citizens' Advice report of 2006 provides the following summary of the concerns:[10]

- difficulties opening accounts because of a lack of acceptable evidence of identity and address, with bank staff 'frequently not willing' to follow government guidance;
- a failure on the part of most banks to promote their basic bank accounts, as well as attempts by some bank staff to sell unsuitable products;
- long delays in opening basic bank accounts at some banks;
- the practice of taking money out of accounts to pay other debts to the bank without checking the customer's circumstances first;
- the charges levied by banks for items such as failed direct debits; and
- a poorer service for some to basic account holders, such as extended times to clear a cheque or preventing basic account holders from withdrawing cash at the counter.

The question of what features a basic bank account should possess has been examined by the Financial Inclusion Taskforce and it has now published research on this question.[11] The findings of a survey commissioned by the BBA into consumer attitude towards opening and using a basic bank account were also published in 2006.[12]

Issues going forward

The degree of progress towards the 'shared goal' of halving the number of adults in households with no access to a bank account is critical. Although definitive data on how much progress has actually been made is not yet available, preliminary analysis of the as yet unpublished data for the period April 2005 to March 2006 suggests that the shared goal has not yet been met, the number of adults without a bank account having fallen 0.8 million from 2.8 million in 2002/03 to 2.0 million in 2005/06.[13]

The Government's view is that the question of whether the current voluntary agreement with the banking sector should be replaced by statutory requirements remains open.[14] It will report on what further action it has agreed with the banks in a detailed action plan to be published after the next Comprehensive Spending Review, later this year.[15] One point of detail here is whether statistics relating to the number of basic bank accounts opened by individual banks are to be published. Now that the Treasury Select Committee has published such data once, it is hard to see why it should not happen regularly in future.

Irrespective of progress towards the 'shared goal', certain groups of people will still show higher than average proportions without a bank account:

- Groups such as lone parents and pensioners who do at least show up in the official statistics. A reasonable estimate is that around 20 per cent of these groups currently lack a bank account.[16] While that means that the great majority of people in most of these groups do possess an account, they still comprise the bulk of those without.
- Groups who either do not appear at all within the official statistics, or who at least cannot be identified as such within them. These include: people in or shortly to leave prison; those living in homeless hostels or in shared accommodation; and possibly migrant workers.[17] These groups' unusual and particular circumstances may require special initiatives to meet their needs.[18]

The Financial Inclusion Taskforce places a high priority on the problems with the operation and features of basic bank accounts. The independent Review of the Personal and Business Banking Codes, now in progress and due in early 2008, may be a vehicle for addressing some of these issues. One such issue is the use of the banking facilities by the newly banked. It is unclear what ways usage could be monitored and measured in the future.

The contract for the Post Office Card Account will end in 2010. This raises the question of what its successor should be and with what transitional arrangements. The take-up of the POCA has been far in excess of what was expected and came about despite, according to what the Treasury Select Committee was told, considerable obstacles to opening such accounts. One possibility, therefore, is that they should continue, perhaps with some additional functionality, including turning them into 'proper' basic bank accounts.

Underlying the drive to 'bank the unbanked' is the Government's desire that an ever greater proportion of social security benefits should be paid automatically into some form of account, rather than by cheque or cash.[19] As more and more people receive benefits in this way, the temptation to 'push' the rest into accepting it, even against their wishes, is likely to grow. Whether this should be resisted on principle (with benefit recipients retaining the right to remain unbanked) is an increasingly pertinent question.

Chapter 3
Affordable credit

Main developments and main players

The main developments over the last two years in the area of affordable credit turn on government or regulatory action, with central roles for the DWP and the bodies responsible for competition. The Financial Inclusion Taskforce has an oversight role in many of these areas. The main developments are:

- The launch of the £36 million Growth Fund, intended to increase the availability of affordable loans for those people who cannot get affordable credit from mainstream lenders. The DWP has contracted with over 100 third sector lenders (primarily credit unions, with a few CDFIs) to set up and manage loan funds from July 2006 through spring 2008. By February 2007 some 15,000 loans had been made, totalling some £6 million.[1]
- The one-third increase in the size of the Social Fund's gross loans budget, from around £570 million in 2004/05 to between £700 million and £800 million in 2008/09.[2] Reform of the details governing the rules and operation of the scheme, especially for budgeting loans, were introduced in April 2006.
- The raising of the Credit Union interest rate cap, from 1 per cent to 2 per cent per month, in spring 2006.
- The publication of the Competition Commission's final report on the home credit market at the end of 2006. The report concluded that profits had been 'persistently and substantially in excess of the cost of capital for firms that represented a substantial part of the market', this excess being estimated by the Commission to have been 'at least £75 million each year in the industry over the period 2000 to 2005'.[3] The report contained a series of remedies designed to strengthen competition, improve the information for customers and, with specific reference to those who repay their loans early, directly limit the price paid.

Trends, facts and research

Besides its final conclusions, the Competition Commission report offers insight into low-income households' use of credit. So:

- One key finding was that home credit providers face little competitive pressure from either 'alternative' credit options (that is, those used predominantly by low-income customers) or mainstream ones.
- Among the 'alternative' options, only Agency Mail Order had more customers or made

more loans, while the next biggest, namely the Social Fund and credit unions, were much smaller than home credit, with annual loans of some £520 million and £240 million respectively compared with home credit's £1,320 million.

- With something like 60 per cent of the home credit market, this means that Provident Financial plc, the market leader, was about as important a source of loans at that time as the Social Fund and the credit union movement combined.

The Commission report also showed that, after growing by about a sixth in the late 1990s, the total value of home credit loans in 2005 was back where it was in 1999.[4] By contrast, the Social Fund has been growing, as has the credit union movement, in terms of both the number of members and the value of loans. The net effect of this is that the overall mix of loans used by low-income households has been steadily changing, with the possibility that the picture at the end of this decade may look very different from what it was at the beginning.

The scope and operation of the Social Fund continues to be a subject of concern, with shortcomings including a lack of awareness of it among key groups, restrictive rules governing its eligibility, the limited amount available, and the apparent failure to suggest alternative sources of credit to people whose application is rejected.[5] Yet at the same time, research also stresses the potential of a reformed and enhanced Social Fund to provide affordable credit to low income households.[6] What is called for in these reports would appear to go well beyond the changes made to the operation of the Social Fund in April 2006.

Some of this research also points to the potential of third sector lenders to provide affordable credit. Submissions to the Treasury Select Committee expressed concerns about the limited scale and geographical coverage of credit unions, as well as the degree to which they have embraced professionalism. A number of recent studies have tried to evaluate the credit union movement, for example, by measuring the degree of success and analysing the factors that make for it.[7]

Research published by the National Consumer Council and reported to the Treasury Select Committee provides an estimate of the unmet need for credit, citing a figure of 7.8 million people excluded from the mainstream market 'because the product design and delivery do not meet their needs'. Their report also draws attention to the Competition Commission finding, noted above, that home credit providers face little competitive pressure from alternative or mainstream providers.[8]

One recent report on the subject of credit for low-income households develops the argument that, because many of them are actually only on a low income for a limited period of time, a longer term view leads to the conclusion that they are significantly *under*-borrowed (that is, they could therefore support higher borrowings).[9] Whether it is possible to identify in advance which low-income households would be able to support much higher borrowings must be doubtful. Even so, it is a still an interesting idea because it challenges the way in which low-income households' credit needs (typically small amounts of money for short periods only) are normally thought about.

Issues going forward

While few will regard the home credit market as providing *affordable* credit, its size and importance to low-income households mean that it cannot be ignored. The Competition Commission's package of remedies is aimed at simulating choice and competition. The question is, how far those committed to ending financial exclusion become involved, either in trying to help make the remedies work or in evaluating progress. The four remedies put forward by the Commission are:

- a requirement upon credit providers to share data on customers via credit reference agencies;
- a requirement on them to publish the prices of home credit loans, including via an independent website funded by the industry;
- a recommendation (directed at the DTI) on improving information to customers, using provisions contained in the 2006 Consumer Credit Act; and
- a requirement placed upon credit providers and aimed at reducing the high price paid by customers who settle loans early.

The growing size of the Social Fund, coupled with the contribution that many experts believe it *could* make towards solving the problem of affordable credit, means that the role of the Fund and possible reforms to it ought to be a high priority. While there is no doubt scope for further research into *what* the Social Fund should do (for example, a review of how far specific proposals from different quarters might be brought together), the main requirement now is to find a way of starting a process that will actually lead to reform. Some encouragement that this might be possible can be drawn from a view expressed by a Minister to the Treasury Select Committee, that the Fund 'does not punch its weight' and that it could 'do a good deal more in terms of sustainable support for people and more in terms of affordable credit lines than it does at the moment'.[10]

There is also a range of issues to do with the role of third sector institutions in providing affordable credit. These include:

- What happens beyond the scheduled end of the Growth Fund in March 2008? It is important not to underestimate the significance of the fact that this is the first time that central government money has been provided to third sector institutions to lend to people who are financially excluded. The Government has announced that it will establish a new Financial Inclusion Fund for the period 2008 to 2011: the overall amount and the amount to go to the Growth Fund (which is a part of the larger Fund) will be set once the next Comprehensive Spending Review has been agreed.[11]
- Within this, what is the long-term future of community development finance institutions (CDFIs), especially given the Government's recent decision not to extend Community Investment Tax Relief to the third sector's personal lending activities?[12] Against a background of very slowly evolving financial institutions in both the private and third sectors, CDFIs are in their infancy. The Treasury Select Committee pointed towards a US fund that channels federal resources to CDFIs.[13]
- The internal development of the Credit Union movement, including the adoption of a

more professional approach (for example, as exemplified in the use of the World Council of Credit Unions 'PEARLS' monitoring system), supported by Barclays, and restructuring (for example via mergers).

Behind these specific points lies the question of where the balance should lie between the private sector, the third sector, and direct lending via the Social Fund by the state itself. In turn, such a strategic question can only be answered if there is a clear view of the extent of the unmet need for affordable credit. Until such a vision is in place, individual initiatives may succeed (or not) when measured against their own particular goals, but their overall value and importance will remain unclear.

Chapter 4
Insurance

Main developments and main players

In contrast to banking and access to credit, there have until very recently been no notable developments as far as insurance is concerned. This lack of activity reflects the fact that, despite some references to it, the 2004 report had no policy actions for insurance.

This lowly status is in marked contrast to the equal billing with credit unions and banking services that insurance enjoyed in the Social Exclusion Unit's PAT 14 *Access to Financial Services* report in 1999, the 'indicative timetable' suggesting that, by the end of 2005, 'low-income household usage of banking and insurance [should be] at similar levels to other social groups'.[1] The principal focus was on promoting 'insurance with rent' schemes, usually for home contents, but there were also calls for pilot studies of extended schemes that would include 'additional types of insurance besides contents'.[2]

From the start of 2007, the remit of the Financial Inclusion Taskforce has been extended to include insurance. The Taskforce, the Association of British Insurers and the Government are to work together in order to identify which types of insurance are most needed by those who are financially excluded, what the barriers are, and how they can be overcome.[3]

Trends, facts and research

The latest official data on the spread of home contents insurance are for 2004/05. They show that:

- Just over half of the poorest fifth of households lacked home contents insurance, compared with 20 per cent of households with average incomes and 10 per cent of households in the richest fifth.[4] While most households possess home contents insurance, therefore, most of the poorest households do not. Far more households in the poorest fifth lack home contents insurance than lack a bank account (50 per cent compared with 10 to 20 per cent).
- Over the preceding five years, there had been no change in the proportion of low-income households without home content insurance, nor in the difference between them and the rest.[5] Other research suggests that the proportion of those without home contents insurance may, for some groups (e.g. those in private rented accommodation), even be higher than it was ten years earlier.[6]

As the Treasury Select Committee noted, despite the stress on 'insurance with rent' schemes, there appears to be no data on the spread of such schemes. One recent study, focused on Scottish local authorities, found that 'many schemes exist, providing average market cover at typically average or lower cost'. There was no evidence of highly selective underwriting and pricing. Yet despite this, take-up rates by tenants were low.[7] A second study, which concluded that take-up was patchy, sought to understand why certain people did not take out contents insurance.[8]

Issues going forward

Beyond the bare facts about how the possession of contents insurance varies by income level, little is known. The things that need to be known fall into two groups, the first to do with content insurance itself and the second to do with other forms of insurance that might come under the financial inclusion heading.

As far as contents insurance is concerned, the unknowns include:

- reasons for the low take-up, both of 'insurance with rent' in particular (and where there is some insight to be had from the studies referred to above) and contents insurance more generally;
- the extent of the 'insurance with rent' schemes and how far they are taken advantage of; and
- whether some schemes are much more successful than others, and the lessons that might be drawn from this.

As far as other forms of insurance are concerned, the key unknown is which of them properly fall under the heading of financial inclusion. If the scope is restricted to products that average households normally have but that many low-income households do not, it is unclear whether anything apart from contents insurance actually qualifies. It is not hard to point to insurance products with problems, for example the low take-up of mortgage protection insurance (25 per cent for new mortgage holders, far short of the Government's target of 55 per cent),[9] or the virtual disappearance of insurance products to cover the cost of long-term care in later life.[10] But in both these cases, the issue is not in any way confined to low-income households or other disadvantaged groups.

There is also the question of whether financial inclusion as it applies to insurance should examine the possibility that low-income households are somehow discriminated against by insurance companies, either by being charged higher prices or through a refusal to offer cover at all ('redlining'). The PAT14 report mentioned redlining but cited research that suggested its extent was very limited. Neither the 2004 report nor the Treasury Select Committee report mentioned it. Does that therefore mean that redlining is no longer a problem – if indeed it ever was in the UK?

By contrast, exchanges during the Treasury Select Committee's hearing show that some certainly see a problem to do with geographical variation in the price of certain forms of insurance, for example for buildings, home contents or motor insurance, the 'perverse' result being 'that the areas which generically have lower income are all paying higher costs than the areas of higher income'.[11] The Committee's report shows that it accepts the insurance industry's argument that a higher price reflects a higher risk – and that the way to reduce the price is therefore to reduce risk. The question is how far that view is accepted – and whether it has been subject to any independent verification.

Chapter 5
Savings including pensions

Main developments and main players

The 2004 report contained no new policy actions on savings. It did, however, point to three Government initiatives that were already either in train or in prospect. They were:

- The Child Trust Fund, launched in April 2005. All those born since September 2002 are entitled to receive at least £250 from the Government. Other contributions, of up to £1,200 per year, can be added to this. Nothing can be taken out until the child reaches 18.
- 'Stakeholder savings', launched in 2005 and constituting a simplification and updating of the various 'stakeholder' schemes for short, medium and long term (that is, the stakeholder pension) as well as the Child Trust Fund.[1]
- The Savings Gateway, comprising two sets of pilot projects beginning in 2002 and 2005 respectively. Both sets of pilots, operating in about half a dozen local areas, offer matched government funding for any saving made, on varying terms. This matching is argued for both because it is comprehensible and because (unlike tax relief) it is of greatest benefit to those on low incomes. The 2005 pilots are bigger than the 2002 ones and the upper limit on income is also higher.[2]

Besides the Government, the main players in the first two initiatives are the mainstream providers of savings and pension products. In the third, the savings accounts are provided by HBOS. In the first round of Savings Gateway pilots, but not the second, local community organizations played the key recruitment role: Toynbee Hall in East London, the Cambridge Housing Society in Cambridge, Impact Housing Association in Cumbria and Places for People in Manchester.

As well as the Savings Gateway projects, there are also a number of other initiatives, again ongoing, where housing associations and other community organizations provide schemes enabling tenants and/or other low income households to save. They include:

- Two schemes run by the Mercian Housing Association in Birmingham and Prospect Community Housing in Edinburgh enabling tenants to save while paying their rent.[3]
- A report from the Chartered Institute of Housing describes a number of other such schemes including ones run by the Impact Housing Association, the Notting Hill Housing Association and the now long-standing New Horizons Savings and Loan scheme run by the Cambridge Housing Society.[4]
- A further report from the Institute describes a new proposal ('Homesave') aimed a

providing tenants with a way of saving, including the acquisition of housing assets, without actually becoming owners with the responsibilities that that brings.[5]

A recent development of a different sort was the collapse, in October 2006, of the Christmas Hamper company, Farepak. While not formally offering financial products (and hence seemingly not subject to regulation by the Financial Services Authority),[6] Farepak and similar clubs are clearly used by people as a form of saving scheme.

Information contained in the first report of the joint administrators demonstrates the impact of Farepak's collapse:[7]

- The precise number of people affected is still unknown, as Farepak did not have a list of customers because it dealt directly only with agents. But by January 2007, claims had been received from some 113,000 customers and agents (this is not a final figure as claims were continuing to come in). The value of these claims totalled some £38.8 million, or about £340 per claim.[8]
- Customers and agents are unsecured creditors. The administrators estimate that, although both the timing and the amount remain uncertain, there will be funds available to pay such creditors around 5 pence in the pound, representing £17 for the average customer or agent.[9]

As well as the formal DTI inquiry, part of the Government's response to the collapse was to ask Brian Pomeroy, the chairman of the Financial Inclusion Taskforce, to look at why people use these schemes and to consider how their savings needs might be better met.[10] Pomeroy's report made six recommendations, including that secure arrangements should be put in place by hamper scheme companies to protect customers' prepayments.[11] The Taskforce has been asked by Government to monitor developments, and consider what further actions are needed: this represents an extension of its terms of reference.[12]

A final development regarding savings was a doubling in the capital thresholds and limits for various social security benefits for working-age people.[13] Savings above these limits either disqualifies the person from the benefit altogether, or leads to their benefit being reduced by amounts that still far exceed any interest that could actually be earned on the money.[14] While a doubling of the limits may sound generous, they had remained unchanged since at least the early 1990s.

Trends, facts and research

Information on the extent of savings by households is limited, especially information broken down by household income.[15] A selection of what is available includes the following:

- Around the end of 2006, some two million children (one in six) had a Child Trust Fund account while 16 million adults (one in three) had an ISA, this latter figure being twice the number who held TESSAs or PEPs in 1999.[16]
- A 2006 study commissioned by the FSA found that 43 per cent of households had no savings whatsoever.[17]

- Information from the annual Financial Resources Survey shows that 30 per cent of adults would like to save at least £10 a month but are unable to do so. Among those with incomes in the poorest fifth, this proportion stood at 60 per cent (and among those in the richest fifth, it stood at 6 per cent).[18]

The Savings Gateway pilots have been subject to detailed evaluation, with final and interim reports on the first and second rounds respectively published in 2005 and 2006 and with a final report on the second round due in spring 2007.[19]

- The response to the pilots among those who have examined them is positive, both the formal evaluation studies and others. These studies also indicate that those who have participated in the Savings Gateway are enthusiastic about it.[20]
- The 'matching' element of the accounts is seen as particular important and 'very important in their decision to open an SG2 account'.[21]
- The important question of how far the initiative is increasing the overall level of savings, as opposed merely to diverting savings from other accounts into the Gateway accounts, remains unclear. The final report of the second round pilots is expected to be able to answer this.[22]

Issues going forward

Of all the areas covered in this review, there is more uncertainty around savings than around any other issue. That uncertainty applies to all of the following:

- how far the savings initiatives launched by Government in 2005 are either targeted at, or actually helping, those suffering financial exclusion;
- the success – or otherwise – of savings and loans schemes where good evidence as to their effect does not appear to be available;
- how far incentives to save, whether through matching or tax breaks, displaces as opposed to creates savings; and
- the role of disincentives to save, especially among older working age and pensioner age adults, arising from the means-testing of social security benefits.

By contrast, Farepak can be seen as another manifestation of a familiar story from home credit, namely: a preference for products 'delivered' on the doorstep, by a familiar face, with a degree of flexibility around payments but offering poor value for money on the usual criteria. And the policy issue going forward is the same too, namely: whether to work with this preference for costly, face to face, arrangements or to try to persuade people to save in more conventional ways.

Chapter 6
Money and debt advice

Main developments and main players

While the Government is driving many developments in this field too, it is, here, by no means alone. Other notable movers and players include the Resolution Foundation, the Money Advice Trust, Citizen's Advice and Advice UK.

The 2004 report described financial capability and money advice as being of 'key importance in promoting financial inclusion'. While much was already being done in these fields, extra action was needed in the provision of money advice. Financial capability is not considered here. Instead, the focus is on money advice, which itself ranges from debt advice (addressing an acute problem) through to the emerging idea of a national generic financial advice service, 'generic financial advice' being defined as personalized but non-regulated advice, which means not associated with particular products.

As far as debt advice is concerned, the single biggest action by Government is the Face to Face Debt Advice Project, run by the DTI, aimed at increasing the number of advisers (and therefore the number of people receiving advice) 'within geographical areas and/or social groups both characterized by high financial exclusion'.[1] The project's key features are:

- A budget of £47.5 million, being an element of the Financial Inclusion Fund, one-third being spent in 2006/07 and two-thirds in 2007/08.
- The money used to fund 16 projects (three national, one for Wales and one for each English region), usually delivered by new partnerships between established advice providers (including CABs), members of the Advice UK network and others.[2] Towards the end of 2006, over 300 new advisers had been trained and recruited and some 6,500 clients served.[3]
- Evaluation of the project is currently under way, with an internal report for the DTI and Treasury expected by summer 2007. The immediate question that it is expected to address is what the level of Government funding will be beyond the end of the current two-year programme under the extension of the Financial Inclusion Fund for the period 2008 to 2011.

This Face to Face Debt Advice Project sits alongside a range of actions in the broader field of money advice (including non-regulated help and budgeting activity). Non-government initiatives include:

- Projects runs by housing associations,[4] credit unions and CDFIs,[5] as well as charities serving the interests of groups such as older people and lone parents. Usually funded by independent trusts and foundations, and local authorities, they may provide money advice alone, or include it as part of a wider package of offerings.

- The work of the Money Advice Trust, funded by banks, other financial institutions and the corporate sector more generally. This includes the further development and evaluation of National Debtline, a telephone-based advice service.

Government initiatives on money advice include:

- £6 million from the Financial Inclusion Fund to fund 'outreach pilot' projects running from 2005 to April 2008 and administered by the Legal Services Commission. The objective is to reach people who do not normally go for money advice. Project locations include family and children centres, credit unions, housing advice centres, community centres and prisons. Towards the end of 2006, some 6,000 clients had benefited.[6] As with the Face to Face Debt Advice Project, the question of the level of future funding under the extended Financial Inclusion Fund remains to be decided.
- An independent feasibility study, chaired by Otto Thoresen, charged with the job of researching and designing a national generic (defined as 'personalized but unregulated') financial advice service for all people, including those on low incomes. The study is required to report back to ministers by the end of 2007.[7]

Trends, facts and research

Since its inception in 2005, the Resolution Foundation's work focused on how people on low incomes can access and use financial services has added a lot to the research evidence in this area. Its report, *Closing the Advice Gap: Providing financial advice to people on low incomes*, which makes the case for a generic national financial advice service and which includes a range of costed options for its delivery, would appear to have had a big impact on Government thinking.[8]

This report also provides estimates of the need for money advice among the 12 million UK adults on below average incomes. For example:

- while most have basic products such as current accounts, only 40 per cent have life insurance and they are only half as likely as those on higher incomes to have products like payment protection insurance;
- people in this group are often more aware of the financial challenges they face than the rest of the population – but they are also less likely to act upon it.

An FSA report provides qualitative information about the problems people have when selecting financial products (for example, a failure to plan for retirement or to make proper comparisons between alternatives when selecting products) as well as data on their scale (for example, the 1.5 million people falling behind with bills or credit commitments, of which one-third report 'real financial problems'; or the nearly 3 million people who report a constant struggle to keep up with commitments).[9]

The Financial Inclusion Taskforce response to the Treasury in December 2006 on the first phase of the evaluation of the Legal Services Commission outreach pilots reported 'generally positive results', notably that:

- all locations were reaching people who, statistically, were more likely to be financially excluded, the proportions of these people being highest in prison and credit union locations;
- more than four in every five interviewees (across all locations) thought that the locations were 'a good place to provide advice' and a similar proportion thought they were 'likely or fairly likely' to use the advice they had been given.[10]

An observation made by East Lancashire Moneyline (and picked up on a number of occasions by other contributors to the Treasury Select Committee) was that financial education/advice is 'a significant delivery cost for the CDFI – our experience is that as many as 40% of individuals approaching us as a loan company are better served by advice on managing their existing commitments rather than "consolidating" credit'.[11] In other words, individuals seeking credit are disproportionately in need of, and disproportionately likely to benefit from, money and debt advice. A lesson that the FSA drew from the pilots it has run is that 'people respond positively to dealing with existing organisations that they already know and trust.'[12]

Issues going forward

With Government so active in the field of developing money advice service and capacity, the question of the medium to longer term funding arrangements is central. In particular, this relates to:

- whether, and in what form, the Face to Face Debt Advice programme will continue beyond April 2008;
- the longer term prospects for the Legal Services Commission programme and what lessons can be learned from them (for example, regarding the scale on which such projects are required, where else the need for such projects may lie, and whether there are particular groups who should be targeted).[13]

Beyond these specifics, however, there is a deeper issue about the balance and direction of the emerging programme of government-backed actions in this area. In particular, it is unclear what a national generic money advice service might do for the prospects of other initiatives. Besides the perennial problem that they may all be competing for the same government resources, other possible sources of conflict are: the purpose of such services, as between ones intended to prevent problems and ones aimed at solving them if and when they arise; and the right way and place to deliver services. On this last point it is of note that, even leaving aside the possible ways in which generic money advice could be delivered, a number of rather different principles for the delivery of advice seem to be favoured, namely:

- via providers with a standing and reputation, first and foremost Citizens' Advice;
- outreach advice for those who would not normally seek it, but delivered in locations that people are already familiar with; and
- by the organization from whom people are seeking additional credit, at the time when they are seeking it.

Chapter 7
Concluding remarks

The uncertain scope of financial inclusion

Measured by the number and range of individual initiatives, the last two years have been a period of considerable activity directed at promoting financial inclusion. Government has already made a number of announcements in 2007 and more are expected shortly. Activity at its current level can confidently be expected to continue for the foreseeable future.

Despite the volume of activity, actions to promote financial inclusion are far from forming a coherent whole. In part the problem is one of unevenness as Table 1, which presents a summary of the topics covered here assessed against seven criteria, shows. So:

- Three of the five areas are obviously government priorities. One (insurance) has up until now been almost wholly neglected.
- There are government-backed pilot projects in three areas. The third sector is a major player in three areas and the private sector in two.
- There is a quantitative target in just one area, and the responsibility for meeting it rests with the private sector.

Table 1

An overview of the five policy areas reveals the government's priorities are credit, savings and advice. Insurance has been neglected.

	Banking	*Credit*	*Insurance*	*Savings*	*Advice*
Obvious government priority?	Yes	Yes	–	?	Yes
Recent government-backed projects?	–	Yes	–	Yes	Yes
Third sector a major player in the above?	–	Yes	–	?	Yes
Other government/state-inspired actions?	Yes	Yes	Yes	Yes	Yes
Private sector a major player?	Yes	–	Yes	Yes	–
Other recent third sector developments?	Yes	–	–	–	–
Is there an official target?	Yes	–	–	–	–

In our view, this unevenness stems from a lack of clear answers to some fundamental questions. They are:

- exactly what the issue is and why the issue is a problem;
- why the problem is not just a symptom of low income; and
- how progress is to be measured and how it is to be delivered.

Banking is the topic where there is the greatest clarity. The issue is well defined, namely, that low-income (and some other disadvantaged) groups are far more likely than average to lack a bank account. Since most low-income households have one, it is not just a symptom of low income. How progress should be measured is clear. It is also clear, from the shared agreement, how progress is to be made.

It is clear, too, why lacking a bank account is a problem. What is really important, and perhaps even unique, about this issue is that it is not just the individuals themselves who are disadvantaged (utility bills are more expensive when paid by cash; an account is needed to get a job, etc.) but it is also the Government (because it costs it more to pay social security benefits and pensions by cash rather than directly into an account). In our view, policy to date makes most sense if it is understood as having been driven by this latter reason: in other words, what is being solved is a *government* problem. The status of the POCA (the revealed preference of millions of 'financially excluded' people), its future beyond 2010, and even perhaps the future role of the Post Office, are key tests of this. And it provokes the question: exactly whose financial inclusion agenda is it that is being followed?

Much about home contents insurance is, or could be, clear, both what the issue is (low-income groups lack it disproportionately) and why it is a problem (e.g. a heightened risk of burglary; less able to afford replacements). It is also clear, as per PAT14, how to measure progress. What is not clear is how to deliver progress: even if insurance with rent is the right product, who should be being pushed to make this happen? Is it the third sector, or should it be the insurance industry itself (another 'shared agreement' maybe)?

Although credit is a Government priority, the very issue itself is unclear. Is it that some people pay too much for credit, that is, that they lack access to *cheap* credit? Or is it that they do not have access to *enough* credit? Or is it that they need access to credit at all? So, for example, is an increase in the volume of Social Fund loans necessarily a good thing? If it displaces high cost credit, few would disagree. On its own, though, such a rise could be seen (and would be seen by some anti-poverty campaigners) as a bad thing because it leaves people worse off (thanks to the deductions from income) and covers up the inadequate level of social security benefits.[1]

With both savings and other forms of insurance, it is clear what the issue in general is and why people who lack them are at a disadvantage but it is not clear which particular products should be treated as an aspect of financial inclusion. Home contents insurance is unusual if not unique in being something that the great majority have (and so is 'normal' in modern society) but that many low-income households do not. Unless this condition holds, it is hard to see how promoting financial inclusion can be distinguished from the industry's routine marketing

Table 2
For many topics there is a lack of clarity in identifying the issues, which feeds through into a lack of clarity about goals.

	Bank accounts	Credit	Contents insurance	Other insurance	Saving	Advice
Clear what the issue is?	Yes	No	Yes	No	No	Yes
Clear why issue is a problem?	Yes	No	Yes	Yes	Yes	Yes
Clear not just low income?	Yes	No	No	No	No	Yes
Clear how to measure progress?	Yes	No	Yes	No	No	No
Clear how to deliver progress?	Yes	No	No	No	No	No

of its own products. Even if the scope of financial inclusion can be defined, it may be that the virtual disappearance of insurance sold on the doorstep – 'industrial branch' insurance – greatly lowers the possibility of progress[2] given the revealed preference (home credit, Farepak) for products delivered that way.

In itself, the proposal for a generic national money advice service is clear. However, the wide-ranging topic of which it is a part, stretching from financial capability to debt advice, is less clear. There are multiple and overlapping issues, with doubts about whether things should be packaged together or apart and delivered via familiar organizations or new, purpose-built ones. What is perhaps needed here – but is lacking at the moment – is an overall advice strategy that clarifies all these issues while respecting complexities that are inherent to them.

Table 2 sums up this assessment of where the financial inclusion strategy is currently clear (with home contents insurance shown separately from other forms of insurance).

- For many topics, it is either not clear what the issue is or why the issue is being treated as a problem. This amounts to saying that in many areas it remains unclear what financial inclusion is really about.
- This lack of clarity in identifying the issues feeds through into a lack of clarity about what the goals are and how progress should be measured.

The danger we see in this is that efforts to promote financial inclusion will not be able to develop a momentum of their own. Although goals on their own are not enough, unless the direction in which progress lies is clear, it is impossible for the private and third sector bodies to act independently yet nevertheless act in common.

Notes

Chapter 2 Banking

1 Treasury Select Committee (2006b), supplementary memorandum submitted by the British Bankers Association.
2 Details of the scheme and the credit unions involved can be found at http://www.abcul.org/page/news.cfm.
3 Treasury Select Committee (2006a), para. 83.
4 See http://www.toynbeehall.org.uk/page.asp?section=00010001000100030005.
5 ATM Working Group (2006).
6 New Policy Institute analysis of the *Family Resources Survey*.
7 Treasury Select Committee (2006b), supplementary memorandum submitted by the Post Office.
8 HM Treasury (2004), para. 3.27. The only money that can be paid into a POCA is that from social security benefits and tax credits, and the only way of getting money out of it is via cash over the counter at a post office.
9 Treasury Select Committee (2006b), supplementary memorandum submitted by the British Bankers Association.
10 Herbert and Hopwood Road (2006).
11 BMRB Social Research (2006).
12 Millward Brown Research (2006). Among the generally positive findings of this survey was that some two-thirds of those who had had basic bank accounts for at least six months 'strongly agreed' that they were satisfied with the range of facilities provided by the basic bank account (p. 34), while five-sixths (83 per cent) 'agreed strongly' that it was good that there was no risk of getting into debt on the account (p. 33).
13 HM Treasury (2007b), para. 3.7. In terms of the number of households (as opposed to individuals) without a bank account, that is a fall from 1.9 million in 2002/03 to 1.3 million in 2005/06.
14 Treasury Select Committee (2006c), para. 15.
15 HM Treasury (2007b), para. 4.10.
16 Treasury Select Committee (2006b), memorandum submitted by One Parent Families.
17 Treasury Select Committee (2006b), memoranda submitted by Business in Prisons and Centrepoint.
18 One example of such a targeted initiative is the Grand Central Savings savings bank, set up by the Big Issue in Scotland in association with the Bank of Scotland. http://www.bigissuescotland.com/our_bank/.
19 For example, the Local Housing Allowance, a replacement for Housing Benefit for some private sector tenants, which is either paid directly into a bank account or via a cheque.

Chapter 3 Affordable credit

1 HM Treasury (2007b), para. 3.29.
2 Information deduced from Treasury Select Committee (2006b), memorandum submitted by the Department for Work and Pensions.
3 Competition Commission (2006), para. 10.
4 Competition Commission (2006), figure 2.1 of the report.
5 See, for example, Treasury Select Committee (2006b), memoranda submitted by Citizens' Advice; IPPR; Personal Finance Research Centre; National Consumer Council.
6 See Collard and Kempson (2005); Legge *et al.* (2006).
7 See Goth *et al.* (2006); Jones (2004); Ward and McKillop (2005a, 2005b).
8 Treasury Select Committee (2006b), memorandum submitted by the National Consumer Council.
9 Mitchell *et al.* (2005).
10 Treasury Select Committee (2006b), reply to Q903 (James Plaskitt MP).
11 HM Treasury (2007b), para. 4.2.
12 HM Treasury (2007b), para. 4.22.
13 The Riegle Community Development and Regulatory Improvement Act 1994.

Chapter 4 Insurance

1 HM Treasury (1999).
2 HM Treasury (1999), page 2.
3 HM Treasury (2007b), para. 4.26.
4 NPI analysis of the Expenditure and Food Survey. See http://www.poverty.org.uk/45/index.shtml.
5 Compare the above with Palmer *et al.* (2003), indicator 45b.
6 Perri 6 *et al.* (2006), page 13.
7 Hood *et al.* (2005).
8 Perri 6 *et al.* (2006).
9 Palmer *et al.* (2006).
10 Johnstone (2005).
11 Treasury Select Committee (2006b), Q528 and Q745 (Jim Cousins MP).

Chapter 5 Savings including pensions

1 For overview information on this, see http://www.learnmoney.co.uk/advice/advice-08.html.
2 For evaluations of the two sets of pilots see http://www.hm-treasury.gov.uk/documents/financial_services/savings/topics_savings_gateway.cfm.
3 See HM Treasury (2004).
4 Terry *et al.* (2006).
5 Terry *et al.* (2005).
6 See Treasury Select Committee (2006d), para. 61 (quote attributed to Sir Callum McCarthy).
7 BDO Stoy Hayward (2007).
8 BDO Stoy Hayward (2007), para. 5.5.

9 BDO Stoy Hayward (2007), para. 8.5.
10 Ed Balls MP, speech to Association of British Insurers Saver Summit 2006, 23 November 2006. Available at: http://www.hm-treasury.gov.uk./newsroom_and_speeches/press/2006/press_99_06.cfm.
11 HM Treasury (2007c).
12 HM Treasury (2007b), para. 4.24.
13 Treasury Select Committee (2006b), memorandum submitted by Department for Work and Pensions.
14 Treasury Select Committee (2006b), memorandum submitted by Citizens' Advice.
15 The shortage of good quality data on assets (and debt) may in due course be overcome once results start to become available from the new Wealth and Assets Survey, conducted by the Office for National Statistics, work on which is now ongoing.
16 Ed Balls MP, speech to Association of British Insurers Saver Summit 2006, 23 November 2006. Available at: http://www.hm-treasury.gov.uk./newsroom_and_speeches/press/2006/press_99_06.cfm.
17 Financial Services Authority (2006b).
18 Family Resources Survey 2004/05: New Policy Institute analysis. Since this question does not appear to have been asked in previous years, it is not possible to draw any conclusions here about changes over time.
19 Kempson *et al.* (2005); Institute for Fiscal Studies (IFS) and Ipsos MORI Social Research Institute (2006).
20 That is, both the two formal evaluations reported above and, for example, Terry *et al.* (2006).
21 Institute for Fiscal Studies and IPSOS MORI (2006).
22 Institute for Fiscal Studies and IPSOS MORI (2006), page 6.

Chapter 6 Money and debt advice

1 http://www.dti.gov.uk/consumers/consumer-finance/over-indebtedness/debt-advice/index.html.
2 A list of the projects can be found at http://www.dti.gov.uk/files/file32672.pdf.
3 Financial Inclusion Taskforce (2006), para. 24.
4 See, for example, cases studies in Treasury Select Committee (2006b), memorandum submitted by the National Housing Federation.
5 See, for example, Treasury Select Committee (2006b), memoranda submitted by Association of British Credit Unions Limited (ABCUL); East Lancashire Moneyline.
6 Financial Inclusion Taskforce (2006), paras. 27 and 28.
7 See: http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2007/press_07_04.cfm.
8 South (2006).
9 Financial Services Authority (2006a).
10 Financial Inclusion Taskforce (2006).
11 Treasury Select Committee (2006b), memorandum submitted by East Lancashire Moneyline.
12 Speech by John Tiner, 18 October 2006: Available at: http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2006/1019_jt.shtml.

13 For a discussion of some of the gender-specific issues in this area, see Treasury Select Committee (2006b), memorandum submitted by ippr north.

Chapter 7 Concluding remarks

1 One as far as we know un-researched question: why was the value of loans provided by home credit shrinking after 2002? Do tax credits, and the extra money they delivered, have anything to do with it?

2 See, for example, Burton *et al.* (2005).

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