Why more must be done to curb the growing debt crisis

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Prince Charles sparked a fresh debate last week about Britain's unprecedented levels of financial indebtedness and told pension fund investors that they had a need, if not a duty, to identify and manage long-term environmental, social and economic risks rather than focus on more short-term horizons.

Echoing these concerns, the University of Birmingham Policy Commission on the Distribution of Wealth published its report containing policy recommendations to tackle both indebtedness and poor saving outcomes.

Levels of problem debt have certainly been increasing in the last few years and the recently introduced welfare reforms will further reduce the incomes of various groups (for example through the total cap on benefit payments, the cap on benefit annual increases,the bedroom tax/spare room subsidy and so on). The reforms will also result in benefits being paid in a single lump sum – including housing benefit – once every four months under Universal Credit and these changes are widely predicted to increase problem debt still further as people struggle to manage.

Credit Unions are, potentially, an ideal vehicle for supporting people here as they provide money advice, affordable credit, transactional banking services and savings schemes. And Credit Unions are, indeed, receiving some government investment but they need much higher levels, not least because of the low level of interest they (are constrained to) charge while lending to people with high default rates. Rather than putting more resources into debt advice there have actually been cuts in funding for some forms of advice (eg, through Law Centres).

The financial services sector also needs to play its part here. Payday lending is currently under the scrutiny of the Competition Commission after evidence of widespread irresponsible lending and the Parliamentary Commission on Banking Standards has warned the mainstream banks to improve the services they provide to people on low incomes.

Turning to saving, the Policy Commission calls for a new initiative to help people build savings. A civil society organisation that serves savers' interests has to be established if value for money is to be secured for the billions of pounds that people are starting to save through pensions auto-enrolment and their desire to provide for their future.

Despite the financial crisisexposing many investments as opaque and unsuitable, investment products stilldo not have fixed prices. Instead we find a product fee plus a multitude ofadd-ons that appear 'under the hood' which consumers neither agree to nor see.Even the product fee escapes price competition – large funds do not chargeconsumers less than small funds whereas Tesco charges less for beans than mostcorner shops.

An organisation serving savers that independently challenges these and other conventions can help the benefits of competition pass to consumers as they do in other industries. A better deal is secured for savers, and savers crystallise more wealth when saving and investing.

The closest we currently get to advocating for savers is the Financial Conduct Authority's (FCA) remit to protect consumers, but this acts in the same way that detergent keeps kitchen surfaces clean – it does nothing to lay a hearty meal on the family table.

The organisation could be funded through a flat rate £1 charge collected on all UK investment trades over £10,000 in the same way as the Takeover Panel currently is, or alternatively funds might come from charitable trusts and eventually, ideally, direct debits from savers who would become members.

The Policy Commission also encourages new policy to help far more people achieve small savings pots via a matching scheme in which government, or even employers, contribute say, 30p for every £1 saved, up to a limit of say, £5,000 of savings. This might be funded by scaling back the significant tax reliefs enjoyed by the wealthy when saving the far larger amounts they are able to.

Professor Karen Rowlingson was joint academic lead of the Birmingham Policy Commission on the Distribution of Wealth. Its report: 'Sharing our good fortune: Understanding and Responding to Wealth Inequality' (http://www.birmingham.ac.uk/Documents/research/policycommission/BPCIV-Distribution-of-wealthfull-report.pdf) was published on 22 October. Professor Rowlingson is also Director of the Centre on Household Assets and Savings Management.

Dr Paul Cox was a member of the Policy Commission and is a senior lecturer in Accounting and Finance at Birmingham Business School.