

Briefing Paper BP3-2017

Financial exclusion in the UK:

**Will the House of Lords' Select Committee recommendations solve
this problem?**

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In July 2016, I was invited to be the Specialist Advisor to the House of Lords Select Committee on Financial Exclusion and Access to Mainstream Services. The Committee was chaired by Baroness Clare Tyler and gathered evidence, both written and oral, from a wide range of expert witnesses, including government ministers in the Department for Work and Pensions, HM Treasury and Department for Education.

Visits to Coventry and Toynbee Hall also took place by the Lords on the Committee to meet with financially excluded people and those supporting them.



The Committee's report was published on the 25th March and points, quite rightly, to the unacceptable nature of financial exclusion in a wealthy country which leads the world in terms of financial services, technology and innovation. The report also points out that, on an individual level, financial exclusion leads to people paying a 'poverty premium' for various goods and services, leading to a vicious circle. If the government is serious about making the economy 'work for everyone' then financial exclusion needs to be tackled.

Central to this, the report calls for much stronger leadership and co-ordination of financial inclusion initiatives which appear to have fallen off the government agenda since the demise of the Financial Inclusion Taskforce in 2011. The Committee recommends that the government appoints a Minister for Financial Inclusion with annual reports to Parliament on

progress. Leadership from government also needs to be complemented with leadership from other bodies, not least the Financial Conduct Authority, and the Committee recommends that the FCA's remit be expanded to include a statutory duty to promote financial inclusion.

The role of the mainstream banks is also considered by the report and more needs to be done to ensure that they promote Basic Bank Accounts and reduce the number of people who are unbanked. The Post Office could also play an important part here, as a trusted institution with more physical branches than the mainstream banks. As well as getting people into the banking system in the first place, banks also need to reduce the cost of overdrafts and charges which can lead some people to stop using their services and therefore voluntarily exclude themselves.

Sub-prime financial institutions are also discussed in the report, with particular concerns raised in relation to the 'rent-to-own' sector with high borrowing costs and other fees and charges, including warranties. Better regulation of this sector would be useful, along with further support for credit unions and microfinance institutions.

While the report, quite rightly in my view, focuses squarely on the role of government and financial institutions, there is also a role to be played in relation to financial education and advice – at all levels from primary school through to further/higher education and throughout the life course at key points. Particularly critical is the need for continued financial support for debt advice.

Last, but not least, the report highlights the problem of poverty and low income as one of the causes of financial exclusion. The impact of recent welfare reforms including the initial waiting time to qualify for universal credit, the monthly payment cycle, the way that housing payments are made, the role of sanctions and local welfare assistance all need serious reform if people are going to have any chance of making ends meet and, thereby, avoiding financial exclusion.

In my view, the report provides an extremely well-evidenced and argued report with clear recommendations which, if implemented by government and others, would make significant inroads in reducing financial exclusion in the UK. However, until people's incomes are enough to live on without falling behind with bills or going without essentials, there will always be a problem of financial exclusion. Unfortunately, most working age people who are currently out of work and on means-tested benefits cannot hope to make ends meet for any length of time and this problem will only get worse as various benefit caps begin to impact even further on family finances. If basic benefit levels are not increased then any progress towards reducing financial inclusion will be severely limited. Those in work also face squeezed and insecure incomes as the 'gig economy' expands. A real living wage would help here, as would further support for employment rights.

CHASM will be taking its financial inclusion work forward by holding an event in London on the morning of September 21st. Baroness Tyler and Sir Brian Pomeroy will lead this discussion, with other speakers – and a presentation of the latest trends by Professor Steve McKay. Those interested in attending should email CHASM for further information.

Website of the House of Lords Select Committee on Financial Exclusion and Access to Mainstream Services: <https://www.parliament.uk/financial-exclusion>

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