UNIVERSITY OF BIRMINGHAM | CHASM Centre on Household Assets and Savings Management

Briefing Paper BP8-2017

Towards a Financially Inclusive Society in the UK: What Needs to be Done?

Event – 21st September 2017 – The Royal Society, London

Professor Karen Rowlingson, Professor of Social Policy and Deputy Director of CHASM at the University of Birmingham, opened the event, explaining that the aim of this major symposium was to highlight the work of the House of Lords Select Committee on Financial Exclusion which reported in March this year, and to launch the latest financial inclusion annual monitoring report from CHASM. She thanked the Friends Provident Foundation for funding the CHASM report and the event itself. She noted that this was an opportune time for discussion of financial inclusion given the recent appointment of a new Minister, Mr Guy Opperman, as parliamentary under-secretary of state for pensions and financial inclusion at the Department for Work and Pensions.

Baroness Claire Tyler, Chair of the House of Lords Select Committee on Financial Exclusion, talked about the work of the Committee and outlined key recommendations from its report including the need for improvements in:

- Leadership; education; access to financial services
- She argued strongly for greater leadership from government and the regulator, citing the lack of a coordinated strategy as being at the heart of the problem of widespread, continuing financial exclusion.
- While noting considerable regulatory progress, including, for example, the implementation of a price cap on high cost, short term, credit, Baroness Tyler signalled to the potential benefits of a more interventionist and strategic approach in the form of a statutory duty being placed on the FCA to promote financial inclusion.
- She also recommended that financial education should be added to the primary school curriculum in England, following the example of other parts of the UK, as well as calling for a more joined up approach across government, the FCA and financial

services sector to better support people with mental health problems and those in other vulnerable circumstances.

- She commented on the failure of the financial services sector to design products and services that reflect the realities of peoples' lives and changing needs and circumstances, often being designed instead for the average consumer.
- Banks were called upon to take a more proactive approach in offering basic bank accounts to those who could benefit from them, with greater effort needed to share the financial burden of offering them more equally across the banking sector.
- Older people and those on low incomes were flagged as being particularly at risk of financial exclusion from the move towards online financial services, with a clear and convincing argument being made for 'digital by default' not being equated with 'digital only'.
- Finally, Claire argued for greater appreciation and understanding of the role of welfare reform in exacerbating financial exclusion, with recommendations for the abolition of the seven day waiting period at the start of a Universal Benefit claim, and a move to allow tenants to decide for themselves whether housing costs should be paid directly to them or to their landlords.

Ms Sian Williams, Director of the Financial Health Exchange at Toynbee Hall, outlined key financial inclusion policy and practice developments since the publication of the House of Lords report.

- She drew attention to consumer credit developments, noting that the cap on high cost credit seems to be working well (i.e. people do not appear to be being forced into higher cost, riskier, forms of borrowing) but that more now needs to be done to consider the potential for consumer detriment and harm among other forms of credit including Rent to Buy, car finance and credit cards and overdrafts.
- Sian welcomed the move by the FCA to examine the issues inherent in credit card and overdraft charges, noting that many more people are affected by high charge overdrafts than pay day loans.
- Advice was flagged as one of the most confusing and complicated areas of financial services, with the continued need for an examination of whether, and to what extent, things are working well when people are seeking advice. As well as making financial advice more affordable, Sian emphasised the need to get the language right, and to promote a clearer definition and distinction of what we mean by regulated and non-regulated advice.
- She argued that initiatives to improve saving among low income households had not gone far enough, with the Help to Save scheme not being fit for purpose, not least because of the limits on access to savings in the first two years.

- Overall, Sian concluded that there are some positive signs of growth and development in efforts to reduce financial exclusion, but we need to build on them to ensure real, long term, change. She commented that the new Minister for financial inclusion has been 'spectacularly silent' thus far, and so it remains to be seen how much attention will be paid to this vital issue.

Professor Stephen McKay, University of Lincoln, and co-author of the latest financial inclusion monitoring report, presented the latest data on the nature and levels of financial inclusion in the UK, noting:

- Just 26 per cent of people would be able to pay a one-off expense of £200 with their own money, without dipping into savings or cutting back on essentials, while 11 per cent would not be able to pay the expense, up from 6 per cent in 2013.
- Financial difficulty appears to be hitting younger age groups hardest, with those in the 25-34 and 35-44 age groups most likely to report that they are 'just about getting by'.
- The number of adults without a transactional bank account had been steadily declining until 2012/13, but progress has stalled since then. Steve noted that this could mean we have reached a natural limit in terms of the number of account holders (indeed the most common reason given for not having a bank account, among those surveyed, was having either no money or very little money to put in it) or that more innovative approaches are needed to increase take up.
- Auto-enrolment into workplace pensions may go some way towards increasing long term financial security, but the headline figures mask the number of truly active pension scheme members.
- Stagnation in wage growth is contributing to financial insecurity, with real average weekly earnings being the same today as they were 11 years ago. Such a long period of wages not growing at all is unprecedented.
- Looking to the future, the likely rise in interest rates could be painful for those with credit commitments, while Brexit creates considerable uncertainty and we see continued pressure on benefits, particularly for those of working age.

Mr Christopher Woolard, an executive Financial Conduct Authority Board member and Director of Strategy and Competition, discussed recent initiatives by the FCA, including:

- The imminent publication, for the first time, of a new survey called *Financial Lives* which collects data from 13,000 consumers on personal finance-related issues. Mr Woolard noted that while there is a significant amount of research being done in this area, the regulator often finds that it does not get to the heart of the issues they are concerned about. The new survey is designed to remedy that problem.

- The work being carried out under the [FCA's Ageing Population strategy] in relation to the needs, vulnerabilities and preferences of older consumers.
- The issues relating to product and service design, and ways of improving them to suit the particular needs and circumstances of older consumers, reflecting the point raised by Baroness Tyler that all too often, product design is based around the standardised consumer.
- Their work on customer support which has looked specifically at potential problems with Power of Attorney, and how systems can be implemented to allow more flexible use of these powers to support better consumer outcomes.
- A general move towards looking at how firms and the regulator can adapt to the changes inherent in an ageing population, and what practical implications might stem from the work the FCA has conducted on this.

Finally, **Sir Brian Pomeroy**, Former Chair of the Financial Inclusion Taskforce and current President of the Financial Inclusion Commission, reflected on the presentations to set out his view of the priorities for financial inclusion policy going forward, noting:

- That resilience and capability are part of the bigger picture of financial inclusion; it is not just about products and services, and that there is a continued need to collect and disseminate the evidence on this to ensure continued action.
- There is still some way to go on improving the uptake of basic bank accounts given the evidence we have on the number of recent refusals for applications. Sir Brian therefore questioned whether the survey instruments used to collect this data are sufficient for capturing the problems surrounding this issue. He also suggested that it was important to carry out more mystery shopping on this issue, and that the FCA needs to step up to ensuring that these accounts are rolled out to those who qualify for them.
- The adoption of default options and 'nudge' tactics used in pension saving might be considered for other forms of saving. He noted that, politically, this may be tough to achieve, but we should not shy away from considering this as an option, alongside further efforts and initiatives to improve saving among low income households.
- There is still a long way to go for better credit rating mechanisms, and the FCA might usefully consider applying charge restrictions on other products, not just payday loans
- Brian concluded that while improvements in all these areas will require a joined-up approach from the industry, regulator, government and third sector, he emphasised that the FCA may well have gone as far as possible on the issue of financial inclusion within its current remit, and the issue of whether or not a statutory objective should be placed on them to promote this is up for debate.

The speakers prompted a lively and stimulating discussion on the issues and challenges ahead. While there was recognition of some positive steps being taken across government, the regulator and the financial services industry to reduce financial exclusion, there was an overarching consensus that much more still needs to be done. There was much anticipation for the government's response to the aforementioned House of Lords report on financial exclusion.

Danielle Walker-Palmour, Director of the Friends Provident Foundation, closed proceedings by thanking the speakers and the audience for their participation. She signalled the importance of further research in this field and suggested that this could be funded through a partnership between government, industry and research charities.

The event brought together an audience of over 60 representatives from parliament, the financial services sector, the regulator, consumer groups and the academic community.

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