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20 May 2022

# Financial inclusion

Summary

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# Summary

Broadly speaking, financial inclusion refers to the access that people have to financial services such as banking, savings, credit and insurance. There are different definitions, though.

## Financial inclusion in Government policy

Financial inclusion has been a consistent and increasingly important strand of Government policy since 1997. But tensions hidden within the broad concept have shaped the direction of policy.

The term financial inclusion fell out of use during the Conservative-Liberal Democrat Coalition Government between 2010-2015 but policies nevertheless continued this agenda. Much of this centred on banking and saving.

Since then, there has also been growing attention to how financial inclusion is combined with financial capability – that is the knowledge, skills and confidence that help people to make financial decisions.

In 2017, the Government created the post of Minister for Pensions and Financial Inclusion. Since 2018, Ministers have co-chaired a Financial Inclusion Policy Forum that meets twice a year.

Financial inclusion may come to the fore given cost-of-living pressures.

## Is financial inclusion a good thing?

More widely, there are competing arguments over the merits of financial inclusion as a policy focus. Supporters argue that increasing access to mainstream financial services is important for reducing a poverty premium faced by vulnerable groups. But critics argue that it undermines the welfare state and exposes people to the risks associated with financial markets.

# 1 Introduction

Financial inclusion is an important concept. It aims to understand and analyse individual participation within the financial system. The concept has its origins in academic research and has an impact on policy.

In 2017, the Government created the post of Minister for Pensions and Financial Inclusion.[1] Since 2018, the Economic Secretary to the Treasury and Minister for Pensions and Financial Inclusion have co-chaired a Financial Inclusion Policy Forum that meets twice a year.[2] The Forum brings together stakeholders from industry, charities and consumer groups. The Government also publishes an annual Financial Inclusion report.[3]

Although financial inclusion is an important concept, it is nevertheless controversial. Supporters of financial inclusion claim that expanding access to financial services is important for reducing poverty. Critics counter that financial inclusion exposes citizens to the risks associated with financial markets.[4] Exploring how financial inclusion has developed as a concept and in policy can aid debates by dispelling misconceptions.

1 Parliamentary Under Secretary of State (Minister for Pensions and Financial Inclusion)
2 Summary of Financial Inclusion Policy Forum meetings
3 Financial inclusion report 2018 to 2019; Financial inclusion report 2019 to 2020; HM Treasury and Department for Work and Pensions, Financial Inclusion report: 2020-2021, 2021
4 For a review of the academic literature, see R. Prabhakar, Financial Inclusion: critique and alternatives, Policy Press, 2021

# 2 Different meanings of financial inclusion

## 2.1 Access to services

"Financial exclusion" was the original preferred term for this policy area. Financial exclusion can have a variety of meanings. HM Treasury's document Promoting Financial Inclusion published in 2004 noted that:

> The term 'financial exclusion' is used in different ways. It can be a broad concept related to a lack of access to a range of financial services or a narrow concept reflecting particular circumstances such as: geographical exclusion; exclusion on the grounds that charges and prices are prohibitively high; or exclusion from marketing efforts.[5]

Academic research in geography during the 1990s is one of the roots of the attention to financial exclusion. Much of this explored the physical barriers that certain communities face in accessing banking services. For example, there may be a lack of physical bank branches in certain areas which meant that residents had to travel further to enter a bank branch.[6] This research into banking is important as it has become one of the main strands of financial inclusion policy in the UK. The study of access to bank branches also anticipates later concerns with access to cash and Automated Teller Machines (ATMs).[7]

As the scope of the concept of financial exclusion evolved, it expanded beyond issues of physical access to services to cover more general notions of economic availability. The term "financial inclusion" began to be used more commonly as the concept widened. The House of Lords Select Committee's 2017 report on financial exclusion states that:

> 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.[8]

One common definition of "financial inclusion" refers to the access that people have to mainstream financial services such as banking, savings, credit

5 HM Treasury, Promoting Financial Inclusion, 2004, p2

6 A. Leyshon and N. Thrift, Access to financial services and financial infrastructure withdrawal: problems and policies, *Area*, 1994, 26(3), pp268-75; A. Leyshon and N. Thrift, Geographies of financial exclusion: financial abandonment in Britain and the United States, Transactions of the Institute of British Geographers, 20(3), p312-341

7 For later developments see Commons Library Briefing Paper, The future of local banking services and access to cash, CBP 9453

8 House of Lords Select Committee on Financial Inclusion, Tackling financial exclusion: A country that works for everyone?, 2017, p5

and insurance. For example, the Government Financial Inclusion report 2021 states that:

> Access to cash, banking and bank accounts are the three key pillars of financial inclusion which support people as they go about their day to day lives.[9]

The link between financial inclusion and access to financial services gives rise to what is dubbed a 'supply and demand' concept of financial inclusion. The demand side focuses on citizens and consumers. The supply side refers to providers of services such as banks, building societies or credit unions.

This demand and supply idea is important as it points to the different policy options for supporting financial inclusion. If gaps in financial inclusion occur mainly because of supply side factors then the appropriate policy response ought to target financial institutions or providers through policies such as regulation. Conversely, if lack of financial inclusion occurs mainly because of demand side factors then policy might explore ways of encouraging individuals to engage more fully with financial services (for example, by enhancing the knowledge, skills and confidence of people to make financial decisions).

## 2.2 Other definitions of financial inclusion

Although access to services is perhaps the main definition of financial inclusion used within policy debates, other commentators argue that this overlooks the different resources that consumers and citizens have in their dealings with financial services.

The academics Fanny Salignac, Kristy Muir and Jade Wong argue that it is important to understand financial inclusion within a particular context. This context refers to the resources that citizens and consumers use in their dealings with financial services. For example, better-off consumers may have access to social networks that make it easier for them to understand or deal with financial institutions.[10]

9 HM Treasury and Department for Work and Pensions, Financial Inclusion report: 2020-2021, 2021, p5

10 F. Salignac, K. Muir and J. Wong, Are you really financially excluded if you choose not to be included? Insights from social exclusion, resilience and ecological systems, Journal of Social Policy, 2016, 45(2), pp. 269-86, p272

# 3 Arguments about financial inclusion

Financial inclusion has attracted both criticism and support. According to its critics, financial inclusion involves undermining the welfare state and exposing citizens and consumers to the risks associated with financial markets. For its supporters, financial inclusion reduces a poverty premium of being excluded from mainstream financial services.

## 3.1 Supporters of financial inclusion

One of the main arguments in support of financial inclusion is that this reduces a poverty premium. The poverty premium suggests that individuals face various additional costs from being excluded from financial services.[11]

In 2004, HM Treasury published Promoting Financial Inclusion, which set out examples of the poverty premium as including:

- **Higher charges for financial transactions and credit.** If people do not have a bank account then certain transactions such as money transfer may be more expensive.
- **No access to certain products or services.** Certain services require payment by direct debit. For example, cheaper fuel deals may often be available for those consumers who can pay by direct debit. Being excluded from direct debit services means that people may incur higher fuel bills and this can contribute to issues such as fuel poverty.
- **Lack of security in holding and storing money.** Those people who only use cash are more vulnerable to loss or money or theft.
- **Barriers to employment.** Most employer require a bank account for the payment of wages. Lack of a bank account can make it more difficult for people to gain employment.
- **Entrenched exclusion.** Lack of a banking or credit history can be a disadvantage when trying to access some financial services.[12]

11 See for instance House of Lords Select Committee on Financial Exclusion. Report of Session 2016-17, Tackling financial exclusion: A country that works for everyone?, 2017, p16

12 HM Treasury, Promoting Financial Inclusion, 2004, p2

## 3.2 Critics of financial inclusion

One of the key concerns voiced by critics of financial inclusion is that this agenda involves the Government shifting the responsibility for coping with risks from the state to the individual.

For example, part of the aim of the State Pension is to ensure that everyone has a regular income in retirement and so avoids falling into poverty. Governments across the world have also sought to encourage private pension saving to ensure that people have enough to live on in retirement. Critics allege that the emphasis on private pensions means that the risks of coping with possible pensioner poverty are shifted from the state to the individual. Within private pensions, people face a risk that pension investments will not guarantee enough income in retirement.[13]

A related concern is that financial inclusion turns people from citizens into the subjects of financial institutions as people are then targeted by financial institutions. People might face excess charges for goods or services or be pressed by financial providers into buying inappropriate goods or services.

13 See for example, J.S. Hacker, *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*, Second Edition, Oxford: Oxford University Press, 2019; C. Berry, Citizenship in a financialised society: financial inclusion and the state before and after the crash, *Policy and Politics*, 2015, 43(4), pp509-525

# 4 Policy developments

## 4.1 Labour Governments 1997 to 2010

Financial inclusion was an important theme of policy for the Labour Governments between 1997 and 2010.

### Policy Action Team 14: Accessing Financial Services

Within the Labour Government elected in 1997, financial exclusion was part of a wider policy concern with social exclusion. "Social exclusion" in turn referred to the ways that people could be excluded from playing a full role within society. The Social Exclusion Unit within the Cabinet Office convened Policy Action Teams to examine the different facets of exclusion.[14] Policy Action Team 14 was charged with exploring the ways that people could be excluded from mainstream financial services.

The Policy Action Team 14's report Accessing Financial Services was published in 1999.[15] It focused on three main areas – credit unions, insurance and banking services.

The report stated that about 1.5 million low income households did not have access to financial services. It argued that there were a range of reasons for this financial exclusion:

> The reasons poor people use financial services less are complex. Outright refusal by banks or other institutions to do business with them is relatively rare. More often, the problem is mismatch between potential customers' needs and the products on offer.[16]

Accessing Financial Services made a series of recommendations for each of the different areas of study. For example, for banking it proposed the development of basic bank accounts. Accessing Financial Services suggested that in around 14 per cent of households no one had a current account. Lack of a current account means that these households could not take advantage of cheaper bills available to those who could pay by direct debit and typically had to incur higher charges for access to long-term credit. It proposed that low income groups should have access to basic accounts that would allow bill payment through direct debits, allow cash or cheques to be paid in by the account holder and no risk of unauthorised overdrafts. Accessing Financial

[14] The Social Exclusion Unit, Policy Action Team reports, 2000
[15] HM Treasury, Access to Financial Services, Report of PAT 14, 1999
[16] HM Treasury, Access to Financial Services, Report of PAT 14, 1999, p1

Services suggested that banks, building societies and other financial providers should develop and support basic accounts. The basic bank accounts have come to be an important part of financial inclusion policy.

## 2004 Spending Review and Promoting Financial Inclusion

HM Treasury's 2004 Spending Review contained a commitment to tackle financial exclusion. It promised that:

> The Government will establish a new Financial Inclusion Fund to support initiatives to tackle financial exclusion, and intends to set up a new Financial Inclusion Taskforce to monitor progress towards tackling financial exclusion.[17]

HM Treasury's Pre-Budget report 2004 report stated that Government had dedicated £120 million for the Financial Inclusion Fund to support initiatives in financial inclusion over the following three years.[18]

In 2004, HM Treasury also published a document called Promoting Financial Inclusion which set out more details of the plans announced in the 2004 Spending Review and Pre-Budget report 2004. [19] It outlined the following three priorities for policy.

- **Access to banking services**

  Bank accounts are seen as an essential tool for managing daily finances. The Government pledged it would work with the banking industry to reduce the number of people without a bank account across the population.

- **Access to affordable credit**

  Those who did not have access to mainstream credit have a lack of low-cost options, can be pressured to take more debt or rely on illegal lenders. To combat this the Government promised to improve access to affordable loans and reform the consumer credit market to improve transparency and fairness.

- **Access to face-to-face money advice**

  Enhancing the knowledge, skills and confidence of people to make financial decisions is presented as a key way of supporting financial inclusion. To support this, the Government

17 HM Treasury, 2004 Spending Review. Stability, Security and Opportunity for All: Investing for Britain's long-term future, 2004, p64

18 HM Treasury, Pre-Budget 2004. Opportunity for all: The strength to take the long-term decisions for Britain, 2004, p100

19 HM Treasury, Promoting Financial Inclusion, 2004

said it would improve access to face-to-face services such as debt advice services.

## Financial capability

Financial capability covers the knowledge, skills and confidence of people to make financial decisions. The Government saw that promoting steps to improve financial capability was an important complement to measures to improve access to services. Although financial inclusion aimed to widen the access citizens and consumers have to financial services, there is no guarantee that people will feel they have the knowledge, skills and confidence to use such services. Thus, increasing attention was paid to financial capability alongside financial inclusion.

In 2007, HM Treasury published Financial Capability: the Government's long-term approach which set out plans on financial capability.[20] This document stated:

> The Government's "supply-side" strategy must be complemented with a "demand-side" focus. Simplification, competition, inclusion and regulatory initiatives will only be fully successful when consumers have the right skills and greater confidence to engage with the financial services market. It is vital for the Government to pursue an approach focused on giving people the expertise to engage with financial issues – to build financial capability.[21]

This quotation refers to the demand and supply notion of financial inclusion. It associates regulation and competition with the supply side and financial capability with the demand side.

To support financial capability, the Government originally asked the then Financial Services Authority to develop a national financial capability strategy.[22] In 2010, the Government set up the Money Advice Service as an independent organisation for improving people's money management. The Money Advice Service replaced a Consumer Financial Education Body that was set up by the Financial Services Authority.[23] The Money and Pensions Service replaced the Money Advice Service in 2019 and leads on the financial capability strategy in the UK.[24]

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20 HM Treasury, Financial Capability: the Government's long-term approach, 2007

21 HM Treasury, Financial Capability: the Government's long-term approach, 2007, p19

22 Financial Services Authority, History of the National Strategy, 2009. See also HM Treasury, FSA Strategy, 2009

23 Money Advice Service, Background, 2017; Consumer Financial Education Body, Consumer Financial Education Body (CFEB) to continue its role to help consumers understand and manage their money, 2010

24 Money and Pensions Service, UK Strategy for Financial Wellbeing, 2022

### Financial Inclusion Taskforce

The Financial Inclusion Taskforce was launched in 2005. It was charged with reviewing existing evidence on financial inclusion as well as identifying gaps in knowledge. [25]

It set out a research programme that highlighted that access to banking, affordable credit and debt advice continued to be the main strands of financial inclusion policy. It conducted evidence reviews in these three areas, publishing all research on its website, completing its work in 2011.[26]

The Financial Inclusion Taskforce's summary of its research says that it conducted evidence reviews in three main areas:

- The costs of financial distress and the advantages of access to debt advice
- The costs of banking exclusion and the advantages of access to banking services
- The costs of exclusion from credit services and the advantages of access to affordable credit

After the Financial Inclusion Taskforce was wound down, the University of Birmingham published a series of Financial Inclusion Monitoring reports that aim to provide a snapshot of financial inclusion in the UK.[27]

## 4.2 The Conservative-Liberal Democrat coalition Government 2010-2015

Financial inclusion as an explicit policy area became less important following the formation of the Conservative-Liberal Democrat Government in 2010. A Financial Inclusion Monitoring Report published by the University of Birmingham in 2016 notes:

> The term 'financial inclusion' was rarely used by the Coalition government from 2010–15 even though many policies had an impact on levels of inclusion.[28]

The Financial Inclusion Monitoring Report 2016 argues that although the term financial inclusion fell out of use during the Conservative-Liberal Democrat

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25 HM Treasury, Financial Inclusion Taskforce

26 Financial Inclusion Taskforce, Financial Inclusion Taskforce Research Programme (2005-2011), 2011

27 See for example, S.McKay and K. Rowlingson, Financial Inclusion: Annual Monitoring Report 2021, 2021

28 K. Rowlingson and S. McKay, Financial Inclusion Monitoring Report 2016, University of Birmingham, 2016, p4

coalition Government, many of its policies still advanced a financial inclusion agenda.

For example, one strand of policy concerned basic bank accounts. In 2014, the Government made an agreement with the banking industry to provide basic bank accounts that would end bank charges if a direct debit or standing order failed.[29] A press release on this agreement stated that:

> New basic bank accounts will help people who do not have a bank account or who are frozen out of existing accounts because of previous money problems.
>
> Following extensive negotiations with the banking industry to bring basic bank accounts up to scratch, nine high street banks and building societies covering over 90% of the UK current account market have agreed to offer a better deal to customers.
>
> The changes will minimise the risk that basic bank account customers will be forced into overdraft by fees or charges. [30]

Basic bank accounts contributed to policy on access to banking services and so built on one of the strands of previous financial inclusion policy.

## 4.3 Conservative Governments from 2015

One response to the lack of explicit references to financial inclusion during the Coalition Government was the creation of a Financial Inclusion Commission that aimed to raise the profile of financial inclusion in policy debates. The Financial Inclusion Commission was funded by Mastercard and staffed by experts and politicians from across the political spectrum.[31] It published a report just before the 2015 general election. This stated that:

> The Financial Inclusion Commission is an independent body of experts and parliamentarians who came together to put financial inclusion back on the political agenda ahead of the 2015 General Election.[32]

The Financial Inclusion Commission report reviewed evidence and made proposals in banking and payments, savings and pensions, credit and debt, insurance and financial capability. On leadership it recommended that the Government should establish a post for a Minister of Financial Health and to place a statutory duty on the Financial Conduct Authority to promote financial inclusion.

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29 Gov.UK., New basic fee-free bank accounts to help millions manage their money, 2015

30 Gov.UK., New basic fee-free bank accounts to help millions manage their money, 2015

31 For details of the Chair, President and Commissioners see Financial Inclusion Commission, Financial Inclusion. Improving the Financial Health of the Nation, 2015, pp50-54

32 Financial Inclusion Commission, Financial Inclusion. Improving the Financial Health of the Nation, 2015, p1

## House of Lords Select Committee on Financial Exclusion in 2017

Shortly after the publication of the Financial Inclusion Commission's report in 2015, the House of Lords convened a Select Committee on Financial Exclusion. The Committee published its report in March 2017.[33] This highlighted the importance of financial inclusion as 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.[34]

The report reviewed progress and made recommendations in access to banking services, affordable credit and advice services. This highlights that these three areas continued to define much of financial inclusion policy.

The Committee recommended that Government should take a proactive role in reducing financial exclusion:

> 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. [35]

The Committee made a set of recommendations in each of the areas of financial inclusion policy. Examples of these recommendations include:

- Banking: Government should require banks to promote basic bank accounts effectively; Government should work with the Post Office and banking to advertise the banking services available through the Post Office.

- Credit: Government should expand the scope of products that credit unions could provide to their members.

- Advice: financial education should be part of the primary school curriculum.

The Government responded in November 2017.[36] It said that it:

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33 House of Lords Select Committee on Financial Exclusion. Report of Session 2016-17, Tackling financial exclusion: A country that works for everyone?, 2017

34 House of Lords Select Committee on Financial Exclusion. Report of Session 2016-17, Tackling financial exclusion: A country that works for everyone?, 2017, p9

35 House of Lords Select Committee on Financial Exclusion. Report of Session 2016-17, Tackling financial exclusion: A country that works for everyone?, 2017, p3

36 HM Government, Government response to the final report of the Lords Select Committee on Financial Exclusion, 2017

> has decided to set up a new Financial Inclusion Policy Forum which will enable ministers to take strategic, cross-government approach on action to improve financial inclusion. The Forum will be co-chaired by the Economic Secretary and the Minister for Pensions and Financial Inclusion … The Forum will also have representatives from the financial services regulators, industry and consumer groups (including from the Financial Inclusion Commission) in order to maintain an open and constructive dialogue. The Forum will meet formally on a biannual basis.[37]

## Minister for Pensions and Financial Inclusion Policy and Financial Inclusion Policy Forum

The Government created the new post of Minister for Pensions and Financial Inclusion in June 2017. Guy Opperman MP was appointed as the first Minister for Pensions and Financial Inclusion on 14 June 2017.[38]

The Government also created a Financial Inclusion Policy Forum which had its first meeting in March 2018 and meets twice a year. The Forum includes participants drawn from banking, debt advice charities, credit unions and academia.[39] Minutes of the meetings of the Financial Inclusion Policy Forum are published on the GOV.UK website.[40]

## House of Lords follow-up report

A follow-up report to the House of Lords Select Committee on Financial Exclusion's 2017 report was published in 2021 as part of new processes initiated by the House of Lords Liaison Committee.[41]

The follow-up report focused on access to cash, banking, credit, saving, debt advice and financial education. It recommended the Government to publish a financial inclusion strategy:

> The Committee believes that the Financial Inclusion Policy Forum provides a valuable forum for discussion, however it cannot be a substitute for an overall strategy. The Committee maintains its position that such a strategy must be presented to Parliament as a Command Paper within 12 months of the publication of this report to allow for Parliamentary scrutiny.[42]

The Government published its response in June 2021, noting the role of the forum in discussing and documenting relevant issues. It resisted the idea of

37 HM Government, Government response to the final report of the Lords Select Committee on Financial Exclusion, 2017, p19

38 Parliamentary Under Secretary of State (Minister for Pensions and Financial Inclusion).

39 For details of the membership of the first meeting of the Financial Inclusion Policy Forum, see First meeting of the Financial Inclusion Policy Forum

40 Summary of Financial Inclusion Policy Forum Meetings

41 House of Lords Liaison Committee, Tackling Financial Exclusion: A country that works for everyone? Follow-up report (10th report, Session 2019-21), 2021

42 House of Lords Liaison Committee, Tackling Financial Exclusion: A country that works for everyone? Follow-up report (10th report, Session 2019-21), 2021, p33

establishing a wider strategy but agreed to include more details of plans in future annual financial inclusion reports:[43]

> Whilst publishing a further strategic document would be resource intensive and bear significant risk of duplication with existing activities, the Government recognises the importance of continuing to share our vision and plan for financial inclusion. Therefore, the Government will ensure the annual Financial Inclusion Report includes, in addition to the recent achievements, our plans for ongoing and upcoming activities to reduce financial exclusion going forward. This year's report will be published in Autumn on gov.uk.[44]

43 Government Response: "Tackling Financial Exclusion: A country that works for everyone? Follow-up report", 2021

44 Government Response: "Tackling Financial Exclusion: A country that works for everyone? Follow-up report", 2021, p16

# 5 Challenges facing financial inclusion

## 5.1 Cost-of-living pressures

Cost-of-living pressures are likely to be important in and beyond 2022. This creates a challenge for financial inclusion as cost of living pressures will feed into pressures on household budgets.[45]

One such pressure concerns the income and wealth available to households. Policy actors such as the Financial Inclusion Commission liken financial inclusion to being connected to the 'financial mains'. Cost-of-living pressures may mean that the debate focuses as much on the money available to households as on being linked to the financial mains.

## 5.2 Linking demand and supply

A demand and supply idea continues to inform the concept of financial inclusion. The attention to regulation as well as financial capability highlights how demand and supply feature in different parts of financial inclusion policy. One way that policy may develop is for these demand and supply sides to be blended more closely.

For example, the Financial Conduct Authority has a research programme on the fair treatment of vulnerable consumers that explores how regulation might encourage organisations to treat vulnerable consumers fairly, as well as the support that might be given to vulnerable consumers to enhance their knowledge, skills and confidence to make financial decisions.[46]

[45] Commons Library Briefing Paper Rising cost of living in the UK CBP 9428
[46] Financial Conduct Authority, Treating vulnerable consumers fairly, 2021