HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

Number 01397, 15 December 2017

Financial Inclusion (Exclusion)

By Timothy Edmonds

Contents:

Contents

Summary

This note outlines the development of government efforts to combat financial exclusion and to promote inclusion.

Financial inclusion has been linked to various policy strands including improving financial literacy, reducing the influence of 'loan sharks' and payday lenders and supporting credit unions and the Post Office. Recently attention has widened on the impact of an ageing population and the increased role that digital delivery of services plays in both improving and worsening inclusion. A variety of policy strands have been tried with some notable successes. The policy is broadly supported by all parties.

An independent Financial Inclusion Commission was set up before the 2015 General Election.

There is an excellent House of Lords Committee Report into financial exclusion, published in March 2017.

1. Introduction

Financial Inclusion (FI) was defined in 2017 by the Government as meaning:

> 'Financial inclusion' means that individuals, regardless of their background or income, have access to useful and affordable financial products and services. This definition is in line with the World Bank's definition of financial inclusion and contrasts with 'financial exclusion' where financial services and products are not available or affordable. This definition is supply-focused and captures banking, insurance, pensions and savings products, credit, transactions and payment systems, and the use of financial technology.[1]

In the late 1990s financial exclusion[2] was just one of several expressions of 'exclusion', which were the focus of the work of the Social Exclusion Unit set up in December 1997 to drive forward the Government's work on tackling social exclusion. It worked on a topic by topic basis, looking at intractable problems and those which involved different Government departments.

Prior to the 2015 General Election an independent Financial Inclusion Commission was established, comprising of government, industry, regulators and third sector representatives.

The subject is also of interest to the Financial Conduct Authority which has commissioned research into Financial Inclusion. It is quite notable that between the original Social Exclusion focus on disadvantage and poverty as being the core driver of exclusion, this later work looks at a broader range of issues including regulatory exclusion, ageing and access to, or capability with, digital networks.

1.1 The problem of financial exclusion

Early Analysis and Action

The scope and scale of the problem of financial exclusion was set out in a report published by a Treasury Policy Action Team (PAT) in November 1999. The team estimated that about 1.5 million low income households used no financial services. This represented over two million adults, mostly not in employment, living on benefits and social housing tenants. Several reasons were given for the phenomenon:

The reasons why 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, or the cost of those products.

---

1 Government response to Lords Select Committee final report on financial exclusion, Cm 9524, November 2017

2 At some point in the policy process, the problem of financial *exclusion* became the policy initiative of financial *inclusion.* Since government statements and publications no longer distinguish between problem and solution, but refer solely to inclusion, this note will refer to inclusion throughout.

People in poor neighbourhoods may make little use of financial services for reasons that are related to the area itself. Where crime rates are high, property insurance, both household and business, may be unaffordable. Remoteness from major commercial centres, and the withdrawal of financial service outlets from poor communities, may be factors in low income households' non-use of mainstream institutions. The development of new delivery channels can overcome this factor. There is no single solution: again, diversity is of the essence.[3]

The PAT Report highlighted three main avenues for progress. First, encourage credit unions:

> credit unions can make a difference because they:
>
> - are open to low income groups;
> - encourage small scale savings;
> - provide low cost credit; and
> - can be a bridge to other financial services.[4]

Second, extend access to insurance:

> People in deprived communities often do not use house contents insurance, because of cost, restrictive policy conditions, inconvenient payment methods and lack of information. They find that life assurance deals turn bad when job loss means they can no longer afford the premiums, but cashing in the policy gives them a poor financial return. Door-to-door collection of insurance premiums is in decline, but payment by cheque or direct debit is impossible for people without bank accounts.[5]

Third, extend banking services:

> Banking has expanded enormously over the last twenty years, but in nearly one in ten households still nobody has a bank or building society account. For these people, paying bills, handling cheques and getting access to affordable credit are all more difficult and often more expensive than for those that do have them.
>
> […]
>
> The Government's decision to pay benefits by automated credit transfer and to computerise the network of post offices is going to make a huge difference. Paying benefits the new way will increase the demand for banking and other financial services, ranging from conventional current accounts to more limited facilities. Computerisation will provide a platform for the post office to be an alternative delivery channel for every community.[6]

Financial inclusion (FI), as a policy, was taken forward significantly by the pre-Budget statement of 2 December 2004. In this speech the then Chancellor, Gordon Brown, announced that:

> the banks and Government have agreed to work together to reduce by half the number of families without bank accounts. To expedite this, we are setting aside £120 million to tackle financial inclusion, including more face-to-face money advice, supporting local citizens advice bureaux, support for not-for-profit lenders

3 Treasury Policy Action Team 14, Financial Inclusion, p 1, November 1999
4 ibid p 1
5 ibid p2
6 ibid p3

> and with the possible extension of the community investment tax relief.[7]

Accompanying the statement the Treasury published – *Promoting Financial Inclusion*- which sets out possible solutions. Principal amongst these was the establishment of the Financial Inclusion Taskforce (FIT) to monitor progress against Government objectives and a Financial Inclusion Fund (FIF) which would spend the £120 million allocated to it over three years to support FI initiatives.

A follow –up document was produced by the Treasury in March 2007 – *Financial Inclusion: the way forward*. This document set out the Government's three FI priorities:

> that everyone should be able to manage their money effectively and securely, through having access to a bank account, and the confidence and capability to get the most from it;
>
> everyone should be able to plan for the future with a reasonable degree of security. Therefore, affordable credit, saving accounts and simple insurance products should be available to all who need them; and
>
> everyone should have the information, support and confidence they need to prevent avoidable financial difficulty, and to know where to turn if they do find themselves in financial distress.[8]

It is also good summary of progress on the many and varied fronts that were brought under the FI umbrella. The Financial Inclusion Fund was extended to cover the 2008-2011 public expenditure planning period.

Current state of FI

Outside of government, an independent Financial Inclusion Commission was set up before the 2015 General Election. Its work and Reports can be found on its website. In its 'the Facts' section, which represents the situation at around 2012 – 2014, the Commission state:

2. **Banking**

- Internationally, the UK is ranked ninth in the world in terms of banking inclusion by the World Bank [1]
- 1.5 million adults remain unbanked in Britain today.
- Only about half of the unbanked would like a bank account.
- Some 50% of the newly banked have incurred penalty fees, with those affected averaging 5.6 charges per year. 26% of the newly banked are 'net losers', incurring more penalty charges than they have gained in savings.
- Around half of people with a basic bank account choose to manage their money in cash.

3. **Credit**

- An estimated two million people took out a high-cost loan in 2012 as they were unable to access any other form of credit.

---

[7] HC Deb 2 December 2004 c787

[8] Ibid p 23

- It is estimated that between three million to seven million households use high-cost credit.

4. **Savings**

- There are 13 million people in the UK who do not have enough savings to support them for one month if they experienced a 25% cut in income.

5. **Insurance**

- Half of households in the bottom half of the income distribution lack home contents insurance, compared with one in five households on average incomes.
- Households with no home contents insurance were more than three times as likely to be burgled than those with insurance.

In a 2016 Occasional Paper - *Access to Financial Services in the UK* – published on behalf of the Financial Conduct Authority (FCA), the Report's authors used a broader range of indicators to demonstrate exclusion than previous studies had done, especially the 1999 work which was an offshoot of broader social exclusion concerns.

The Report looked at FI through the lens of five major social and technological trends:

- digital transformation
- compliance and crime prevention
- automated processes in the credit market;
- increasingly segmented markets for insurance
- an ageing population

Some of the social, non-finance specific, aspects of FI problems it highlighted included:

- Living in those rural areas of the UK that still have poor internet access makes it difficult or impossible for people to manage their money online; and lack of even basic digital skills limits use of online financial services.
- Not having a passport or a driving licence causes consumers problems in getting a bank account, as these are the typical standard documents used by banks to verify identity.
- Consumers with no permanent address or who move often can have problems opening bank accounts and gaining access to credit, as this affects bank verification of their details. This particularly affects members of the Armed Forces and people renting privately.
- Poor access to insurance for those aged 65 and over and people who are disabled or who have experienced serious illness.[9]

---

[9] FCA; *Access to Financial Services in the UK*; May 2016

Widening the sorts of access issues inevitably widens the scale of the problem. The Report highlights typical access blockers, or instances where access may be difficult, for different groups

- 12 million people live in rural or remote areas of the UK (digital connectivity)
- 9.5 million people have a lack of even basic online skills is likely to limit their use of online financial services (digital connectivity)
- 9.5 million usual residents in England and Wales did not have a passport. In England in 2014, 27 per cent (or 12 million) of residents did not have a driving licence. 153,720 people serving in the regular Armed Forces who only have a British Forces Post Office address (proving identity)
- There are 14.9 million people in the UK aged 60 or over, including 12.4 million who have reached state pension age, and 1.5 million people are aged 85 or over (access to affordable financial services such as housing equity and access to general insurance).

The House of Lords Select committee on Financial Exclusion published its Report - *Tackling financial exclusion: A country that works for everyone?* - in March 2017. Its indicators of financial exclusion included:

- 1.71 million adults do not have a bank account
- 40% of the working age population have less than £100 savings
- 93% of those over 80 do not use internet banking

The next section of this paper deals with individual initiatives and progress achieved on them.

6. Initiatives and progress

6.1 Post Office banking

FI became linked to other policy decisions such as the means of delivery of social security benefits and pensions and as a way to support post offices. As far back as the mid-1990s, plans were afoot to computerise the Post Office network and automate the payment of social security benefits. This was called the Horizon plan. Government invested £480 million in automation through the Horizon project to install computer terminals and PIN pads for universal banking in all post offices operated by the cashier on the front desk. The supposed goal of Horizon, however, underwent several changes. First, it was to provide a magnetic strip benefit payment card. This was scrapped in favour of a broader smart card service and new banking technology. Ultimately, it became clear that instead of a swipe card the new system of benefit payments would be by Automated Credit Transfer (ACT) which would bypass the Horizon system (Mark I).

Thus, there was a scenario building of a system with no central aim. This conundrum was solved by the introduction of 'Universal banking': the term for a new range of financial services introduced at post offices. The first step was to make the Post Office card account (POCA) and high street banks' basic bank accounts available electronically. This was launched in post offices in April 2003.

Plans for a 'Universal Bank' were driven by a number of factors, including the contraction of the retail bank network – particularly in rural and deprived inner city areas - but a desire to promote financial inclusion was chief amongst them. In December 2000, the Trade Secretary said:[10]

> Universal Banking Services will provide a range of banking services which will cater for as wide a range of customers as possible. It will bring those people currently without bank accounts into the financial mainstream by offering basic bank accounts but without overdraft or borrowing facilities.

The system was in operation in April 2003 and Postcomm highlighted the opportunities offered by this new development:[11]

> Opening up Post Offices to a range of banking services is a vital move for the future of Post Office Ltd and presents a great opportunity. It is impressive that about 19 million people can now, if they wish, access their bank accounts electronically across Post Office counters.

The Post Office card account (POCA) was developed by Post Office Ltd[12] to act as a 'simple' banking vehicle whereby these customers could obtain these benefits if they could not, or did not wish to, use any other

---

10 DTI press release P/2000/860 20 December 2000

11 Postcomm's third annual report on the post office network, Banking on the future July 2003

12 Offered by J. P. Morgan Europe Ltd through Post Office Ltd.

kind of banking account. POCAs allow holders, or a nominated helper, to take cash out, free of charge, at any Post Office branch using a plastic card. It cannot be used for any purpose other than to receive benefit payments. For example, it cannot be used to obtain cash from ATMs or to pay bills, either directly or by direct debit, and it carries no overdraft facility. It is the electronic equivalent of the old benefits order book.[13]

The continued success of the universal concept was brought up short when, in January 2006, it became apparent that the DWP would not be renewing its contract with Post Office Ltd after the end of the current contract, all but bringing an end to the Post Office card account (POCA) in its current form.[14]

Following extensive criticism of its decision to terminate the contract with Post Office Ltd in the House and elsewhere,[15] the Government announced that it had:[16]

> decided that a new account will succeed it [POCA] after 2010. It will be available nationally and customers will be eligible for the account on the same basis as they are now. I can confirm that the Department for Work and Pensions will today invite tenders for a successor to the Post Office card account to be available nationally, and customers will be eligible for that account on the same basis as they are now.[17] Customers using the successor product should be able to get their cash at ATMs, as well as across the counter. It is our aim that the opening of the new accounts will be streamlined and the process made simpler for customers. The Government remain committed to allowing people to get their pension or benefit in cash at the post office if they choose to do so, and there is a range of Post Office accounts available, including the Post Office card account, to make that possible.
>
> The DWP subsequently undertook a procurement exercise for a successor to the POCA – the Government Card Account Banking Service. In a statement to the House on 13 November 2008, the then Government stated that it had decided to cancel the procurement exercise and award the new contract to Post Office Ltd to run initially from April 2010 and March 2015.[18]

6.2 Basic bank accounts

Another strand to FI was the introduction of 'basic bank accounts' (basics). These were bank accounts with the main providers but which would have limited range of features. They would fulfil most transactional needs but loans or overdrafts might not be available.

Eligibility and functionality conditions are set out below:

[13] www.royalmail.com/portal/po/content1?mediaId=19200177&catId=19100189
[14] Age Concern, The Age Agenda 2006, March 2006
[15] For example, see Trade and Industry Committee, *Royal Mail Group*, Ninth Report of Session 2005–06, HC 1556-I and HC Deb 24 Oct 2006 c1493
[16] HC Deb 17 May 2007 c754
[17] The tender was placed in the OJEU as 2007/S 95-117089
[18] More details about the Post Office Card Account can be found in another Library Standard Note SN/EP/3913

Eligibility

In order to qualify for a basic, the customer must fulfil at least one of the following criteria:

- Unbanked customers who are ineligible for a full-service account
- Customers banked elsewhere who want to switch providers and are ineligible for a full-service account
- Banked customers in financial difficulty who require an additional account but are ineligible for a full-service account (regardless of whether their existing account is with the Bank or another provider).

Standard Functions

A basic bank account allows customers to:

- Have wages, benefits, State pension or tax credits paid directly into their account
- Pay in cheques for free
- Take money out at cash machines with a cash card
- Withdraw money at a Post Office
- Withdraw money at any/all branches of the relevant retail bank
- Pay bills by Direct Debit*
- Make card payments (including online)

Between 2010 and 2013 the number of basics stood at roughly 9.3 million, of which almost 9 million were accessible at post offices. This is not a constant population. Many (over half a million) 'basics' were upgraded over the period to become full bank accounts.

There was a major change in the provision of basics at the end of 2014.

In December 2014 it was announced that an agreement had been reached between the banks and the government to broaden the scope of the basic account, in particular to remove some of the potential fees and charges associated with short term unavoidable borrowing.[19]

Some participating institutions had sought to reduce the costs of providing basic accounts, including limiting access to ATMs, or charging significant fees when direct debits or standing orders failed. Those charges were in some cases very high and as a consequence some basic account customers developed significant overdrafts that left many unable to use their accounts and effectively unbanked. The intended introduction of Universal Credit, which requires claimants to have a transactional bank account (e.g. that can be used to pay rent by direct debit) brought this issue into sharp relief as a public policy matter and hence the involvement of government.

19 BBA news release December 2014

Since the beginning of 2016, all the main participating banks have offered basic accounts that are fee-free for standard operations, including a failed payment, removing the risk that customers run up unintended overdrafts. Basic account customers are able to use the same services (e.g. ATM and Post Office counter access) as the institution's other personal current account customers. Hence they are able to act as conduits for universal credit payments.

Further to this, this agreement was also the way in which the government sought to meet its obligations under the Payments Accounts Directive (PAD).

Under PAD, consumers legally resident in the EU who met certain eligibility criteria have a right to open and use a basic account. PAD does not require every credit institution to offer basic accounts, however, member states must ensure that they are provided to consumers by a sufficient number of firms to guarantee access for all consumers and prevent distortions of competition. The legislation implementing PAD was the Payment Accounts Regulations 2015 which came into force in September 2016.

According to government data published in December 2017 "At 30 June 2017, 4,797,142 basic bank accounts that were consistent with the standards were open at designated institutions". There are nearly 8 million basics that meet these and all previous standards.

6.3 ATMs

The issue of the availability of free at the point of use ATM machines came to prominence in 2005. A critical campaign in the press against the rise in the number of machines that charged for cash dispensing was taken up by the Treasury Committee in an enquiry which reported in March 2005.[20] The FI link was that the number of free machines was higher in more affluent areas and, since poorer people had less access to credit cards and debit cards, cash was a commoner form of payment medium for them. Further, since such people generally took out small amounts of money at regular intervals and ATM charges tend to be per transaction, the cost of withdrawing money was disproportionately higher on low income groups. The 2007 Report continues the story:

In May 2006, the Treasury invited Treasury Select Committee (TSC) chair John McFall MP to lead a working group on ATMs. The group found that a small but significant number of areas are currently without convenient access to free ATMs, and concluded that around 600 new free ATMs would effectively meet this gap. The group also found that transparency rules did not meet an "at-a-glance" standard. The group's December 2006 report announced:

- commitments by several ATM operators to supply free ATMs in low-income areas identified by the Working Group as lacking convenient access;

[20] Treasury Committee, Cash Machine Charges HC 191 2004-05

> - a market-based financial incentive to encourage operators to place or retain free ATMs in deprived areas; and
> - an agreement to strengthen transparency rules for charging ATMs, so that customers can immediately distinguish them from free ATMs.
>
> 3.16 The Economic Secretary to the Treasury has written jointly with John McFall MP to all local authorities and Members of Parliament, inviting them to consider suitable sites for free ATMs in key low-income areas. LINK (the national ATM network) has recently reported that nearly 400 of the new ATMs are either in place, or under contract for installation.[21]

A programme of identification of areas and commitment of resources by the providers followed. This is described thus on the Link website:

> In December 2006 just over 1,700 Super Output Areas were identified as having no free cash machines and therefore priority target areas for new free-to-use ATMs if suitable sites could be found. Since then, changes to the various measures of deprivation has meant that there are now 1,694 priority target areas. Super Output Areas are a geographic hierarchy defined by the Office of National Statistics. There are 41,766 across the whole of the UK. See www.statistics.gov.uk/geography/soa.asp.[22]

The subsidy scheme is described on the Link website:

> It works by subsidising the lowest income area of the country to ensure that all have at least one free atm. The subsidy is paid via a 10p interchange premium available to any low-income area that doesn't have a free ATM within a kilometre distance. This has proven very successful in incentivising operators to provide free ATMs across the country.
>
> As part of development of interchange, LINK is exploring increasing the maximum amount of the subsidy to 30p and expanding the scope to the whole of the UK. This is to ensure that consumers maintain access to the same footprint of free ATMs as now for many years to come, despite declining usage of cash. It means that that changes to interchange or consumer cash usage will not give a reason to withdraw or turn surcharging any community's ATM.

In 2016 Link produced its 10 year Anniversary Financial Inclusion Programme pamphlet. It points out that the original identification of sites in 2006 resulted in 1,503 new ATMs in deprived areas. There was a further assessment based on new criteria in 2015 which has resulted in a further 324 ATMS, giving a total of 1,827 new ATMs.

More sites continue to be resolved supported by the launch of 'Suggest a Site' facility on the LINK website. This facility, launched in 2013 provides members of the public with an opportunity to nominate a site for a free cash machine which LINK then takes forward with the membership.

Since 2011, £830,000 has been paid for by the LINK members to subsidise free machines in the most deprived areas. It has remained

[21] HM Treasury, Financial Inclusion: the way forward, March 2007 p29
[22] LINK system website

broadly flat since then; 2012 was £810,000, with a forecast for 2013 of £823,000.

There are criteria by which a machine qualifies for the incentive e.g. distance from next nearest free machine, volumes of transactions being below a certain level. Over time, machines that are installed remain in situ for consumers but because transactions volumes rise or other machines are installed nearby they no longer need the premium to continue hence why the number of free machines is at an all-time high yet the subsidy remains broadly flat.

Data on the progress of the roll-out of new free machines by region is shown in the table below:

Provision of ATMs in deprived areas

	Deprived areas identified	with ATMs	% covered
North East	296	178	60%
North West	465	320	69%
West Midlands	292	204	70%
South West	74	61	82%
South East	112	73	65%
London	135	117	87%
Eastern	79	56	71%
East Midlands	158	120	76%
Yorkshire and Humber	301	212	70%
Scotland	222	201	91%
N. Ireland	76	75	99%
Wales	441	210	48%

Source: Link

For Members concerned about the provision of ATMs in a specific area Link has an ATM locator which can be searched by a variety of filters and it shows coverage by constituency.

6.4 Credit Unions

Credit unions have been seen to be instrumental in bringing in the ‘unbanked’ and for providing socially superior credit facilities than alternatives such as pay day lending which might be the only legal alternative for people without access to banks.

This fund supports lending in the third sector. In November 2006 then Minister for Work and Pensions, James Plaskett, gave the following information about the Growth Fund:

> My right hon. Friend the Chancellor of the Exchequer announced the Growth Fund in October 2005. £34 million of the £36 million fund has now been allocated to 71 organisations (mostly credit unions) that are currently delivering the affordable credit service. We expect to commit the remainder of the fund by November,

> when agreements are finalised with those organisations that were not ready to start delivery of the service until January 2007. At 30 September, over 1,300 loans with a total value of over £500,000 had already been issued to financially excluded people.[23]

According to the *2007 Pre-Budget Report, Comprehensive Spending Review,* "over 100 credit unions and community development finance institutions have now received funding from the Growth Fund".[24] The subject of third sector lending is being examined within this framework by the establishment of a FITF Working Group with senior banking representatives to consider how to achieve a nationwide increase in the coverage and capacity of third sector lenders.

The original PAT14 study concluded that social lending, especially credit unions should be encouraged:

> PAT 14 found that credit unions can make a difference because they:
>
> - are open to low income groups;
> - encourage small scale savings;
> - provide low cost credit; and
> - can be a bridge to other financial services.
>
> But the movement covers only a fraction of 1 percent of the population and the credit unions serving poor communities are often making only a limited impact at local level.[25]

It is generally accepted that growth fund money has had a significant impact on credit unions' ability to lend. An assessment of the success of the Growth Fund was published by the Treasury in January 2011.[26]

The attractiveness of the credit union movement carried over with the change of government in 2010. The Coalition Government brought to a close the Growth Fund initiative but then rolled out a replacement. It involves £38 million of funding over three years to help credit unions expand and modernise. It was announced on 27 June 2012 by the Department for Work and Pensions Minister Steve Webb. He said:

> On 10 May 2012, the Department for Work and Pensions published the credit union feasibility study looking at the sustainability of credit unions. It also examined what more can be done to expand them to serve many more people on lower incomes. The study has been well received by the sector and a range of stakeholders.
>
> Credit unions are doing a good job offering access to credit and other financial services for people on lower incomes. They provide a real alternative to higher cost credit available from the commercial sector and illegal loan sharks. Therefore, if credit unions are ready for the challenge of modernisation and expansion we are willing to support them. Today, I am announcing that the Government will take forward the findings of the feasibility study. In particular, the DWP will make a further investment of up to £38 million over the next three years in credit

---

23 HC Deb 7 November 2006 c 1025w
24 Cm 7227 p 84
25 ibid p 1
26 Evaluation of the Financial Inclusion Growth Fund, HM Treasury, January 2011

> unions. This investment, which is in addition to the £13 million we invested in 2011-12, will be conditional upon the credit union industry meeting a number of agreed milestones for collaboration, modernisation and expansion. Our aim will be to ensure the industry's financial sustainability by the end of the project.[27]

The project was delivered through the Association of British Credit Unions (ABCUL) which was awarded the contract in April 2013.[28] In a speech given to the all party credit union group to coincide with this the Minister mentioned the previous government aid:

> DWP supported credit unions with £113m between 2006 and 2012. Government invested in over 150 credit unions, which made over 610k loans with a value of £274m, and saved people over £250m in interest charges[29]

In June 2014, to mark the 50th anniversary of credit unions in Great Britain, the Treasury launched a 'call for evidence on the future of the credit unions sector'. Its response to representations was published in December 2014. The conclusions of the Conservative government were both a continuation of the traditional wisdom about credit unions but in other ways it marked something of a new departure..

It did not press the case for credit unions to become bigger and more professional competitors with other providers:[30]

> The government recognises the diversity in the credit union movement and welcomes credit unions of different sizes and approaches. Some credit unions wish to remain at their current size and do not wish to expand; the government welcomes the important work such institutions do for their members. However, the government is concerned that the legislative and regulatory framework may be unnecessarily holding back those that want to expand and innovate. Equally, the government will not offer revenue support to credit unions that are operating an unstainable business model.

And,

> In line with many of the responses to the consultation, the government agrees that credit unions cannot simply serve the financially excluded but must attract a broader membership base to be successful and become self-sustaining in the longer term. The government also accepts that credit unions are not always a direct alternative to high-cost, short term lenders. Credit unions are community focussed financial institutions that can serve a wide range of people, rather than just the financially vulnerable within that community.

Significantly, for the first time there was reluctance to provide general financial support:

> the government does not intend to provide revenue support to credit unions; this approach has been tried in the past and risks offering support for unsustainable business models, which will then struggle to survive once the support is ended. In line with this approach, the government will only consider providing

---

27 HC Deb 27 June 2013 c19WS
28 HC Deb 16 April 2013 29WS
29 Speech to All Party Group on Credit Unions, Lord Freud, 22 April 2013
30 HM Treasury; *British credit unions at 50: response to the call for evidence*; December 2014

funding for credit unions linked to specific outcomes, as has been the case with the Credit Union Expansion Project (CUEP).

6.5 Financial capability and education

An important arm of the FI policy is to improve individuals' financial literacy. The collapse of the Farepak savings scheme in 2006 exposed a lack of knowledge of even basic alternative savings vehicles which, on most criterion, would provide better financial returns and security.

Dealing with this lack of basic knowledge of financial matters was the work of the National Strategy on Financial Capability, which had been set up in 2003. Details of its work were set out in the annual *Tackling Over-Indebtedness* Report.

The then Financial Services Authority led the National Strategy in partnership with Government, the financial services industry and the third sector. It published a major capability survey in March 2006, which showed that many consumers lacked the confidence and capability to make effective decisions about their money. Following the survey the FSA initiated a seven-point programme designed to improve significantly people's levels of financial capability and, together with its partners, the FSA has focused on delivering these priority initiatives.[31]

The various information flows and channels of support were being brought together under the heading of the money-guidance project. A pathfinder project, being taken forward by a number of organisations, such as Citizens Advice, began to flesh out how the service would be delivered. This had been established in response to the recommendations of the Thoresen Review into *Generic Financial Advice*, commissioned by HM Treasury in 2007.[32]

In January 2009 the Treasury and FSA announced that the pathfinder would be taken forward nationally as **Money Guidance**.[33]

This direction of travel, if not the content of the work stream itself, was interrupted by measures contained in the *Financial Services Act 2010*. Passed just before the 2010 General Election. Section 2 of the Act placed on the FSA a new, enhanced duty of improving the 'understanding and knowledge of members of the public of financial matters'. A further structural change was made. Under the same section, the FSA was required to establish a separate 'consumer financial education body' (CFEB) which would take forward the work previously envisaged to be carried forward by the FSA itself in conjunction with its Money Guidance Service partners.

CEFB was set up in April 2010, (largely a transfer of staff and functions from the FSA Financial Capability division) and then became the new **Money Advice Service** a year later. Details about the organisation and its work can be found on its website.

31 Tackling Over-indebtedness Annual Report, *BERR 2007*
32 Thoresen Review of Generic Financial Advice - HM Treasury
33 FSA press release 13 January 2009

In March 2015, the Independent Review of the Money Advice Service conducted by Christine Farnish, broadly endorsed the work of MAS made recommendations designed to make it stronger, more effective and better value for money:

> MAS has two important jobs to do: helping people who face problem debt get the help they need, and helping consumers understand financial services and make better decisions.
>
> […]
>
> On financial capability we see MAS following a not dissimilar model – as facilitator and coordinator of work by others, and as provider or commissioner where there are gaps. MAS should step back from much of its website provision, where it duplicates good quality content available elsewhere. Instead MAS should step in to fill gaps, and work with intermediaries, product providers, consumer groups and the media to help consumers make better financial decisions.
>
> MAS should do more to support financial education in schools. MAS is uniquely placed to coordinate the wide range of existing initiatives and strengthen their benefits to teachers and pupils.
>
> In developing its role MAS should coordinate more closely with the FCA and help make markets work better for consumers in the unregulated information and generic advice sector. I also recommend that the accountability regime for MAS should be strengthened, and suggest some short term measures to help achieve this.[34]

As well as MAS, there are also advisory services for pensions – important bodies in the light of the pensions freedoms announced in recent years – the Pensions Advisory Service (TPAS) set up in 2004 and Pension Wise which was set up under the *Pension Schemes Act 2015*.

On 12 October 2015, HM Treasury launched a consultation on public financial guidance, to run alongside the FCA's Financial Advice Market Review – which was a wider consultation – considering questions on the definition and scope of financial advice and guidance and closing the gap.[35]

The Government said it believed there was an ongoing need for public financial guidance for consumers but wanted to explore how this was best targeted, delivered and funded.[36]

The Government said there were a number of bodies involved in the delivery of pension guidance – the Pensions Advisory Service, the Money Advice Service and Pension Wise. These services were funded by three different levies.[37] It asked whether there was an opportunity to rationalise delivery and funding and to make services more joined-up.

The initial outcome of this review was published (alongside the Budget) in March 2016, with the Government consulting on proposals to replace

34 Review of the Money Advice Service, March 2015
35 Gov.UK, Consultation: public financial guidance; HM Treasury, Public financial guidance: consultation, October 2015, para 1.5
36 Ibid, para 1.2
37 Ibid, chapter 3

the three existing organisations with two new bodies – a new money guidance body and a new pensions guidance body.[38]

The consultation on the single financial guidance body (SFGB) was launched in December 2016. The Government said a single body would be better able to respond to the needs of consumers. It would:

> […] bring together pensions guidance, money guidance and debt advice in one place, delivering and commissioning specific services to ensure that as many consumers as possible receive high-quality, impartial financial guidance. The body will have a strategic function, focusing on ensuring that the market understands and meets consumer demand, delivers value for money, and scales up financial capability projects that have been proven to work. With the exception of debt advice, the new body will not fund regulated financial advice, but will signpost consumers to other providers to ensure that consumers' guidance and advice needs are met.[39]

The new body would be launched no earlier than autumn 2018.[40]

In its response to the consultation in July 2017, the Government summarised its key proposals as follows:

1. the establishment of a new single financial guidance body to replace MAS, TPAS and Pension Wise
2. the provision of funding to the devolved authorities for the cost of their locally commissioned debt advice
3. the single financial guidance body will have four core functions:
    a) the provision of debt advice in England
    b) the provision of money guidance across the UK
    c) the provision of pensions guidance across the UK
    d) to work with others in the financial services industry, the devolved administrations, and the public and voluntary sectors to support the coordination and development of a national strategy in three key areas:
        - to improve people's financial capability
        - to improve the ability of members of the public to manage debt
4. to improve the provision of financial education to children and young people.[41]

The future role of the single guidance body was discussed in a debate in the House on 7 December 2017.

[38] Gov. UK – Public financial guidance review: proposal for consultation
[39] HM Treasury, Public financial guidance review: consultation on a single body, December 2016
[40] Ibid
[41] HM Treasury, Single financial guidance body: response to the consultation, July 2017

7. Resources

The subject is well covered by resources:

Financial Inclusion Commission produces an annual report on its work and research into underlying issues. Its most significant recent work was its 2015 Report -*Improving The Financial Health Of The Nation*

The Joseph Rowntree Foundation produces an annual Report called *Monitoring poverty and social exclusion*. The 2016 edition is available here.

The House of Lords Select committee on Financial Exclusion published its Report - *Tackling financial exclusion: A country that works for everyone?* - in March 2017.

Karen Rowlingson and Stephen MCKay have produced four, of a series of five, annual monitoring reports commissioned by the Friends Provident Foundation. The latest is *Financial Inclusion Annual Monitoring Report 2016*.

The Finance Foundation has written a Report specifically about older people and financial inclusion: *When I'm 84". Locking the door on the Older Old – the Challenge Facing Britain's Banks*