



Financial Inclusion: More important than ever

Report for the Budget 2009

The Financial Inclusion Taskforce

1. The Financial Inclusion Taskforce was established by HM Treasury in February 2005 and our terms of reference extend to 2011. Taskforce members draw on experience from the private, public, charitable and academic sectors.
2. Our remit covers the Government's strategic priorities to improve access to banking, affordable credit, free face-to-face money advice, savings and insurance, and to stimulate demand for appropriate financial services among hard-to-reach groups.
3. The full Taskforce meets at least five times a year. We also have a number of subgroups and working groups which consider specific areas of financial inclusion policy. Minutes of our meetings and other Taskforce papers and research are available from our website; www.financialinclusion-taskforce.org.uk

Financial Inclusion

4. The Government's strategic aims for financial inclusion were most recently set out in *Financial inclusion: an action plan for 2008-11*, published in December 2007¹. They are that everyone should have access to appropriate financial services to enable them to:
 - manage their money on a day-to-day basis, effectively, securely and confidently;
 - plan for the future and cope with financial pressure, by managing their finances to protect against short-term variations in income and expenditure, and to take advantage of longer-term opportunities; and
 - deal effectively with financial distress, should unexpected events lead to serious financial difficulty.
5. These objectives have never been more important to ensuring the welfare of vulnerable people than at the current time of national and international economic difficulty. Recent pressures on the economy and the banking system will particularly affect the most financially vulnerable people. Increasing unemployment could mean that more people allow their bank accounts to fall dormant.

¹ Found here: http://www.hm-treasury.gov.uk/d/financialinclusion_actionplan061207.pdf

6. Demand for financial inclusion services is increasing. Growth Fund lenders have experienced a significant increase in applications for affordable loans from traditionally excluded as well as newly excluded customers, and are having to turn down a greater number because applicants lack the capacity to repay. Money Advice agencies are seeing continuing increases in demand for their services. For example, National Debtline helped 118,000 people in 2008, 13,000 more than in 2007; and Payplan assisted 102,000, up from 95,000. In the second half of 2008, the Consumer Credit Counselling Service (CCCS) received nearly 13 percent more calls to its helpline than in the first half. Citizens Advice bureaux anticipate a 9% increase in the numbers helped with debt problems in 2008/09 to at least 570,000 people, with almost 2 million debt problems.

7. Demand for money advice is also increasing among traditionally non-excluded groups. For example, the proportion of homeowners seeking advice from financial inclusion projects increased recently from 26% to 32%. Throughout 2008/09 Citizens Advice bureaux reported seeing significantly more problems with mortgage arrears as well as recession related problems of redundancy and more people than usual seeking help with bankruptcy.

8. In a recent survey by the Association of British Credit Unions (ABCUL), 73% of the credit unions that responded reported an increase in demand for loans from members on low incomes, and half reported increased demand from members on medium or high incomes.²

9. A continuing or worsening lack of access to financial services will hinder people's ability to recover from a significant change in circumstances and therefore hinder the UK's ability to recover from a recession. We therefore urge the Government to maintain a clear focus on the causes and consequences of financial exclusion and to continue to lead partners in industry, local government and the third sector to develop shared solutions targeted at the most vulnerable people.

10. This report summarises our assessment of progress towards each of these high level goals and provides recommendations and next steps.

Managing money day to day

Banking access and usage

11. Access to a bank account enables people to manage their money more securely and efficiently than cash budgeting. Use of direct debits can, in appropriate circumstances, enable people to reduce bills. A bank account also often acts as a gateway to wider financial inclusion. However, we recognise a danger that, as confidence in the banks declines, people will believe their money is less secure in a bank than if they hold it in cash, in spite of Government guarantees. As a result, many people may be deterred from holding or using a bank account.

² ABCUL member survey, currently unpublished.

12. The Taskforce also recognises that some groups of people may be ‘underbanked’, i.e. holding an account without using it in a way that takes advantage of the benefits. We consider the confidence and ability to benefit from an account to be as important as having access to it.

Progress

13. In December 2004, the banks and the Government agreed a “shared goal” of halving the number of adults in households without a bank account of any kind. Progress towards the shared goal was reported in the Taskforce’s third annual banking report³. We found significant progress, but also that there was more still to achieve, potentially by targeting specific groups. We also found shortcomings in the quality of the data, used to measure progress towards the goal, which shows that 50% of those now counted as unbanked actually responded ‘don’t know’ or declined to answer the question, leaving some uncertainty as to the precise number of unbanked. We will work with the Government to improve the accuracy of available data on access to banking.

14. The Taskforce has worked with the British Bankers Association (BBA) to identify how basic bank account holders use their accounts. This work has confirmed that an encouraging proportion of basic bank account holders also access other financial services such as savings accounts and insurance with their banking provider.

15. Last year, the Taskforce considered specifically the scope for promoting the greater use of direct debits to reduce domestic energy costs, and published a report in December 2008⁴. Our key recommendations included calls for:

- Better information on the savings available to direct debit customers in energy efficiency and consumer campaigns.
- Changes to existing payment options, including cost-reflective discounts for quarterly and weekly direct debit payments and customer-specific information on potential savings.

16. Energy suppliers agreed with our analysis that direct debit payments will not suit a significant number of poorer households. Suppliers have taken some steps to implement or develop our recommendations. However, there is still a reluctance by some suppliers (citing administrative challenges as the cause) to deliver weekly payment options.

Next Steps

17. Our banking report set out a series of next steps to help ensure that we do not lose the progress made on take-up of banking services. We will continue actively to monitor progress and to engage with the banks to support their financial inclusion work.

³ Found here: http://www.financialinclusion-taskforce.org.uk/documents/papers/third_annual_banking_report.pdf

⁴ Found here: http://www.financialinclusion-taskforce.org.uk/documents/papers/direct_debit_energy_payments.pdf

18. We will also address questions of effective bank account usage by continuing our work with banks, through the BBA, to identify levels of activity and dormancy in basic bank accounts. We will work with Treasury and the Financial Services Authority to ensure that financial capability projects boost people's confidence in using bank accounts. We will also follow the progress of new payments systems (e.g. Faster Payments and a possible mobile banking platform) and encourage service providers to take advantage of their flexibility and possible cost savings.

19. In addition, we will consider how the development of new technologies such as pre-paid cards can offer consumers the benefits of banking without the need to hold a bank account and what priority these new technologies should be given in financial inclusion policy.

20. We have noted Toynbee Hall's report on 'developing inclusive banking' published in March 2009⁵. We are keen to see their recommendations followed up, including closer working between front-line bank staff and intermediary organisations who devote their time to working with excluded people. The financial inclusion Champions (see below) can play a useful role in brokering such partnerships where appropriate.

21. We have also noted that Ofgem has recently released a report on direct debit arrangements⁶. They have proposed information measures to make it easier for customers to compare tariffs from different suppliers. They have also proposed to mandate an annual statement for all energy customers, which could include customer specific information on potential savings from moving to a less expensive tariff. Suppliers have also made a commitment through the Energy Retailers Association to ensure appropriate information and price assessments for direct debits and to offer alternative payment methods wherever appropriate.

Preparing for the future and coping with financial pressures

Affordable Credit

22. Access to affordable credit can help people to cope with unexpected financial pressures, or temporary fluctuations in income. Our research has shown that many consumers require small cash loans that mainstream credit providers do not offer. These loans are typically under £500 and are repayable over short periods by weekly payments. Mainstream banks have little appetite or capability to serve this market effectively, in part because the cost of delivery would necessitate charging APRs of a level that could bring reputational risk. Low income, high-risk consumers have typically been served by high cost credit providers such as home credit lenders or hire purchase retailers.

⁵ Found here: http://www.transact.org.uk/core/core_picker/download.asp?id=665

⁶ Found here: <http://www.ofgem.gov.uk/Consumers/CCI/Documents1/Direct%20Debit%20Report%20March%202009.pdf>

23. The Taskforce is advising on, and monitoring, the Government's financial inclusion Growth Fund. This aims to expand the capacity of third sector lenders, such as Credit Unions and CDFIs, to serve low-income borrowers in their local communities and offer them an alternative to high cost credit. However it will take significant time to build adequate capacity and coverage among third sector lenders.

24. In the short term, wholesale market pressure on both mainstream lenders and sub-prime lenders has decreased the number of people to whom they are able to lend. At the same time, sub-prime lenders and Growth Fund lenders report a significant increase in demand for their services. With many households facing a reduction in income, their capacity to take on further debt will become more limited. As a result, more and more potential borrowers are being turned away on the basis of risk.

25. The impact of these changes has been especially visible in the last 12 months in the home credit market, which serves approximately 2.5 million customers in poorer households. Some lenders are struggling in the current climate. London Scottish, has gone into administration and Cattles, the parent company for Shopacheck, has reported continuing financial difficulties. Other home credit providers appear to be moving away from their most vulnerable and highest risk customers as demand increases among better off borrowers, who can no longer find mainstream loans: the latest Bank of England credit conditions survey reports that mainstream unsecured lenders have reduced the amount of credit they made available to households through credit cards and unsecured loans in every quarter for the last two years, due to concerns about the economic outlook and a reduced appetite for risk.⁷

26. This leaves many vulnerable people, whose payment patterns are probably too irregular for existing Growth Fund lenders to accept them, without access to credit. While some people will be able to reduce their borrowing, this may not be possible in cases of immediate, pressing hardship. Where these people cannot access credit from regulated providers we anticipate increasing pressure on Social Fund loans and grants and a risk of more widespread illegal lending. Where even these last resorts are inaccessible, then in the worst cases people may compromise vital spending on food and fuel, placing themselves or their families at risk.

Progress

27. The Taskforce's Third Sector Credit Working Group (TSCWG) reported to the Government in December 2007 on options for achieving a step change in third sector lending and capacity. Key recommendations of the report were to extend the Growth Fund into the 25 highest priority areas identified by the Working Group's research, and to double current Growth Fund capacity for lending to the financially excluded to 150,000 loans, totalling £60 million, per annum.

28. The Government committed £42m to the Growth Fund between 2005 and 2008, and a further £38m for the period from 2008 to 2011. The Growth Fund has been operational since July 2006 and since then almost 160,000 loans totalling £70 million have been made to low-income customers. The Growth Fund has demonstrated that

⁷ Credit Conditions Survey Q1 2009, Bank of England, found here:
<http://www.bankofengland.co.uk/publications/other/monetary/creditconditions.htm>

third sector lenders can effectively serve much of the low-income, higher risk customer base.

29. As part of the Growth Fund procurement process, DWP have worked with existing contractors to extend coverage to as many of the 25 “red alert” and 56 “amber alert” areas identified by the Taskforce as possible. As a result, of the 81 areas, there are now:

- 56 with some Growth Fund coverage;
- 12 with Growth Fund coverage planned by March 2010; and
- 13 with no Growth Fund coverage currently planned.

30. The Taskforce is encouraged that, as a result of the DWP’s efforts, over 80% of the high priority areas identified by the TSCWG report will have some level of affordable credit provision by mid 2010. However, at this stage, there are no further resources to support Growth Fund delivery partners who could extend their services into the outstanding high priority areas, leaving thirteen areas still with inadequate coverage.

31. Following the TSCWG’s report, in late 2007 the CEOs of the major high street banks made a commitment to the Chancellor that they would support the third sector in providing affordable credit to the financially excluded, and in particular that they would support actions to develop new provision in the high priority areas.

Next Steps

32. The Taskforce recently reported to the Government on the progress made so far towards the TSCWG’s recommendations. Recognising the changed situation of the banks since they committed to support the expansion of third sector credit, we have put forward a range of options for non-financial assistance, alongside those that would involve financial support, that could be used to fulfil the banks’ commitment. We encourage the Government to push for a clear work programme by the banks over the next two years.

33. Action needs to be taken to deal with what appears to be a significant gap in the provision of credit for the growing number of people who will struggle to access loans from a mainstream provider. We urge the Government to consider further measures to make sure this group of people are not put in a more vulnerable position through lack of access to credit.

Insurance

34. Having access to appropriate insurance products is also essential to enabling vulnerable people on low or unstable incomes to cope with unexpected financial pressures. Insurance is also likely to be one of the first items of expenditure that people cut when their incomes come under pressure.

35. In March 2007, the Taskforce was asked by Government to consider key questions for insurance and financial exclusion. The Taskforce's Insurance Working Group advanced the evidence base and submitted recommendations to Government, in June 2008, outlining how barriers to take up of home contents insurance might be overcome.

Progress

36. The Insurance Working Group found that, among people living on low incomes, home contents insurance was among the most demanded and least accessed types of insurance cover. The group recommended that the financial inclusion Champions work to increase the availability and take-up of tenants contents insurance schemes for social tenants. They also found that there was very limited availability of appropriate, low cost home contents insurance products for the private rented market. Such products can be developed and marketed in a commercially sustainable way and the Association of British Insurers agreed to lead work across industry to achieve this.

Next Steps

37. The ABI have lost some initial time due to changes in personnel. However they are now developing a strategy to improve supply by promoting simple and affordable products and by raising the profile of home contents insurance with social landlords and tenants through a series of regional workshops and through developing new communications tools. The work programme has drawn encouraging levels of support and collaboration from industry and is aligned with the work of the Financial Inclusion Champions. We will continue to work with the ABI to identify clear, targeted outcomes from their work and to monitor their progress.

38. The Department for Work and Pensions utilised funding allocated from the financial inclusion Champions' budget to deliver an insurance workstream and have developed initial proposals for the work. With the ABI making progress on supply side issues, the Champions' insurance workstream has been designed to complement this work by focusing on stimulating demand. DWP have commissioned a pilot based on 'Tenant Engagement Groups' who will work in regionally based teams in the North of England in partnership with housing associations, promoting the benefits of home contents insurance to tenants and community groups face-to-face. We will continue to monitor and advise on this work through our Financial Inclusion Champions Working Group.

Saving

39. Saving has a key role to play in increasing personal financial resilience, making it easier to deal with unexpected expenses or falls in income. Saving opportunities can also bring people into the financial system, helping to tackle financial exclusion. The recession is likely to put pressure on people's incomes, making them less likely to save. It may also create pressure to spend existing savings. Furthermore, a public attitude of increasing suspicion and mistrust towards financial institutions may discourage people from using formal and secure saving products.

Progress

40. The Taskforce has considered several aspects of saving policy this year. We welcomed the announcement of the Saving Gateway, which will, we believe, provide effective incentives for saving among people on lower incomes, many of whom may have had very limited engagement with financial services in the past. The Saving Gateway is due to be introduced nationally in 2010. We have advised the Government on the scheme's design and have supported discussions with potential providers.

41. Whilst welcoming this initiative, we note that the economics of the Saving Gateway may not encourage all potential providers, and that some features may discourage them from participating. We welcome the announcement that the Savings Gateway will be available through the Post Office, as its brand and extensive UK-wide network are well placed to attract and serve the target market.

42. OFT's "Save Xmas" campaign was launched in the wake of the collapse of Farepak to improve awareness of Christmas savings options. The campaign reached an estimated 40,000 people in 2008. An independent evaluation of the Save Xmas initiative⁸ showed that the delivery of the campaign has been effective and that there was evidence of lasting behaviour change with regard to saving. 95% of end users said that they had found the Save Xmas session useful. Several months after the training took place, seven out of ten end users said that they felt more confident about deciding how to save.

43. In 2009 the Save Xmas campaign will deliver a further 560 training sessions in England and Wales and a national roadshow and is expected to reach in excess of 40,000 people.

Next Steps

44. We urge the Government to make the most of these opportunities to encourage greater levels of saving within low income households. In 2009 we will consider the evidence on demand for formal saving products among low-income consumers. We will provide the Government with recommendations on how to stimulate an appropriate level of demand, through the design and implementation of initiatives such as the Money Guidance services and the Saving Gateway.

Dealing effectively with financial distress

Money Advice

45. In a recession it becomes more important than ever for people to know to whom they can turn if they find themselves in financial distress and to be able to access effective support at the right time. The face-to-face money advice teams, delivered

⁸ Found here: http://www.of.gov.uk/shared_of/savexmas/oft1029.pdf

by BERR, have significantly increased the availability of free and impartial debt advice available to poorer people.

46. The Government announced in December 2007 that the Legal Services Commission's (LSC) money advice outreach pilots would now focus on prisons. This prison-based outreach initiative was allocated £5 million of funding and is being delivered in partnership by LSC and National Offender Management Service (NOMS).

Progress

47. The Government committed £45m to recruit and train new money advisers in England and Wales between 2005 and 2008. In 2008-11 the Government has committed £85m to maintaining this new capacity. The Taskforce has been pleased that the face-to-face debt advice projects have successfully delivered an increase in the advice sector's capacity to serve financially excluded people. The projects were established in April 2006, have recruited and trained over 500 new money advisers, and have assisted over 193,000 clients with their debt problems.

48. An independent evaluation of the face to face projects⁹ found that satisfaction rates were high. The average score given by clients was 8.3 out of 10 and almost 9 out of 10 clients said the service met or exceeded their expectations. The evaluation also found low levels of awareness and usage of other sources of debt advice by clients (nearly 64% did not know of another source of help) indicating that the face to face debt advice is a necessary service. Eight out of 10 face to face clients felt more confident in handling their finances after receiving debt advice.

49. The Taskforce commissioned IFF Research to assess, for the financial year 2006/07, money advice supply in England and Wales; to identify the geographic provision of advice; and to better understand funding, workforce and best practice issues. The final report has been completed and will shortly be available on our website along with a policy implications paper.

50. The Taskforce has been very disappointed to see the slow progress of the NOMS and LSC outreach project in prisons. Tendering closed for bids to deliver services in Wales in September 2008 and delivery began in March 2009. Tendering has only recently opened for bids to deliver services in three English regions. Delivery will commence from October 2009, over 18 months after the announcement of the project in December 2007. We will continue to monitor and advise on delivery and we hope that the project will soon start to fulfil its potential.

51. We welcome the announcement of £15.85m extra funding to increase capacity at the National Debtline and to increase opening hours at Citizens Advice bureaux in the Government's Pre-Budget Report in November 2008. This will relieve some of the pressure on face to face services targeted at the financially excluded. We believe that this extra funding will put the sector in a much better position to handle anticipated increases in demand during the next year. However, we note the continuing pressure on money advice agencies and that two thirds of this funding will run out in 2010. We urge the Government to keep levels of demand for money

⁹ Found here; <http://www.berr.gov.uk/files/file48586.pdf>

advice under review and to ensure that the sector is able to cope with further increases in demand.

Next Steps

52. The Taskforce will commission further research to establish the impact of funding and monitoring requirements on advice providers. It will also set out the benefits of a common reporting standard.

53. The Taskforce recommends that in 2009 the Government initiates discussions across government departments, and with advice providers and the Taskforce, on how to mainstream financial inclusion debt advice work. We believe that policy-makers should consider how to ensure a sustainable future for the sector and to enable the sector to respond flexibly to changes in demand.

Illegal money lending teams

54. BERR's pilot projects to tackle illegal lending were rolled out to every region of Great Britain in 2008. The Taskforce has stressed the importance of establishing appropriate and comprehensive reporting procedures and ensuring that financial inclusion outcomes are clearly defined and achieved.

Progress

55. Over 3000 victims of illegal lenders have had their illegal loans cancelled thanks to the work of the two pilot teams in Scotland and the West Midlands between 2004 and 2007. Since November 2007, illegal lending teams across the country have cancelled illegal loans for an estimated 3700 more people. Each team includes financial inclusion officers with responsibility for helping victims to make a transition to legitimate credit sources and other financial services.

Next Steps

56. We will continue our work to evaluate the illegal lending teams and whether they are able to respond effectively to the scale of the challenge. The teams are doing important work and have attracted very favourable press coverage. We believe that as access to credit tightens there is a significant danger of increased illegal money lending. We encourage the Government to ensure that these teams are able to support victims in using more appropriate financial services.

The financial inclusion Champions

57. The Taskforce believes that, to make further lasting progress on financial inclusion during 2008-11 it will be critical to effectively engage local, front-line organisations and to ensure that they can incorporate financial inclusion priorities into their day-to-day work in a sustainable way.

58. Local authorities have an especially important role in supporting the further development of services for financially excluded people, and in particular to support the essential networks and partnerships which link third sector providers together.

59. *Financial inclusion: an action plan for 2008-11* announced that the Government would establish a “financial inclusion Champions” initiative with funding of £12 million from the Financial Inclusion Fund. The initiative was intended to build on the existing “now let’s talk money” campaign, using the branding and awareness that has been developed amongst financial inclusion intermediaries, and continuing to promote demand for appropriate financial services.

60. The Champions will work to build and coordinate local, regional, and sector-wide partnerships in order to stimulate the demand for, and in some cases increase the supply of, basic financial services for financially excluded people in appointed ‘areas’.

61. The central theme of a conference held by the Taskforce (see below) was increasing financial inclusion through successful partnerships between organisations working at a local level.

Progress

62. The first Champions were appointed at the end of 2008 and appeared at the conference to explain their work. The final Champions have now been appointed, including those who will pilot consumer engagement with home contents insurance in the North of England.

63. The Taskforce has put together a dedicated working group to oversee the Champions. In addition to Taskforce members, the group includes representation from the banks, the Local Government Association, the Financial Services Authority and the National Housing Federation.

Next Steps

64. We will oversee the establishment of a monitoring and evaluation framework for three distinct areas of Champions’ work: engagement, action and sustainability. This framework will include targets for key performance indicators, including:

- The number of local authorities and local strategic partnerships engaged by the Champions in new financial inclusion work within their areas.
- The number of financial inclusion projects, such as advice agencies or third sector lenders, delivered as a result of the Champions’ engagement.
- Increases in the take-up of financial services including bank accounts, insurance, money advice and affordable credit in Champions’ areas.

65. We will continue to engage with the Local Government Association to raise the profile of financial inclusion for local authorities and develop a robust business case for incorporating financial inclusion into local services.

Empowering local partnerships

66. In October 2008 the Taskforce held a conference at HM Treasury titled *Financial Inclusion: empowering local partnerships*. Over 182 invitees registered to attend, drawn from a wide range of backgrounds including financial services providers, third sector lenders, advice providers, local authorities, housing associations, researchers, funders and government.

67. The conference considered the achievements to date of the financial inclusion projects. The conference also discussed the role of local authorities and housing associations in increasing financial inclusion. Speakers at the conference included Kitty Ussher, Under-Secretary of State at the Department of Work and Pensions, Ian Pearson, Economic Secretary to the Treasury, Yvette Cooper, Chief Secretary to the Treasury and Lord Best, President of the Local Government Association.

Mainstreaming

68. In *Financial inclusion: the way forward* published in March 2007¹⁰ the Government announced that financial inclusion objectives and initiatives will be mainstreamed into departmental budgets and strategic objectives in the next spending review (starting in 2011).

69. This mainstreaming process will potentially bring the work of the Taskforce and the Financial Inclusion Fund to a close. We will advise the Government throughout this process. It is vital that the work we have overseen since 2004 leaves a legacy of sustainable change both in the organisations that deliver financial inclusion and in the lives of excluded people.

Conclusion

70. The Taskforce is pleased to see the progress made so far by many of the financial inclusion initiatives launched both by the Government and by other organisations with an interest in combating financial exclusion. These include the financial services industry, by whose commitment we have been encouraged; by local government who are becoming increasingly engaged in financial inclusion; and by many third sector organisations, including credit unions and CDFIs, whose increasing professionalism in this area we very much acknowledge.

71. Nonetheless we believe that more work is needed to mitigate the effects of the economic downturn on financial inclusion and to ensure that financial inclusion continues to develop as a core focus of local and national government, the financial services industry and other key stakeholders.

¹⁰ Found here: http://www.hm-treasury.gov.uk/d/financial_inclusion030407.pdf