

A snapshot of financial inclusion policy and practice in the UK in 2007

This is a review of where financial inclusion policy and practice stands in the UK in 2007. Government policy on financial exclusion has focused on five key areas – banking, credit, insurance, savings and money advice. Measured by the number and range of individual initiatives, the last two years have been a period of considerable activity. Although the level of that activity is expected to continue for the foreseeable future, the overall package of actions to promote financial inclusion remains uneven.

Key findings

- Banking, credit and money advice are Government priorities. Insurance has until now been almost wholly neglected.
- There are Government-backed pilot projects in credit, money advice and savings. Third sector bodies play a big part in the first two but their role in the third is unclear.
- There is a target for reducing the number of people without bank accounts, which the private sector has a responsibility for meeting. There are no targets in any other areas, which may have resulted in slower progress.
- Current Government programmes aim to expand the capacity of the money advice and community-based credit sectors to provide services; how funding support for these services will be mainstreamed within Government departments after 2011 remains a significant challenge.

Key conclusion

In many of these areas, it is unclear exactly what the issue is, why it is being treated as a problem or, sometimes, why the problem is not just a symptom of low income. As a result, there is a lack of clarity about goals and what constitutes progress: in these circumstances, private and third sectors bodies are bound to find it difficult to act independently yet in pursuit of common ends.

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Banking services

The aim of reducing the number of people without a fully functioning bank account is reflected in a shared goal between Government and banks to make significant progress towards halving the number of adults in households without accounts by end 2006.

In the three years since 2002/03, the number of people without accounts fell by a third, to some two million people. But some groups still remain much more likely to lack a bank account, including lone parents and pensioners as well as prison leavers, those living in homeless hostels, and migrant workers.

In partnership with the Co-operative Bank, a first wave of credit unions began to offer banking services in 2006, with preparations for a second wave underway.

The Post Office Card Account is not usually regarded as a fully functioning bank account and is due to end in 2010. Yet take-up of the account has far exceeded what was expected, with 4.7 million such accounts in existence in 2006.

Affordable credit

With an estimated eight million people excluded from mainstream credit, developments in this area are directed at increasing the availability of affordable credit. This is supported both by extra Government money and by various regulatory decisions. Specific steps include:

- a rise of one-third in the gross loans budget of the Social Fund, to between £700 million and £800 million a year by 2008/09;
- the £36 million Growth Fund to enable third sector lenders to provide affordable loans to those who cannot get them from mainstream lenders;
- the increase in the 'cap' on the rate of interest that credit unions may charge, from 1 to 2 per cent per month;
- the Competition Commission's remedies to strengthen competition, improve information for customers and, in certain cases, limit the price, for home credit.

The 'mix' of 'non-mainstream' credit is changing. In 2003, Social Fund and credit union loans combined only amounted to about two-thirds of the value of home credit loan. But home credit loans have been falling since 2002, whereas Social Fund and probably third sector loans are growing.

Insurance

Until recently, insurance was notable for a lack of activity, reflecting the absence of action on it in the 2004 report. By contrast, the Social Exclusion Unit's 1999 *Access to Financial Services* report gave insurance equal status alongside banking services and credit unions.

The key statistic is the gap between the 50 per cent of households in the poorest fifth of the population who are without home contents insurance, compared with just 20 per cent for households on average income. This 'excess' of 30 per cent is unchanged since the late 1990s.

Insurance may be returning to the agenda in 2007, with Government, industry and the Financial Inclusion Taskforce beginning to work together to identify what types of insurance are most needed by financially excluded people, what the barriers are and how they can be overcome.

Savings including pensions

Some 40 per cent of households lack any savings at all, while some 30 per cent of adults would like to save at least £10 a month but are unable to. Among the poorest fifth, this proportion rises to 60 per cent.

The 2004 report contained no new policy actions on savings but it did point to three initiatives that were to start in 2005. These were:

- the Child Trust Fund, a savings account available to every child born after September 2002;
- 'Stakeholder Savings', a simplification of the various 'stakeholder' schemes for short, medium and long term savings (stakeholder pensions);
- a second round of 'Savings Gateway' pilot projects, offering matched Government funding for any saving made.

The collapse of Farepak focused attention on the security of customers' prepayments, in effect a form of savings. The Financial Inclusion Taskforce is now to monitor developments with Christmas savings schemes and consider what further actions may be needed – a clear extension of its remit.

Money and debt advice

Recent statistics confirm that many people face financial difficulties: for example, one and a half million people are behind with their bills while nearly three million report a constant struggle to keep up with commitments.

Recent developments in this area range from the provision of 'acute' services to help with debt, to 'generic financial advice' (personalized advice not

linked to specific products). They include:

- Face to Face Debt Advice projects, delivered by partnerships involving established advice providers, to increase the number of advisers serving groups with high financial exclusion;
- the work of the Money Advice Trust, funded by the corporate sector, including the further development and evaluation of National Debtline, a telephone-based advice service;
- Outreach Pilot projects, administered by the Legal Services Commission, to provide money advice in established locations including children centres, credit unions, housing advice and community centres and prisons;
- a feasibility study, set up by Government and chaired by Otto Thoresen, to design a national generic financial advice service.

Questions on future policy and practice

Banking

- Following the fall in the number of people without a bank account, how much more progress should the banks be required to make, both in total and for higher risk groups?
- How are concerns about the features and operation of basic bank accounts to be addressed?
- What is to replace the Post Office Card Account when the contract for it ends in 2010?

Credit

- How much further is Government prepared to reform the way the Social Fund works?
- What could be done to support the Competition Commission's remedies for the home credit market?
- What contribution can be expected from the financial services industry?

Insurance

- Apart from home contents, what aspects of insurance fall within the scope of financial inclusion? Should issues such as price discrimination be considered?

- Should there be a target for home contents insurance – and a 'shared agreement' with the industry to meet it?

Savings

- What happens beyond the end of the second round of Savings Gateway? Do savings schemes run by/with housing associations have untapped potential?
- Should the strategic response to Farepak be to try to move people away from 'doorstep' products, or to try to improve and extend those products instead?

Money and debt advice

- Will any of the Face to Face Debt Advice or Outreach Pilot projects be established on a longer term basis?
- What are the implications of a national generic money advice service for other money and debt advice initiatives?
- How are potential conflicts in this area to be resolved, for example over the best way to deliver advice, or whether different types of advice should be delivered separately or together?

Concluding remarks

The programme for financial inclusion appears very uneven. This can be traced to a lack of clear answers to some fundamental questions in each policy area, namely:

- What is the issue (with credit, savings and insurance other than home contents insurance), and why exactly is it a problem?
- Why is the issue not just a symptom of low income? This question is pertinent in all areas apart from banking and advice.
- How is progress to be measured and delivered? This is pertinent in all areas except banking and, as far as measurement is concerned, home contents insurance too.

Clarity in policy direction

- This lack of clarity in identifying the issues feeds through into a lack of clarity about what the goals are and what constitutes progress.
- The danger in this is that efforts to promote financial inclusion will not be able to develop a momentum of their own. Although goals on their own are not enough, unless the direction in which progress lies is clear, it is very difficult for the private and third sector bodies to respond independently within a unified framework toward common objectives.

Further information

This summary and the full report, *A Snapshot of Financial Inclusion* by Peter Kenway of the New Policy Institute, are available in print, pdf and Word from Friends Provident Foundation (foundation.enquiries@friendsprovident.co.uk and www.friendsprovidentfoundation.org). They are also on the NPI website (www.npi.org.uk).

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