

TRANSCRIPT OF ORAL EVIDENCE

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TAKEN BEFORE

THE FINANCIAL INCLUSION COMMISSION

CHEYNEYGATES ROOM, WESTMINSTER ABBEY, LONDON SW1P 3PA

TUESDAY 25 NOVEMBER 2014

MS JOANNA ELSON OBE, MR CHRIS FITCH,
MR JONATHAN STEARN and MR PETER TUTTON

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 25 November 2014

Members present

Sir Sherard Cowper-Coles, in the Chair
Mr Martin Coppack
Mr Chris Pond
Ms Sian Williams

Sir Brian Pomeroy, in attendance

Witnesses: **Ms Joanna Elson OBE**, Chief Executive, Money Advice Trust; **Mr Chris Fitch**, Research Fellow, Royal College of Psychiatrists; **Mr Jonathan Stearn**, Director, Consumer Vulnerability, Citizens Advice; and **Mr Peter Tutton**, Head of Policy, StepChange.

Chairman: Good morning, everybody. I will just explain a little bit about the Commission and who we are, although most of you I am sure have a fairly good idea. I am Sherard Cooper-Coles, a former diplomat, like Sian Williams sitting next to me. More than a year ago I was recruited by the HSBC to do quite a lot of outward-facing work for the group involving international relations but also and, most excitingly, a project for the group on what we should be saying and doing about financial inclusion. We were one of the few global banks without a financial inclusion capability. Both our Chairman and Chief Executive felt very strongly we should be saying something about this to regulators around the world, but also asking ourselves whether we should actually be doing something about it. As part of that, I spent a lot of time talking to people like Brian, Chris, Martin and Sian and Jo. I met them all before I dreamt I would be asked to chair this Commission. I do not know exactly where this Commission originated, but it was Chris Pond who approached me and the idea of it was because of a sense

that financial inclusion in the UK, although curiously not around the world, had rather fallen off the political agenda under the Coalition Government. The idea is to have a short, sharp stocktake of where things stand since Brian Pomeroy's Financial Inclusion Task Force finished its work more than four years ago and to set out really an *à la carte* menu for the incoming Government on 8 May next year on where we think the unfinished business is in the field of financial inclusion in the United Kingdom. In the evidence today I hope very much that all of you can focus on outcomes, what it is realistically we would like a new Government to be doing because our objective is to set out a menu. Talking among ourselves, the definitions of success will not necessarily be having a chapter on financial inclusion in each of the party manifestos, but just to get the words back in and to build on the really quite incredible changes which were wrought by Brian Pomeroy and his Task Force in hugely reducing the number of unbanked people in the UK, the next move forward is really what this is about. I will just ask the other Commissioners to introduce themselves, starting with the President.

Sir Brian Pomeroy: I am Brian Pomeroy, the rather grandly titled President of the Commission.

Chairman: The spiritual head!

Sir Brian Pomeroy: I am in right place for that!

Mr Pond: Chris Pond. I am acting as Vice Chairman of this Commission and I also chair The Money Charity and many of you know in the past I was on the dark side with Martin at the Financial Services Authority in their financial inclusion/capability programme, where I met many of you.

Mr Coppack: Martin Coppack. We all know each other. I am here as an independent and not representing the regulator.

Ms Williams: I think, Chris, we are the only people that have not really met. You know me. I am Sian Williams. I cover financial inclusion at Toynbee Hall and I am obsessed with this topic so this is an exciting opportunity to get it back on the agenda.

Q. Chairman: Then we have Lisa and Jennifer who have done all the work. Then we have a stenographer and a videographer here, and Alaina Wong, who helped me at HSBC on this. What we thought we would do is ask each of you to make a short opening statement and then we will move to questions. So why do we not go from the left, Joanna, starting with you?

Ms Elson: Thank you very much for inviting me. A tiny little bit about the Money Advice Trust for those who do not know. We are a charity helping people across the UK to tackle their debts and manage their money wisely. We have been in existence since 1991. We help about one million people directly and indirectly; so that is directly via the National Debtline and Business Debtline and indirectly via training debt advisers across the UK through the Wiseradviser training programme. We have been active around the financial inclusion scene for many years. I should probably declare a personal interest, too. I was at the British Bankers' Association before this role and so I remember quite clearly the policy action teams being set up and discussions with Chris when he was a DWP Minister about whether the banks could get involved. There is a long history of this stuff.

The evidence that we have from that million people a year is that there is a two-way correlation between debt and financial inclusion, so debt can cause financial exclusion, it damages your

credit rating for instance, but it can also be caused by it. We all know about the poverty premium. We could delve a bit more into that during the session no doubt.

The other evidence we have is that there is a big change in the landscape. We produced this report earlier this year *Changing Household Budgets* which compared the sorts of problems that people were bringing to us back in 2007 with what we saw last year and, crudely, what that found was that in 2007 largely people were coming to us saying, “We have made this commitment and now we are struggling to repay it.” Now the landscape has changed so that whilst we still have people saying that, we have many more people saying, “We just can’t make things add up. Our income and expenditure just don’t match”, so therefore we have many more people with problems with household bills, whether that is utilities and rent arrears and so on. That potentially excluded group is very significant and has the potential to grow. I guess that is what we should all be worrying about. Average incomes, I see from the Joseph Rowntree Report that came out yesterday, are lower than a decade ago. We are seeing a big increase in low paid insecure work, whether that is zero hours contracts, part-time work or low-paid self-employment. That means that financial inclusion needs to be part of a whole society strategy. One of the things we have struggled with over the years, whether that is government or companies or the third sector, financial inclusion has been in a box over here which is about a few people and it has got to be something that is addressed as part of society. If you are a bank or a building society or a utility company it cannot just be a strand of your CSR policy. It needs to run across the piece

I suppose the final thing I would want to say is that at every opportunity we need to build in resilience. Whether that is people who are financially excluded already or people who have the potential to be, whether that resilience is about building precautionary savings so that people

have a buffer or it is about when people come to us or StepChange or Citizens Advice or National Debtline building in some financial capability so that they go away better equipped to deal with things in the future, building resilience it seems to me is key.

Q. Chairman: Thank you very much, Joanna. Jonathan?

Mr Stearn: I work for Citizens Advice. I used to work for Consumer Futures. Citizens Advice needs no introduction really. One of the things I wanted to say was just looking through the Citizens Advice statistics, 63 per cent of clients whose income we know, are in households living on incomes of £999 a month or less. We are talking about people who are living on very low incomes. I could give you lots of other stats as well in terms of wider incomes.

Q. Ms Williams: Is that household or individual income?

Mr Stearn: That is household incomes of clients. I said that I joined Citizens Advice earlier this year coming from Consumer Futures and my work over the last few years has been looking at two key words which are ‘consumer vulnerability’. I have been doing work with the FCA and other regulators looking at their approach to consumer vulnerability. Instead of labelling people and groups as ‘vulnerable consumers’, we have been looking at the whole issue of how people are in vulnerable situations. What that leads us to do is recognise not just people’s personal circumstances, but also the role the companies play, the role that regulators play and the role that governments play. That is really important because otherwise there can be a tendency to put all the focus on individuals. We need to pay attention to the role of companies, the role of regulators and the role of government. I wish I had a flip chart, because I do not just look at financial services; I have had a lot of engagement with energy, communications, and other markets. I am trying to draw this for you in the air. If we were to think about what a proper functioning marketing would look like, I think what we would have in the top right-hand corner is markets which were fair, which were accessible and affordable, where people had

choice. The markets which were not working very well and where we did not have much access and choice is invariably where issues like the poverty premium sit. We did some research last year with the Joseph Rowntree Foundation showing that people on low incomes pay 10 per cent more for essential goods and services and that is often linked to credit and energy costs - they would be in my bottom left-hand corner. If I was trying to work out where different essential goods and services are, I would have to say food would be up towards my top right-hand corner and financial services would be down in my bottom left hand corner, despite what we are seeing in relation to the development of basic bank accounts, et cetera. If you take that in the context of what I have just said - we have to look at the role of companies, the role of regulators and the role of government - then I think it is really important that one of our tasks should be to be find a way of moving financial services from that bottom left-hand corner up to that top right-hand corner. That should be a real task in front of us. I have lots of ideas about how we can do that, but I thought I would try and draw that picture in the sky for you to show what I think we should be having as a target.

Q. Chairman: If we do not in later evidence cover those ideas on how we should be doing that, would you write to the Commission, Jonathan, please, and come and talk to us separately because I would be very interested in hearing what those ideas are. Chris?

Mr Fitch: My name is Chris Fitch and I am Policy Research Fellow at the Royal College of Psychiatrists where, among things to do with the NHS, I oversee a programme on research and intervention and training with the Money Advice Trust and others on financial capacity and customer vulnerability. My background is in health so I have worked with injecting drug users, sex workers, WHO, DfID, but probably the toughest challenge is working with the financial services industry in terms of outreach activities. Also, I am involved with the activities of the advice sector as well. I come at this from a different angle. Financial inclusion is not my

background and I have stumbled into it.

I do not know if the name is familiar, but Selwyn Goldsmith graduated in architecture from Cambridge in 1956 and the same year he graduated he was struck down with polio so he was completely paralysed on one side of his body. However, he went on to write a world-changing book on the way in which people physically access the world and visit the world, about disability and architecture, and introduced this concept which I think is absolutely key called 'Universal Design', which is designing goods and products and services in a way which does not pick out the disabled or people with mental health problems or particular groups as unusual but as having normal needs that any service or product needs to meet. Selwyn's greatest achievement, Norwich is known for Alan Partridge but it should be known for Selwyn introducing 15 dropped kerbs in the late 1960s, which has gone from being an experiment to being a world-wide feature which we probably all walked over today.

I think exactly the same point about universal design is key for three reasons in financial inclusion. The first one is that it is not just about access. I do not think it about having a basic bank account. I think it is about the quality of service and quality of experience that you receive once you are in contact with a creditor (I am talking mainly about creditors) so we need organisations to design products and services in the right way to accommodate everybody. That is easier said than done, as words rather than actions always are, but it raises a real problem. It raises a problem for regulators, for those who try to help the creditor sector and also for people like yourselves in terms of where do you start. In a world where everyone is potentially vulnerable and should be included, where is your starting point? Jonathan is right to say we do not need the risk rules; we should start from that perspective and we should look at the three strands of the individual, their situation and the actions of the creditor market, but where do we

actually start?

I encounter situations where I will turn up at a discussion about goods and products and services at the BBA or elsewhere and as I come out Alzheimer's are in the waiting room and at 11 o'clock the RNIB are coming in. We always seem to be having these conversations complete separately. We all go in waving around our lovely booklets shouting for our constituency and saying we are different. Actually, we are not. I think we need to look for a common solution along with a customer experience which actually takes into account some of these potential vulnerabilities and recognises that the credit sector is driven by compliance and standards and automation. We began some of that work in that report there in which we stretch out the types of vulnerability, but we have been working with Macmillan, the Stroke Association and others to try and push this forward. Common design is the first thing.

The second thing is financial competence. Capability is not just about skilling customers. Like Jonathan, I do not think the emphasis should be entirely on the customer. One key area is you need to provide support to potentially vulnerable customers when they are using financial services and products. The absolute key thing is decision-making. I will give you the example of lending. Decision-making is something we all do in relation to products and services. We all have to make decisions and hopefully informed decisions to enter into a contract for a good or a service, but that is not happening on a regular basis, as far as I can see, in terms of the checks and safeguards for people who are potentially vulnerable. Although we have the wondrous CONC, marvellous document that it is and it does have some reference to mental capacity in it, I think the credit sector often looks not to the law but to the regulator as a first step and I think that is a real mistake because the Mental Capacity Act 2005, or the Adults with Incapacity Act 2000 in Scotland, really does provide a beautiful framework, both for people

with limited mental capacity to make decisions, so people with dementia or a mental health problem or receiving treatment, but also has some great principles for ensuring that people do not enter into irresponsible decisions which are going to lead potentially further down the line to a financial crisis. That has got to be an absolute key part. It is all very well that I come in (and I am non-clinical but I do work with the NHS), lay a few points down and leave at ten past nine but I do not talk about what the NHS should be doing. If we include debt advice services as part of a modern mainstream financial services system, which I think we should, they are part of the picture, part of the system, the health sector has an absolutely key role to play in achieving financial inclusion.

What I am going to say to round that off is we know there is a relationship between financial difficulty and health conditions. You are twice as likely to develop a mental disorder if you have personal debt or problem debt. You are four times as likely if you already have a mental disorder at the start and have personal debt to still be having a mental disorder like depression or anxiety 18 months later. We need to build relationships between the health sector. I know the Advice Services Alliance is doing this at the moment and I would urge you to make contact with them. I think it is Lindsey Poole who is the Director. The NHS is a labyrinthine beast and trying to make those connections is incredibly difficult. It would be a real shame if the only contact we really had with Health Service was from GPs asking for payment for medical evidence, which is a real issue that the advice and credit sector face.

To round up, Selwyn Goldsmith, please look him up, he is an amazing man. He created the dropped kerb through universal design, but I just want to say we could use his thinking about universal design to bring about a different type of step change for financial inclusion.

Q. Chairman: Thank you, Mr Fitch, for your most original evidence. Finally, Peter?

Mr Tutton: Hello. I am Pete Tutton and I am from the StepChange debt charity. We helped about 500,000 people last year, mostly with severe debt problems, so a lot of what I am saying is similar to what Joanna said. We have similar experiences because we do broadly the same thing. I guess what we have been looking at a lot this year is looking at the process whereby people fall into debt problems. It is a process. Typically, half our clients wait a year or more between starting to worry about their debts and seeking advice. In that time quite a lot of stuff happens. Typically people try and cope by using financial services, by using credit, by making minimum payments. So in terms of financial inclusion, we have people who start off excluded, we have a big pool of people who are currently included but if they get a bump on the road it starts them on a journey downhill over a period of time where the hardship and detriment they experience gets worse and worse. The numbers are quite frightening. We reckon over 25 million people a year are juggling their finances to get by.

Q. Chairman: Individuals or households?

Mr Tutton: Individuals are juggling finances to get by, which is an early warning sign of impending financial difficulty. About 15 million households are showing one or more signs of actual financial distress. That would be things like making minimum payments on their cards, being hit regularly by overdraft charges, using credit to get to the end of the month and pay for essentials. Credit cycles now, six million are using credit to get through to payday, three million are using credit to pay credit and about three million are in serious financial difficulty. So we have this process of people sliding downhill. I guess the questions are how do we intervene in each of those stages to stop that process and to catch it earlier? At the start there is the question of resilience that Joanna raised. Again, 13 million people are without savings to last a month if their income dropped by a quarter. So very low resilience, a huge number of households with

low resilience to shock and when they do hit shock the coping strategies that people use can quickly drive them further and further into debt. Added to that we see the shock to household incomes that has now been going on since 2010, the year-on-year decline in real household incomes, more people in work but the work is lower paid, more volatile, more up and down, and it is the up and down that is particularly problematic in terms of debt. So I guess we are in quite a difficult spot at the moment. In some ways things have got a bit better in that we do not see the huge debt problems. People with £150,000 debt balances are not as common as they were at the end of the last decade but, on the other hand, the levels of detriment our clients are experiencing in terms of stress and hardship and trying to juggle payments is probably getting harder. In terms of thinking about the next Government I think the message is consumer vulnerability. There are some real challenges. How are ordinary households, our clients who are at the bottom end of the squeezed middle on average household incomes of £20,000 to £25,000 a year going to cope in the face of rising prices and static incomes? When they do find they hit difficulty what help is available other than turning to payday loans or running up a credit card or running up an overdraft? What do we need to do to give people time to recover when they hit difficult times? Products and services, what do the financial service providers do, but even more than that the idea of what are the limits that financial services actually can do? If you are struggling to make ends meet, is more affordable credit the answer? Is any credit the answer? There are some more fundamental questions here about the baselines of what households need to be financially healthy. I guess the big question, whatever the next Government, in terms of rents have gone up and incomes are static, is are we approaching some kind of red lines for households where it is becoming more difficult to manage. The point Joanna makes about people with low budgets for essentials and deficit budgets. About a quarter of our clients even after budget counselling, even after we have maximised their incomes still have a deficit budget. In other words, they have more going out than coming in. Some of that

is about short-term adjustment and medium-term adjustment. You get relationship breakdown and you cannot afford the housing costs you could when you were a couple and it needs an adjustment period. Some of it is about the long-term and you just do not have enough income to meet your costs. There are quite a lot of challenges there and that is where I will stop.

Q. Chairman: Thank you, Peter. Lots of food for thought. We have half an hour for questions so two points. First of all, I am going to open the questioning by asking each of you to respond to a general question which we really want your response read into the record. And then I would just say if there are points which occur to you, please will you write to us after this session. It does not have to be immediately after this session, over the next six weeks. If there are things which you feel ought to be in that final three sides of recommendations to the Government, please get in touch.

The question I would like you each very briefly to respond to is do you agree that the UK and the British Government should commit to the becoming a leader in promoting financial inclusion? If you do agree, what are the practical steps you think that are needed to achieve this? Do you think that each of government, industry and the regulator has a role to play? Could we just go from left to right again as I look at you and if we have just a very brief response to that question and then others will come in with other questions.

Ms Elson: That is what you call a portmanteau question. I will try and remember all the bits of it. Yes, I do agree that the UK should be a leader in promoting financial inclusion. I do not think we were too far away from that at the time of the Task Force. I think we need to get back to there. There is a number of things that need to happen. The main thing would be that focus on it. If you talk to government departments now, they pass the buck. If you talk to Treasury it is DWP; if you talk to DWP it may be a bit of BIS. Nobody really owns it. They have set up

the Money Advice Service and that is a good thing and it has a role to play, but it is not a substitute for government having a laser sharp focus on this. We could debate what should they actually look at, what measures should they be considering, whether that is how many people have bank accounts, whether it is how many people have insurance products or whatever it is. Somebody can come up with those, but the main thing is the focus and the pulling it all together and the understanding of what is the Government's responsibility, what is the regulator's responsibility, and that brings in the sorts of things the FSA is currently considering. There is going to be a crackdown on fee-charging debt management companies, quite rightly, but what are the implications of that? Who is going to put in place the support that is needed when those companies either are not authorised or go from the market? Who is going to make sure that there is capacity in the free sector to pick that up? So the regulator has a role to play. Companies clearly have a role to play. We talked right at the beginning about this being a whole society strategy and not a silo. This is about - and it goes to those very big questions for industry - should people be paying for their bank accounts? Would it be a more honest system if everybody knew what their bank account cost them and paid for it? Like with most things you cannot get bogged down in the big questions that you cannot answer so you have to ask those questions and park them, but then there are some very specific things that companies can do and can be looking at, but somebody needs to pull this together, and, whether it is a Commission or a Task Force, somebody needs to say this is so important we cannot leave it to bits of organisations or companies to do.

Mr Stearn: It was a long question and the answer is 'Yes'. Let me try and look at it the other way round. Let me start with the companies. I heard what you were saying at the beginning, but one of the things that really has always concerned me over the last few years is it is very difficult to get a very positive feedback from banks in terms of, "Yes, we want to look at the products and the consumers who we are serving or providing services for and we want to engage

with the consumers who we are not providing services for.” I said to one of the banks recently, “Is this unconscious bias?” and they said, “No, it is conscious bias. We just do not want to have any dealings with people who we see as high risk.” The first thing we need to do is to challenge that. We need to change that thinking of the banks and start to get them to think in a different way and see people differently and understand people.

There have been some examples where organisations have tried to engage financial institutions. I think that somewhere in *To Kill a Mockingbird* there is a line about “standing in people’s shoes” and that is what we need to do is we need to get banks and financial institutions to stand in people’s shoes. There might be some financial benefit from this as well. We have all these theories about the bottom of the pyramid, et cetera, yet we do not see banks showing much interest in social justice and sustainability could be key drivers in their business plans. That is one of the key things. Whatever carrots we can use, I think that is really important.

Then you move through to pointy carrots and sticks.

I thought what we saw with payday lenders was an interesting example starting from the other end of that equation where we had Parliament and then we had Government saying to the regulator, “We want you to pay attention to the interest rates that payday lenders are charging,” but we did not see them saying we need to also look at the banks, we need to look at the high street institutions to see what they can do to make credit accessible. We did not see the regulator saying that and we did not see the Government saying that to the regulator. We did see Citizens Advice saying it. We need to do more than just say it but also government and regulators need to do more to make financial markets work for those on low incomes and in vulnerable situations.

I think civil society has a role it can play. That was not on your list, but I think civil society can have a key role it can play. In all sorts of examples with financial services, we have seen where civil society organisations have tried to either provide services, for example in insurance where you see the likes of Macmillan and Age UK, and others, trying to come into the marketplace or provide advice on where to get insurance where the market is failing. Civil society organisations could do more to really push and challenge those financial institutions to step up and provide services to people. These are essential goods and services. They should be available to everybody and we could do more to pressurise that. We have seen examples of housing associations which have tried to be working with credit unions to find ways. Also we have seen banks saying, "Let's give money to credit unions. Let's give financial support." That is all terribly important but then it often becomes part of corporate social responsibility. It is a bit like Toyota saying, "Okay, we will give some money to somebody who is developing a solar car and we will carry on producing cars that produce lots of carbon." That is not what is happening in the car industry. We have seen hybrid cars and electric cars and we have seen the pressure from governments and regulators to get into that position.

We have not seen the same with financial institutions. We have seen financial institutions trying to displace their responsibility by moving some money over. I am not for one second saying it should not happen, but it should not be the only solution; they need to take responsibility themselves. The work I have been trying to do with regulators, not just with the FCA but with Ofcom, Ofgem and Ofwat is to say what can regulators do to really look at the position that people are in, why markets are failing, but also how the regulators can link up and push the markets. You talk about silos which exist within government. There is another chasm which tends to exist between the regulators and government. Where the regulators say, "We do not

actually have powers to do anything about that; that is government.” And then government stands back and says, “No, the market has got to sort that out.” We know who loses out from that. That is people on low incomes and in vulnerable situations who are just struggling from day-to-day to get through their day and make really hard decisions between eating and keeping themselves warm. We need to break through those silos. When regulators they have no powers, I say, “You may not have powers, but nothing stops you showing where markets are failing. Nothing stops you showing where the detriment is. Either you get powers to do something about that or you say to government ‘we have not got the powers to do this, you need to intervene’.” If you look at those other examples I have mentioned, if you look at energy, for example, there is a different model there. I am not saying it is an ideal one by any means, but government has started to say to the energy companies there that they need to take some social responsibility. I am not putting it forward as a perfect example, I am just making a note of where government’s have been saying to companies you need to take social responsibility. So it may be useful for the Commission to look outside the financial markets and financial services and use examples from outside. We need to get into a position where the market, the companies and the high street banks say, “Yes, we want to provide affordable credit. Yes, we want to engage with those in more vulnerable situations. Tell us how we can do it and tell us how we are failing.”

Q. Chairman: Chris and then Peter, if you could just answer this question for the record briefly.

Mr Fitch: So the answer is yes. Has anyone said no so far? There is a German sociologist called Max Weber and he came up with the concept of ‘*verstehen*’, which is “standing in someone else’s shoes”. I think we are as guilty of not standing in the shoes of the banks as we are asking them to stand in our shoes or those of the groups that we work with. One of the

approaches we have taken with our work around mental health and mental capacity is not to drag along our soapbox, get out our finger of stigma and point and wag it at banks with which we wish to engage. I think that does take place and it is not particularly helpful. That is coming from a different angle, but by trying to understand the frameworks within which the credit sector is working - the Data Protection Act, the Equality Act or the Mental Capacity Act - they recognise they have a social duty to provide some of these products, but we need to recognise that sometimes to get that social duty to materialise you need to couch it in the language of accountancy, legality and also the bottom line of profit. That is absolutely critical and I think that is one of the areas we have tried to push forward. That said, what is worrying is once you push someone in a direction, particularly if it is a steep hill, which maybe that point about working towards universal design of goods and services is, a momentum grows and I see that growing in relation to the work we have been doing around debt and dealing with indebted customers who are potentially vulnerable where we have given people a series of pointers to head off on and some of them have rushed off and tried to solve the problem themselves. I do not think the expertise entirely sits within the creditors' sector and that is why I think Jonathan's point about civil society and charities and consumer representative groups being truly involved is important. It should not be pushed off to CSR. I wish occasionally it was pushed off to CSR because I could do with the research funding but often you go to CSR and they say, "No, that's an operational issue", and then you go to operations and they say, "No, that's a CSR issue". It is like Father Ted - is it an ecumenical question? So you end up caught between the two and unless we truly get a grip on not only what customer groups are saying, and I think it is really encouraging the forthcoming FCA report talks a lot about different types of customer groups and the great work that Citizens Advice have been doing as well, but also listening to staff on the front-line. I am often presented with policies which touch on financial inclusion when I go to see creditors and they look absolutely fabulous on their shiny paper and their nice typeset but

actually when you look at the front-line - and our report points this out - there is a massive gap between what the staff are doing and experiencing in terms of delivering inclusion and listening to vulnerable customers and what is on that paper.

My final point would be I think it is disappointing that as well as civil society not being on that list that the NHS is not there. The NHS is the biggest employer in the country so many of its staff, I imagine, given the pay rises of the NHS, are suffering from financial exclusion and detriment at the moment, but also going back to this idea of linking together health services and the advice a lot more strongly. There is an RCT in Liverpool that is taking place about putting debt advice in primary care services, which is fantastic. I think the two need to be tied together more closely.

Q. Chairman: Thank you, Chris. And Peter, finally?

Mr Tutton: The answer to the question is broadly yes, government should be involved and those three parties, government, industry and the regulator, clearly all have a role. I am quite optimistic in the relationship between regulators and service providers that things are going in the right direction across the board really. If you look at what is happening in credit and things that we have been arguing about for 10 or 20 years with no movement, now we are getting movement. We are seeing real inroads into some of the detriment. There was the credit card market study released this morning, so the FCA is now looking at the big guns as well as the payday lenders. I am quite confident. I am expecting the vulnerable consumers work which the industry are already all talking about. This is all fantastic stuff. It really is. About two or three years ago, in 2011, when I was at Citizens Advice we did a thing on debt and disability and we called the regulators in and when we talked about the experience of disabled CAB clients and debt and financial services and we talked about the Equality Act, we were met with

“Huh?” and now the financial services regulator is getting on top of it. This is all good stuff. There are boundaries and I guess that is where we are now is testing the boundaries. Since the 2010 Act and the Banking Act there was a big debate about financial inclusion and should the FCA have an explicit power. When you talk to different people in the FCA you get a different view on how explicit and how far the powers of the regulator are. It might be one of the things that might be on the list for Government because the Government fudged it awfully. We had the access thing, which is a fudge, and then there was a lot of talk that competition will sort this out now. What we know about competition in financial services is that it works differentially. If you are a well-off, dare I say, middle-class consumer, competition can work pretty well for you. You get free in-credit banking and you get low interest rates on your loans. Those low interest rates on loans before the crash were funded by poorer consumers paying single premium PPI at hugely inflated cost and bank charges. We know these things are not going happen so the question is the FCA are going to get there on sorting out the detriment in the market. The other side of making markets work well for consumers is to what extent you have to make markets for some consumer needs. It is somewhere it is not clear that we have yet made progress. That may be on the list.

Going beyond that the broader sense of financial health, yes, this is absolutely in the Government’s court. Some examples, savings, we have got a piece of work coming out, number crunchers to look at the Wealth & Assets Survey data that has just come out and they reckon that in financially vulnerable households, if everyone had £1,000 worth of precautionary savings, it would reduce the number of they reckon the 3.3 million people in severe debt, by 500,000. That is 500,000 people who would be saved from the risk of debt. What have we had on savings? An extension of ISAs that cost half a billion. How much of that will go to the most vulnerable households? There are some real questions here about where is Government

policy on things like savings and about how we incentivise certain financial behaviours and financial planning and how do you bring those low to middle income households in and make stuff work for them better. Safety nets we have talked about. Insurance is interesting. Insurance people have been kicking around how do we have better insurance. Someone showed me something the other day and reminded me that Citizens Advice did a policy report on mortgage payment protection insurance in 1995. I did something on PPI in 2005. We are still in the situation where perhaps more than ever we need good income insurance products but how are they going to be delivered? We tend to focus on can we get better or simpler products to sell to consumers. There are other ways of looking at it. What about collective responses on payment protection or mortgage protection. Rather than the industry selling stuff to consumers, should the industry look at how it insures its own risk? It benefits from this but it expects consumers to pay but when that has been looked at it has not made any progress. So encompassing all those issues - savings, safety nets - progress can be made but we maybe need to think in different ways and the question there for the industry is do you need to think in a different way from what can you sell to people to how do you take your share of the risk? The financial services industry has and continues to get in various different ways public subsidies. How does it then help share the risk, particularly with things like mortgages and credit. Similarly, with essentials really. Whoever wins the next Election, there are possibly billions-worth of welfare cuts hovering in the background. Say some of that falls on housing at the same time when private rents are rising, how do we square that circle? The risks that are getting passed to individuals, the flip side of personal responsibility is that people are shouldering risk where we are desocialising and privatising risk. What are the responses from Government if the welfare safety net is cutting back? If we are going to make insurance and financial services products shoulder some of that burden, we are not going to do it very well by saying the simple products approach of how do you sell things for individual consumers because those most at

risk will not be able to afford it. There are some interesting questions about safety nets and that aspect of financial health and financial inclusion; who should be involved in paying to deal with the risk.

If we look at things like the private rented market, housing benefit is a £9 billion subsidy a year to private landlords, in a sense. If you cut that back, who needs to contribute to a better safety net?

Q. Chairman: Thank you Peter. We have got less than quarter of an hour left.

Mr Fitch: I have to leave now. I am terribly sorry.

Chairman: Thank you, Chris, for your very original contribution. Chris, would you like to open the questions?

Mr Pond: One of the questions I wanted to explore was that relationship between financial inclusion and debt and I think you have very effectively answered that, especially in your opening remarks, Joanna, when you were talking about the fact that financial exclusion itself pushes people into debt and vice versa. That is one of the points we really want to drive home. I would be happy to leave the time for others to ask their questions.

Chairman: Martin, I know you are here in a personal capacity and there were some questions assigned to you but is there anything you would like to ask from the point of view not as someone representing the regulator but someone with a view of the role of the regulator or by all means do ask about e-Commerce.

Q. Mr Coppack: I would like to address the issue around inclusion and exclusion and what steps should we be taking to ensure we turn this into an opportunity to drive inclusion and not create a barrier?

Ms Elson: Can I put a thought in there which sort of answers that but it comes out of something that Chris said earlier. One of the players we have not identified as being important here is employers. Chris talked about the NHS and how many people working in there might be excluded. I do not know if any of you saw, there was a *Panorama* programme a few weeks ago and we were involved in some of the cases for it. The thing that struck me as I watched it was there was a case (it was not our case and I will not name the employer) of a major supermarket. There was a couple. The man was a supermarket driver and the woman was a check-out operator. They had two small children. They lived on the outskirts of Glasgow in a housing estate. He was full-time, she was part-time. They really struggled to pay their rent and one day a week the adults did not eat so the children could eat. Those two people work for a major employer and something has gone seriously wrong. We could talk about - and I will not take up the time talking about it - the living wage and there are all sorts of things that are broader than the financial inclusion question that need to be addressed, but it also strikes me that employers have a responsibility to ensure that their staff are included and not excluded. Particularly these enormous employers who have got lots of routes into this. We have talked about savings. Is there not a way through the payroll of helping people to save small amounts? We know that that is difficult on very low incomes but we also know, and I have heard Brian talk about consumption sacrifice, but be careful with that because some people have very little, but the point Brian made was a really good one, I think. When people are successfully paying their debts back they have to make a sacrifice to do that. If you could get them to make that consumption sacrifice earlier they would have the kind of cushion that Peter is talking about. I appreciate it is difficult particularly when I am telling you about a family who are not eating,

but if we could find a way of engaging employers. The government also has a big role to play here in feeling a responsibility to those people, not just about the ways they pay but about how to help them to be included. I think that would be a big step forward and quite a long way from where we are now.

Q. Mr Pond: Can I ask a supplementary on that one because Joanna and I have played around with these ideas in the Debt Banking Group which Sian and Martin are also involved in. Is there a role for using the automatic enrolment approach?

Ms Elson: Quite possibly.

Q. Mr Pond: It seems to be working reasonably well in pension savings. Employer-based savings give people that cushion that Peter talked about for the 13 million people who have not got that resilience. Is that a solution?

Ms Elson: I think that is a very good idea. Anything where we make it easy for people. That is what it is about. One of the things we are saying to DWP about Universal Credit is why is it that we are waiting two months for people to get into difficulty before we offer them that their housing benefit could be paid direct to the landlord? I do not have to worry about my National Insurance contributions and how I am going to pay them because that is taken directly. Anything where you can help people to do that seems to me to make sense.

Mr Stearn: One the things that Citizens Advice did with Consumer Futures and other organisations was try to work out a British standard for inclusive services, which we did in 2010. The idea was to give really clear guidance for companies about how they can behave in an inclusive way. I have been rather saddened by the lack of take-up there has been from large companies, but by doing this work with the regulators, for example, we saw Ofgem say to the energy companies, “You can use this as a tool.” It has a very boring name BS18477, which is

not the most memorable number but it is engrained in my head. The Financial Ombudsman took it up very quickly and if you want to hear anybody talk about what a difference it can make to an organisation, talk to the Financial Ombudsman because it has made a huge difference to the way that they approach clients and makes a difference to the thinking within the organisation because you get front-line staff thinking in an inclusive way - and again there is a real role that civil society organisations can play in that training, it really does change the mind-set. Companies will start to think not only about how they can make profits but also benefit from being fair and inclusive rather than just ignoring it.

Mr Tutton: Digital inclusion/exclusion is probably not that different from any of the other questions we are interested in of how do firms and government service providers generally have a strategy to ensure that the needs of all their customers are taken into account. We are a very large digital service provider. About half our clients come to us on-line and they get their debt advice on-line. It is massively cheaper to give people debt advice on-line, so in a sense by getting some people on-line we will be helping a load more people, so the more we do stuff digitally, the more we can help include a broader range of people strangely, but you need to then back that up with a strategy. The question there is that the funding regime means there is pressure to do more of the stuff that is of low unit cost. What is the countervailing pressure to ensure that firms are continuing to take this up? Your vulnerable consumer strategy may be the answer to that question.

Mr Coppack: No pressure then!

Chairman: Sian has a question and then I am afraid we are going to have to wrap this session up, but if you can linger behind I would like to talk to you individually.

Q. Ms Williams: Because this is the only session where we have got the debt experts in the room I want to come back on the link from debt into financial exclusion. We know about financial inclusion and exclusion linking into debt, but I really want to pick up those points. We did some work on that in the CSJ report but with Peter here as well I want to pick that up. When you are looking at clients who experience debt, what is your specific experience (and potentially later in written evidence) around the data for that of current financial instruments and current debt instruments and debt options leading to financial exclusion. I am thinking in particular about limits around IVAs, bankruptcy, et cetera, and access to credit and financial services.

Mr Tutton: That is a good question and I guess the starting point in what consumers worry about. We have asked some of our clients, “Why did you wait so long to get debt advice?” and one of the things that came out that if they got debt advice it would ruin their credit rating. Their credit rating was probably already ruined, but that perception in terms of getting people to engage with that advice is whether they will be cast out as consumers and becoming debtors and not consumers is a significant worry. I guess one of the things that we started talking to the industry about, but from which we are still light years away, is how do we begin to manage debt in a way that looks more like normal. There is a great divide at the moment that one minute you are a consumer and the next minute you are a debtor and they are two completely different species of things to be. The more people are worried about being cast into being a debtor, the more they are likely to behave in ways that make their debt problems hard to solve. So why is it that people are taking payday loans out to pay their rent or their fuel or to pay for other credit? It is because they are worried about the alternatives and they are willing to pay a load of money and endure incredible hardship (because people are not stupid and they know that it is going to come out of next month’s budget) because they are desperately trying to stay in the game. So in a sense the process whereby people are trying to stay in and they are behaving in a way to

cope means when they fall over they fall over harder. The question there is because we have inclusion/exclusion, there is a kind of circle of you are in or you are out and that is driving all sorts of bad behaviour. Creditors play on it. We know that creditors by refusing to help people drive these behaviours further. Apart from voluntary debt remedies, the statutory debt remedies are very focused on giving people a fresh start, there needs to be more focus on recovery and rehabilitation, and in particular 60 per cent of the people we see are people who are in temporary financial difficulty. They lose their jobs, they are ill for a bit, their relationships break down, but they are going to recover, and it is a dip. The behaviours I have talked about rather than dip make people go into a deep and prolonged debt crisis. The key bit is when people start to dip, how then do we manage that situation so they get as little exclusion as possible? Can firms just say, "We will hold everything. A bit down the line in a year's time you will be somewhere close to where you were. In the meantime let's freeze that time so you do not fall out of the market"? That is not what is happening at the moment. Things move the other way. What we see accelerates the process of exclusion, hardship and distress.

Ms Elson: Could I just come in on that one briefly. We can send you this but this is the chart that we give to our advisers at National Debtline which sets out the debt solutions that are available. It is a decision tree. It is quite complicated, as you can see. If you were trying to negotiate that on your own that would be quite a complex thing to do. Also it has not changed very much. This is the 2010 edition and it has not changed. I have talked about and Pete has talked about too the changes in people's issues. Many of these are not really relevant any more. Many people cannot afford £750 to go bankrupt. The DRO limits do not work and, as Pete said, there is no real solution for people who just need a breather, they need some breathing space, and if you could freeze interest and charges as they do in Scotland that would help people. We can put the detail in a letter to you, but I would say those are not fit for purpose any more and any incoming Government ought to be looking at them.

Q. Ms Williams: I do not know if your data can do this but any data that evidences that current debt solutions increase the chance and the risk of financial exclusion rather than creating inclusion opportunities would be really helpful.

Mr Tutton: There is an interesting sub-text of that. One of the things that is a part of the advice process is people are often advised to change their bank account because the bank account is shredded, the banks are exercising the right of set-off, dipping in, there are charges and that bank account is at the hub of the financial chaos. Interestingly, a lot of our clients say, "I don't want to change my bank account. I am broadly happy where I am. It is an effort." 60 per cent of basic banking accounts are there because people have fallen out of mainstream banks because of debt. The question there is do we change the focus of the banks of moving them away from that bank to another bank to how they keep them as a customer? In other words, how do you stop what is going on with that bank account which is causing people detriment? Stop dipping into it. There are some interesting questions there.

Ms Elson: I can help with that as well. I just want to say I think it is also worth paying attention to the strategies people try to adopt to avoid debt. When I was running the Child Poverty Campaign, I remember meeting quite a few people who did everything they possibly could not to get into debt. I remember talking to a lone parent who had two children. He had no carpets, he had an oven that did not work and he was doing absolutely everything he could to avoid any form of debt whatsoever, to the detriment of his family because he just did not have the income to work. I said to a bank recently how would you look at that family in relation to loans, et cetera, and they said no, they have no credit rating. So just remember the strategies that people adopt of turning off their energy to avoid debt, et cetera. It is not just the issue of debt. It is groups of people who have very clear strategies to avoid debt as well. It is terribly important to remember.

Chairman: Thank you all three of you very much indeed. I found that absolutely fascinating. We could have gone on much longer. Will you please all write to us and email us with further material? Joanna, the booklet please and the decision tree. Jonathan, your further ideas. I would also be interested in any of thoughts you have on this space. What should we be recommending in the field of statutory duty on financial service providers to promote financial inclusion? How should the terms of reference of the regulator be changed, if at all? Is there a parallel with the statutory duty on employers to provide disabled access or whatever it may be? Is there something in that space? Any thoughts any of you have got in that area would be most welcome.

Mr Pond: And on that last point is there something in that legislation which, if interpreted appropriately, would require both the regulator and individual firms to promote inclusion in that sense in the financial sphere just as it does in others.

Chairman: Or to ensure that at least some of their products are suitable. You would not expect their whole suite of products to be suitable for everyone, but if part of the spectrum was a suite of products that were accessible and appropriate for everyone. That is something we could perhaps think about. I do not know whether the staff could look at whether there has been work done in other parts of the world such as Scandinavia on this. Thank you all very much indeed.
