



# The Financial Inclusion Commission

CAP's official response to the  
Commission's call for action

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christians  
against  
poverty

**CAP**

Lifting people out of debt and poverty

## Introduction:

**Christians Against Poverty (CAP) is delighted to contribute to the Commission's review on Financial Inclusion and is keen to add our support to the Commission's core objectives.**

Over the last eighteen years, CAP has gained extensive experience working with those in financial difficulty. Unmanageable debt causes physical and emotional hardship. CAP has seen first hand the poverty and isolation many of our clients endure as a result of their financial situation. In addition, feedback received from delegates of CAP's financial education course demonstrates increasing financial capability has a significant impact on those in a wide variety of financial circumstances.

Although CAP clients are not financially excluded in terms of being unable to access basic banking services, our experience offers insights into other areas of financial inclusion, such as saving and financial capability. We are pleased to be able to add this experience to the Commission's call for evidence and would like to submit responses to the questions that are particularly relevant to our expertise.

**CAP is a national charity aiming to lift people out of debt and poverty through an award winning debt help service, financial education, job clubs and release groups.**

CAP operates through a network of 270 CAP Debt Centres, with 364 local agents visiting clients in their homes. Debt advice and management is then provided from Head Office. CAP helps over 12,000 households each year with their debts, and 2,122 clients became debt free in 2013. In addition, CAP is the largest face-to-face provider of financial education in the UK. Partnering with 879 CAP Money Churches, who run three-week money management courses in their communities, over 12,000 people each year complete the CAP Money Course.

As well as supporting those in financial difficulty and working to improve financial capability, CAP is targeting the wider causes of poverty and financial difficulty. CAP runs 101 Job Clubs, through which 196 people have found work since their launch in 2013. On average those attending CAP Job Clubs have been out of work for two years. Furthermore, CAP recently launched CAP Release Groups to help those with dependencies. There are currently 26 active CAP Release Groups in the UK.

## Summary:

- Technology will not accommodate all needs and preferences.
- Saving is important for those on low incomes too.
- Saving can sometimes, but not always, act as a preventative measure for financial difficulty.
- Financial education should be provided to help encourage and facilitate saving.

## General

### 3. Do you have any practical examples of financial inclusion initiatives that have been successful?

CAP works with 879 partner churches to run the CAP Money Course, a three-week money management course, equipping over 12,000 people each year to budget, save and spend wisely. As well as overwhelmingly positive feedback from delegates of the course, who have found it has equipped them to gain greater control over their finances, CAP's statistics show that, despite living in an increasingly card based society, the course has been successful in promoting the use of cash. In fact, the use of cash is a key principle taught on the CAP Money Course and on average 53% of delegates live on cash after attending the course. Empowering people through financial education, so they fully understand and consider the consequences of their actions, enables them to continue to make informed financial decisions.

"After the CAP Money Course, I feel more in control of my finances, instead of them controlling me!"

"I think more about how, and what, I am spending. Do I need this or do I simply want it? If it's the latter, I don't buy it – real progress for me!"

"I was always quite good with money. The CAP Money Course taught me vital skills. I now understand the best ways to spend weekly cash. I have learnt better ways to save, I'm free from having to feel stressed about upcoming events like birthdays, Christmas and holidays."

## Digitisation, squeezed budgets and welfare reform

### 5. What opportunities are there to use technology to facilitate financial inclusion?

While technology is a great tool to distribute information to a wide audience, it is important to consider it is not suitable for all. Many of those in financial difficulty that CAP work with do not have internet access at home. It is also common for people to prefer to discuss their finances in person. Therefore, to facilitate financial inclusion for all, a variety of programmes need to be provided to suit a range of needs and preferences.

## Savings products

### 19. Should policymakers enable and encourage people on low incomes to save, particularly in the economic downturn?

It is often assumed that those on low incomes are unable to save. Whilst the ability to save is constrained by a person's financial means, those on low incomes should also be encouraged to save. The average income of a CAP client is £12,840, yet savings are still built into the majority of budgets created for clients, even if this is just £10 or £20 a month. It is those on low incomes that are most vulnerable to unexpected expenditure. There should be strong encouragement for this group in particular to have savings despite their low means. Even a small amount of savings can help people deal with periods of increased expenditure, such as Christmas, or annual expenses such as an MOT. Savings help people deal with unexpected expenditures and income shocks without needing to use credit.

### 20. To what extent can savings act as a preventative measure, helping people to avoid debt?

There are several ways that savings act to prevent debt problems. Firstly, as part of budgeting effectively, saving allows the cost of big regular purchases to be spread out across the year. This reduces the overall cost compared to using credit, even if the individual doesn't get into problem debt as a result of using credit in this way, e.g. saving up for an MOT rather than paying on credit. In the same way this is true for other significant purchases, such as replacing a sofa or white goods. Many clients prior to working with CAP would buy such items on hire purchase. As well as costing more, buying items in this way makes people vulnerable to losing essential household items if they enter a state of financial difficulty and struggle to keep up with repayments. Furthermore, saving to pay for services and products on an annual basis rather than in monthly instalments also reduces the poverty premium incurred on items such as TV licenses and insurance policies.

With CAP clients are encouraged to make general savings into their CAP Plan. Designated savings for things such as MOTs are included in clients' budgets. The primary reason is so clients do not need to take out additional credit while working with CAP to pay off their debts, but also to financially educate clients about the importance of planning and saving for purchases. Research shows 96% of CAP clients remain debt free after CAP's service, with 78% using no further credit at all. This shows how effective encouraging saving can be in reducing financial difficulty.

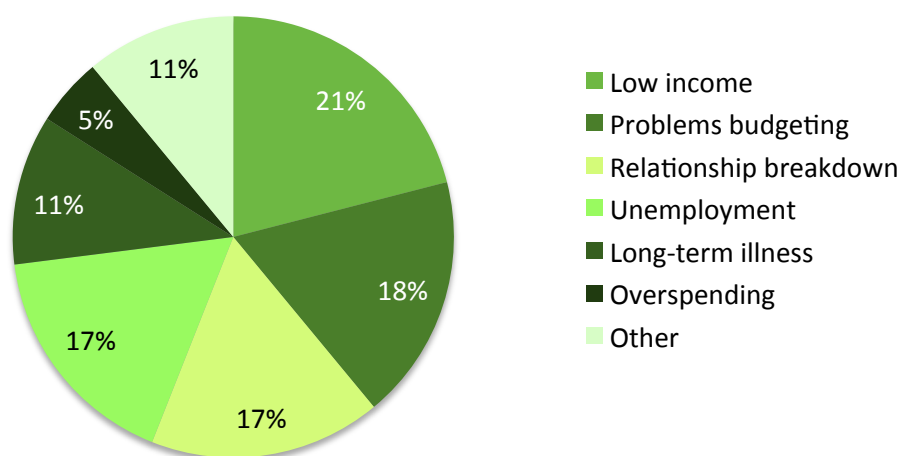
However, it is important to note that not all debt problems could be avoided through savings. Fig. 1 shows the primary reasons for indebtedness. The top two causes, 'low income' and 'problems with budgeting', suggest that debt problems could be prevented by increasing people's ability to manage their finances, especially on low incomes. While saving is an essential part of this, CAP would encourage the commission to view saving as only one element of financial capability, which gives people the power to make well informed decisions and take positive financial actions.

It is also important to point out that in CAP's experience not everyone in financial difficulty lacks financial capability and savings. One client for example, worked in the financial industry - managing projects with million pound budgets - and managed her finances well before falling ill. She was then unable to inform her mortgage company why she'd missed

payments, and the resulting debt problems were not due to a lack of knowledge or financial resilience, but being physically unable to manage her finances at that time.

Nevertheless, financial difficulty also frequently arises due to unforeseen circumstances - in fact 17% report the primary reason of their debt as unemployment. Having savings to fall back on without having to resort to credit offers people a way of dealing with income shocks without getting into debt. However, this is only sustainable for short-term income shocks. People also need to have the skills to adapt their expenditure and access support in the case of longer-term income changes.

**Figure 1: Primary reason for debt - 2013 Client Report**



## 21. What incentives to save work best for people on low incomes, and how might the costs of these incentives be met?

Most people understand the importance of saving and believe it is beneficial, but don't feel in control of their finances. From CAP's experience, equipping people to manage their finances well allows people to take control and plan savings into their budget. While incentives can play a role, the biggest barriers are poor budgeting skills and accessibility. The CAP Money Course encourages people to think about their future needs and financial resilience, while giving them the tools they need to put this into action. Giving people control over their finances as a whole allows those on low incomes to free up the small amount they're able to put aside. Savings need to be kept separate to expenditure accounts, but need to be easily accessible when needed. CAP finds it is helpful for clients to separate designated and general savings, to envision which savings are for planned purchases and which are for general emergencies.

"After doing the CAP Money Course I realised that we were struggling to make ends meet because my husband gets variable wages. We have now started saving, putting regular, small amounts aside ready for the months when my husband's work is slack."

## 22. What practical steps could be taken to foster a savings culture in the UK?

There are prominent social influences for people to borrow money, especially through advertising of credit products. To help combat this financial education courses should be provided across the UK to equip and encourage people to make space for savings in their finances. CAP believes people of all ages and income levels can benefit from financial education and therefore the CAP Money Course is open to all. However, to foster a savings culture it is particularly important to promote financial education in schools. Financial education equips children for when they reach financial independence and instils the value of saving from an early age. In the past, the finance industry has been prominent in providing this, but these courses have been focused on financial products rather than financial education, such as budgeting skills. CAP recently launched CAP Money Kids and CAP Money Youth. These courses are run in schools or youth groups to teach basic budgeting skills, teaching children how to manage money and introducing them to the concepts of financial security and resilience. So far 92 CAP Money Kids and 346 CAP Money Youth course training resources are being used by our volunteers.

“I was always quite good with money. The CAP Money Course taught me vital skills. I now understand the best ways to spend weekly cash. I have learnt better ways to save, I'm free from having to feel stressed about upcoming events like birthdays, Christmas and holidays.”

### Requests for further information

This response has been written by Rachel Gregory, External Relations Analyst for Christians Against Poverty.

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