Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux
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generations of good advice

Financial Inclusion Commission: Consultation 2014

Response from Citizens Advice Scotland

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Fraser Sutherland, Policy Officer

Citizens Advice Scotland (CAS), our 61 member bureaux and the Citizens Advice Consumer Service helpline form Scotland's largest independent advice network. Advice provided by the Scottish CAB Service is free, independent, confidential, impartial and available to everyone. Our website, Adviceguide, also provides the public with up to date information on a range of topics. We are champions for both citizens and consumers and in 2012/13 we helped over 314,000 people deal with over a million issues.

Scottish Association of Citizens Advice Bureaux – Citizens Advice Scotland
(Scottish Charity SC016637)

CAS are pleased to respond to the Financial Inclusion Commission's consultation and we look forward to seeing the results of the commission's work. In this response we have considered the areas of financial services where we see our clients are particularly impacted by financial exclusion. We have also identified potential policy remedies that may be able to support positive changes in the provision of services for excluded consumers. CAS, and our CAB members, have long been associated with financial inclusion projects and support work and we have identified some key examples of positive projects that the Commission may be interested in.

Contents

Affordable and fair credit

Bringing the excluded into mainstream credit

There are a number of challenges for the providers of mainstream credit and high street banking to provide the lending products that the financially excluded are seeking. The rise of payday lending products was brought about by a need for individuals to access short term small amounts of lending that was not being delivered by the main financial providers. This product type was, and still is, popular given it meets the demand for quick access credit that excluded consumers are looking for.[1] Mainstream financial institutions however have declined to engage in or develop products that meet this market demand allowing the alternative consumer credit firms to thrive in a space where there was little competition on price.

This lack of participation in this area of the market could be because the banking industry is particularly keen to avoid bad publicity that has been associated with high cost lending products. It may also be that they see this customer type as too great a risk This is potentially driven by the stubborn reliance on credit scoring of an individual and not trusting a bank's own relationship with a customer as a value of whether they view that individual as credit worthy or not. The scoring therefore becomes a barrier to excluded individuals whose options of lending products are narrowly restricted to the most expensive products.[2]

If banks were to consider offering products to those financially excluded on the basis of an affordability check the bank may find that their customer could reasonably afford to borrow. Such checks should take into account the level of income against any necessary spending and other debt commitments the customer may already have. The lender can then build a relationship with the customer on a basis of increasing the amount the borrower can have after the original loan has been repaid and at improved rates as the lender builds up a history between them and the borrower. Credit scoring also has a detrimental effect on those who have never borrowed before, they have no previous record score and on occasion this can confusingly be more detrimental than having a poor history of borrowing. Consumers often cite frustration that because they have saved and never relied on credit before that this means they are excluded from affordable borrowing.

Credit Unions and other alternatives

Credit Unions have long been cited as an answer to the supply of affordable and accessible credit and they provide some highly competitive and fair products.[3] CAS have and will continue to champion financial movements which keep the money in a local community for the benefit of that community. We have been particularly impressed with the 'Starter for Ten' initiative by Glasgow City Council to link credit unions to their local community through funding accounts for schoolchildren.[4] There

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[1] CFA, Credit Crunched, 2013
[2] FCA, Consumer Credit and consumers in vulnerable circumstances, 2014
[3] Church of England, 'War on Wonga', 2014
[4] Glasgow City Council, Unique project gives Glasgow's Future Savers a starter for ten, 2014

are challenges for the Credit Union movement however in how much they can fund borrowing. Borrowers commonly need to be savers with the union as well to access funds thus making it difficult for those on very low incomes to access funds.

Other models such as the community development finance initiative can also seek to give access to credit when a consumer is seen as unserviceable. The ScotCash initiative in Glasgow brings together budget management and financial advice services with lending products that ensure they are affordable for the borrower.

Debt handling and assistance

Debt collection practices have improved across many markets in recent years though some firms still maintain aggressive and adversarial approaches to dealing with arrears. Moves by the FCA to encourage early support for arrears for mortgage customers has seen great improvements in the relationships between debtors and their lender[5]. Firms should see it as part of their responsibility to contact borrowers early where they have failed to pay and offer guidance and support to the borrower on how to manage debt problems. Strong evidence exists that when individuals who are struggling access independent debt advice that this not only helps support the client but often results in better recovery over time of the debt owed to the creditor.[6] We would encourage that the links that already exist between charitable free-to-access debt advice and lenders are further built on to help the maximum number of struggling borrowers. The benefits to creditors are especially true where intervention is done at an early stage than waiting until debt has accumulated to a significant problem.

Insurance

Closing gaps in the safety net

A constant problem for low-income households is their ability to afford insurance products that would provide a safety net against unexpected costs or life shocks. Low-income households have especially had low uptake of home contents insurance (52% without) and this has appeared to have changed very little over the last 15 years.[7] Despite the low uptake often the benefits would be particularly helpful to low-income households who have been shown to be at higher risk of burglary, fire and flood than higher income households.[8]

Low income households are also hit hardest by the loss of a partner or family member which can have devastating impacts on a family's budget. Unfortunately research shows that these individuals are the most likely to not have life insurance

[5] FCA, Thematic review on mortgages lenders' arrears management and forbearance, 2014
[6] Friends Provident Foundation, The impact of Independent Debt Advice Services on the UK credit industry, 2010
[7] Friends Provident Foundation, Developing a vision for financial inclusion, 2012
[8] Chartered Institute of Housing, Tenant Contents Insurance, 2011

protection.[9] While many individuals quote the high cost others also quote lack of understanding or trust in what the provider is offering. CAS is also aware that the impact of PPI miss-selling has also damaged the reputation of critical illness cover which could be beneficial to many individuals.

While the cost of a death in the family has increased seven times the rate of inflation in the last year[10] cover to help cushion the blow of bereavement is necessary. This however has to be in conjunction with improvements to the state's support for low-income families to help cover the true costs of a funeral.[11] Some employers provide insurance cover for their workers as an employee benefit and we would encourage a further roll-out of such initiatives especially into low-paid jobs.

Digitisation, squeezed budgets and welfare reform

Digital Impacts

Digital delivery has undoubtedly changed the way in which consumers interact with markets. There are now more consumers than ever before who bank online and make transactions on mobile devices.[12]

These new technologies have allowed for a number of positive developments for consumers such as giving them access to a wider choice of products and services than they would have had on their own high street. A wider choice of options on products online for consumers means they can look for better deals or products with specific features that they specifically want.

Cheaper deals or promotional rates can sometime be offered online which results in better savings or returns to a consumer. It can also put the consumer in greater control of their finances through use of new technologies such as text or email alert.

It is now easier than ever for consumers to compare and contrast products, services and firms. Not only can they do comparison on price but also find information and data about a firm's practices and policies and see if they meet what the consumer is looking for[13]. Consumers can now also access extra information and advice on their consumer rights making many more informed and better equipped in the financial marketplace.

However there are significant drawbacks to the push for digitisation to completely replace all other traditional methods of interacting with financial services. Many face-to-face services have been withdrawn altogether and branch closures have meant that some consumers now have no physical provision in their locality[14].

[9] Friends Provident Foundation, Delivering insurance to low-income households, 2009
[10] Sun Life Insurance, Cost of Dying, 2014
[11] CAS, Real Deal: Funeral Costs, 2014
[12] BBA, It's in your hands, 2014
[13] Consumer Futures, Price comparison websites: consumer perceptions and experiences, 2013
[14] Deloitte, Bricks and clicks, Mapping the future of branches, 2014

In some areas it is already starting to create a two-tier service where those who cannot, or will not, access digitally are losing out on the best deals or service by their provider. Those who do not access online service can often be the most vulnerable consumers and not being able to access these services can hit them hardest of all especially if they receive little support at home.

We are concerned at the assumption that in time everyone will be online and access their financial service in this medium. There is conclusive research from a variety of bodies[15,16,17] that there will always be a small group of people who cannot access internet services. Policy development by firms, government and regulators must keep this in mind and ensure that well-meaning changes to improve the customerexperience does not completely close off all other channels of service delivery.

Technological Opportunities

One of the key benefits of new technology is the ability to offer products on a large scale across the country. By using technology, coupled with face-to-face service, a better range of products can be brought to the consumer that will meet their needs. Indeed sophistication in technologies used by financial providers allow for products to be tailored to the needs of the individual. The costs of running what may have been seen as 'expensive to administer' products have reduced thanks to improvements in technology. It is important that financial service providers see technology as an enabler rather than a barrier to offering the products that consumers need.

New technologies have already helped assist consumers with budgeting through text and email alerts and updates about their accounts value or status[18]. These 'live' updates can help consumers keep track of spending and income and query any unexpected drops in balance. It can also help them avoid unnecessary fees or charges on unauthorised overdrafts.[19]

Budgeting accounts, such as Jam-Jar accounts, have a number of beneficial features that research has suggested that consumers find helps them control their money management[20]. The current barrier to this service becoming more widespread is the price, with many providers charging £14 a month for such an account. Research by Social Finance suggests that consumers may start to see financial benefits and uptake increase if costs were reduced to £4 a month. Some providers of Jam-Jar accounts such as credit unions also link up with financial advice charities such as Citizens Advice Bureau to provide a complete rounded service[21].

[15] Royal Society of Edinburgh, Spreading the Benefits of Digital Participation, April 2014
[16] Citizens Advice Scotland, Offline and Left Behind, May 2013
[17] Carnegie UK Trust, Across the Divide: Tackling Digital Exclusion in Glasgow, 2013
[18] BBA, It's in your hands, 2014
[19] TSB, Text Alerts: Keep track of your money when you're on the move, 2014
[20] Social Finance, A new approach to banking: Extending the use of Jam Jar Accounts in the UK, 2011
[21] Crisis, Saving Scotland: Credit Unions and Jam Jar Accounts, 2014

Technology can help consumers in terms of choice and offer much wider range of competition for their business. The success of Price Comparison Websites has helped many consumers switch to better deals and opened new options than they would have had access to before. However price comparators must be open and transparent in their dealings with consumers and concerns have been raised previously regarding whether this is currently actually the case.[22]

New technologies could open the possibility of reducing the running costs of branches meaning banks are able to keep more of these front line services in communities. Barclays bank has been trailing video banking as a new technology and in conjunction with self-service counter services this may make branches a viable and less expensive option.

Impacts of financial downturn

The impact and fallout of the financial crash of 2008 is still being felt by many individuals, especially in terms of the availability of credit. Credit offering by major lenders in the subsequent period following the financial downturn contracted substantially.[23] This resulted in the growth of alternative lenders who looked to provide products to a demand for credit to the consumer who was seen as ‘uncreditworthy’. These products operated, and to a certain extent still do, in a marketplace that was uncompetitive in price. Consumers using high-cost short-term credit needs were immediate and often necessary and as a result of these pressures not price or rate conscious[24,25]. The exclusion from traditional credit markets led to certain consumer groups paying expensive interest and fee rates for small sums of money for basic living costs.

The impact of the downturn on financial institutions has, in many firms, been passed onto the consumer with many financially excluded losing out the most. Savings identified by major banking firms have often focussed on the estate network and a need to reduce the costs of branch services. This has resulted in branch closure programs which while saving costs for the firm can have a detrimental impact on the customers they serve.[26] A University of Nottingham study (2013) raised concerns that branches in poorer socio-economic areas were closing at a faster rate than similar services in more affluent areas. As such institutions pull out of serving these communities, more expensive and predatory types of lending systems have moved into to take their place.

The downturn has also had a massive impact on the number of those facing the realities of in-work poverty, where the level of their pay has failed to keep up with the cost of living. These low paid workers, while having an income, in reality have very

[22] Consumer Focus, Comparing comparison sites, 2013
[23] ESRC, Recession Britain: findings from economic and social research, 2009
[24] CAS, Payday Loans: Your rights, their responsibilities, 2012
[25] BIS & Ipsos MORI, Making Consumer Credit Markets Fairer, 2013
[26] University of Nottingham, The Changing Geography of British Bank and building Society Branch Networks, 2013

little to spare and struggle to make ends meet.[27] ONS figures have shown how since 2008 real wages have fallen continually thus putting significant pressures on household budgets.[28]

Welfare Reform

Welfare Reform changes have resulted in a number of issues for claimants in trying to budget their finances in a sound and sustainable manner. A number of the reforms have lead to delays in the system in claiming benefits or having them paid[29]. This can result in a shortfall of income to cover costs and on occasion forcing individuals to borrow in order to meet the costs of living. The introduction of mandatory reconsiderations has resulted in some claimants spending months with no income at all or struggling to manage delays in payments.[30] The sanction regime with regard to Job Seekers Allowance and Employment and Support Allowance has been highlighted by many commentators as particularly grievous and forced many individuals to survive in intolerable circumstances.[31]

These impacts of welfare reform often leave clients unable to budget and leave them open to being hit by fees or charges on bank accounts or late payments on credit leaving them with even less to manage with. In some circumstances many individuals have now completely left the banking sector due to bad experiences of losing large proportions of their budget to fees or charges.[32] The financial sector will therefore have to revolutionise the way it sees and treats low-income consumers to win back trust and their custom.

Free non-penalty charging banking services need to become the norm for high street banking providers. Consumers in low-income circumstances have become significantly risk adverse to fees and under the current system remain wary of using services that may result in them being unable to control their budget. This must be combined with inexpensive short term lending products that allow those surviving on low-incomes the ability to spread costs of unexpected costs or large domestic goods making them affordable.

Support and advice services for those experiencing the knock-on impacts of welfare reform has been shown, that while it assists those struggling, is lacking in resources and availability to meet the demand.[33] Financial institutions have and should be encouraged to further develop partnerships with advice services to allow for assistance to be given to those who need help. Improving financial understanding and confidence of those affected by changes can also assist and programs, supported by financial services industry, in the past have had positive results.

[27] Living Wage Commission, Working for Poverty: The scal of the problem of low pay and working poverty in the UK, 2014
[28] ONS, An Examination of Falling Real Wages: 2010-2013, 2014
[29] CAS, Voices from the Frontline: PIP, 2014
[30] CAS, Voices from the Frontline: Mandatory Reconsiderations, 2014
[31] CAS, Sanctioned: What benefit?, 2014
[32] Iona Community, Food, Fuel & Finance: tackling the poverty premium, 2014
[33] SCVO, Welfare Reform mapping report, 2013

Examples of successful projects

Integrated Money Advice Pilot – Martin Lewis funded

In 2012 Citizens Advice Scotland received a £85,000 donation from the founder of moneysavingsupermarket.com Martin Lewis to go towards financial inclusion work as part of a £1m donated to the CAB service across the UK. This money was used to run a number of pilot projects aimed at integrating money advice services in the CAB local area. Eighteen CABs ran projects with the following good examples of improving financial inclusion with their funding:

- Motherwell CAB, alongside the local authority has provided targeted support for residents of the deprived area of Craigneuk. They have employed a Money Adviser who has carried out home visits and doorstep advice clinics. The bureau has found that the number of clients from the Craigneuk area attending the main bureau has increased. The project has particularly tackled poverty, including food and fuel poverty by providing financial support and advice in this area. Residents received up to 5 appointments with a money adviser in order to ensure long term benefits for particularly vulnerable clients. Client Financial Gains of £45,342 were recorded as a result of this project.

- Inverness CAB has produced a self-help pack and held awareness raising sessions within the local community. The bureau has provided second tier support to professional staff in the local community. This includes specialist support in a range of issues including housing, benefits and employment advice. The bureau has also established a referral system with Woman's Aid.

- The funding enabled Coatbridge CAB to offer home visits and evening surgeries in debt advice for the most vulnerable clients. Client waiting times have also been minimised. The bureau has also worked closely with Partnership Action for Continuing Employment (PACE) to support clients facing redundancy.

- Parkhead CAB has worked closely with Glasgow Association of Mental Health in order to improve the financial confidence of people with mental health issues. Twentyone clients received support from the part time debt worker whose post was funded by the project. Ten of these clients received ongoing support to manage their finances. The money adviser has provided 4 awareness raising sessions to 44 staff and 60 mental health service users covering budgeting and the impact on mental health.

- North Ayrshire Citizens Advice Service has used their funding to employ a part time Money Adviser in order to hold one - to - one advice sessions and information events highlighting the issues associated with payday loans and the various alternative options available. The bureau has led Q&A sessions at Ayrshire College and worked closely with 1st Alliance Credit Union to provide clients with options of low interest loans. Their participation in a local Multi Agency Problem Solving Group has meant that members of staff within local agencies now have increased awareness of the risks payday loans and credit lending.

- Denny & Dunipace CAB established advice and information sessions at its Bonnybridge Community Centre. They have also developed their relationships with other organisations such as Credit Union, Literacy Numeracy and Work Clubs which has led to an increase in the number of referrals from these agencies.

- At Falkirk CAB, staffing hours have been increased by 15 hours a week to enable the bureau to provide additional outreach sessions. Although this was originally intended to be held at a local GP surgery, due to a change in demand, the outreach has now moved to the Forth Valley Royal Hospital where advisers have worked with clients to develop personal plans to find suitable debt remedies and prevent debt recurring.

Energy Best Deal

The Energy Best Deal programme seeks to inform domestic energy consumers about how they could reduce their energy costs: by changing tariff, payment method and/or supplier, taking up energy efficiency measures and by providing debt advice. Run by Citizens Advice in England and Wales and Citizens Advice Scotland in Scotland, the programme offers domestic energy consumers and frontline workers (both paid workers and volunteers) the opportunity to attend an information session on getting a better deal on their energy bills.

Between October 2013 and April 2014, 187 sessions were delivered by 18 Citizens Advice Bureaux in Scotland. In total during 2013/2014, the programme reached 10,349 consumers and 5,408 frontline workers. The programme will have an ongoing impact through the consumer advice work of the frontline workers.

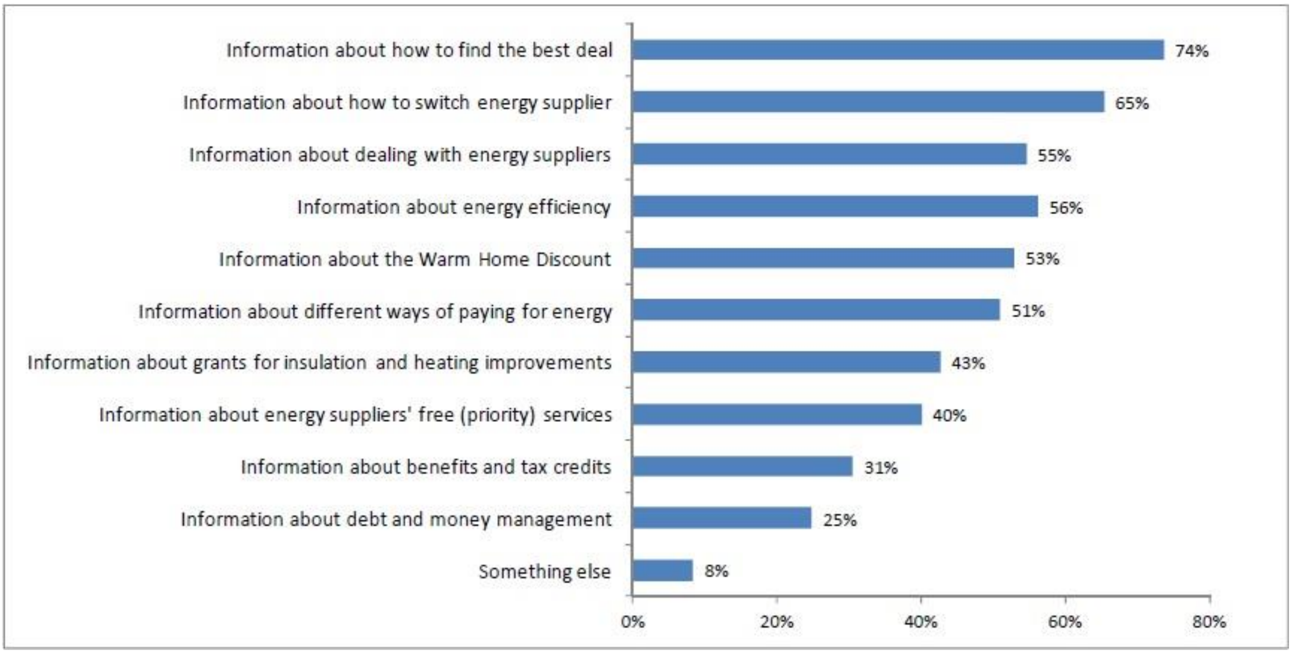

Figure 1: What attendees found useful at energy Best Deal Session (Scottish Sessions only)

95% of attendees found attending the sessions useful with the most common positive aspect about how they could find the best deal for their energy and information about how to switch but advice on debt, money management and income maximisation was also given to attendees (see figure 1).

Follow up interviews with attendees found that 73% had taken steps either to change supplier, cut down usage or improve efficiency in their home proving the effectiveness of the sessions information. Confidence in giving advice to clients by the front-line workers who attended also improved dramatically thus ensuring that the reach of the information was maximised to further than those just who attended the sessions.

Policy changes to support financial inclusion

There are a number of areas where our clients' financial inclusion could be extensively improved through a number of reforms:

Banking

Ensuring banking services become truly free for consumers. This would mean bringing to an end penalties, fees and charges that are often associated with current accounts and other banking facilities. These charges hit most financially vulnerable consumers hardest e.g. those out-of-work or on low incomes. The knock on effect is a loss of confidence in ability to control finances and a loss of trust in their banking provider.[34] Basic banking facilities must remain true to their intended aims and provide access to all and access to the entire ATM network.

Ending the presumption that closing face-to-face services is in the best interests of all consumers by saving firms money and investing elsewhere in business (such as online). This leaves some consumers cut off from essential banking services and can have a dramatic knock on impact on them and the local community.[35]

Wider availability of accounts that support budgeting functions, such as jam-jar accounts, and promoting these products as useful options for consumers. This must be done without forcing all of a sub-set of consumers to use this type of account.[36]

Small, short-term credit

Better promotion of low cost, affordable and simple to understand small credit options preferably based on a community model. There are some good initiatives run

[34] Financial Inclusion Taskforce, Banking services and poorer households, 2010
[35] Campaign for Community Banking Services, Bank Closure Problems – One Solution fit all, 2007
[36] Social Finance, A new approach to banking: Extending the use of Jam Jar Accounts in the UK, 2011

by credit unions and community finance initiatives but these are not often well known about, used or promoted.[37]

Introducing simple and affordable types of credit that are linked to the purchase of goods. Reducing the reliance of low income consumers on expensive rent-to-own type models where interest rates are high and initial costs of products are inflated.[38]

Debt

Standardising debt recovery practices in line with current best practice guidelines. This should apply across all essential services, including finance, and these should be based on the individual's ability to pay.

Energy

Ensuring staggered payment options for essential services such as energy without a penalty for using them. This would allow manageable payments for consumers who do not wish to use direct debit due to lack of control over payments being made. Currently consumers in this situation may have to pay quarterly or annually for their fuel bills when a better spread of payments would help budgeting. Alternatively they end up on pre-paid plans that cost more for energy used.[39]

Improving help with spreading cost of off-grid fuel costs when consumers are expected to buy bulk amounts to get best price.[40] If consumers have access to Oil Clubs this can help however for others the only option is to use credit to make bulk purchases. This credit can be expensive and we would question why these consumers cannot get help to access their fuel needs at a reasonable cost.

Government

Government has a key role in underpinning the way in which financial inclusion is implemented throughout the UK. With strong leadership from Government regulators, consumer bodies and innovative companies can start to challenge entrenched views within industry and develop new ways of working that ensures consumers are also at the centre of the way financial systems work.

Government, including devolved administrations, should continue to improve financial literacy which we know helps improve the way consumers interact in the marketplace. This is especially welcome in schools to improve the financial knowledge of young people and avoid them falling into using poor products or run up bad debt[41].

[37] For example the ScotCash initiative in Glasgow that brings advice and financial services together, including small affordable lending.
[38] Centre for Responsible Credit & Church Action on Poverty, Improving Practice in the Rent to Own Market, 2012
[39] Church Action on Poverty, Let us switch! How prepayment meters trap people in fuel poverty, 2014
[40] The Consumer Council Northern Ireland, Comparative domestic Cost of Gas v Oil Report, 2013
[41] All-party Parliamentary Group on Financial Education for Young People, Financial Education & the Curriculum, 2011

Government should also ensure that advice and support is available to all those who need it in an accessible format. Some projects in the past have pushed for use of internet and telephone services as these are seen to offer the best value for money in terms of client support. This often comes with an assumption that face to face advice is an expensive alternative that is not a modern choice. In many cases face to face advice can be vital for complex situations or for those consumers who cannot access other mediums.

Regulator

The regulator has an important role not only in regulating the market activity but also in ensuring that how that market operates is fair to consumers. This could mean making recommendations or raising awareness to government of potential issues happening within a market but outwith the levers that they have available to them.

Currently regulators can often cite an issue as one of ‘social policy’ and thus a government responsibility to deal with and nothing they can do. This is an attitude that needs to change and if the regulator uncovers something which is hindering a consumer from accessing a market or interacting fairly within that market the regulator has a responsibility to raise this with government.

Financial Services

Firms should lead all their work with the ethos of their corporate social responsibility at the heart of what they do. Very often firms can develop CSR strategies that focus on volunteering or donating money to local charities all the while not changing their internal processes to align with the social responsibility they champion. Improving how their firm interacts or deals with consumers should be the starting point of any social responsibility model[42].

Providers should cut down on the reliance of using long winded and difficult to understand jargon in their paperwork for consumers. This is best shown by terms and conditions documents that are hundreds of pages long that many consumer will never read nor understand. Important information about a product or a service needs to be shown up front and in clear unambiguous language.[43]

[42] Consumer Futures, Making markets work: engaging with providers, 2008
[43] Law Commission & Scottish Law Commission, Unfair Terms in Consumer Contracts: a new approach? Issues Paper, 2012