# Grameen Foundation
# Response to the Financial Inclusion Commission

## Evidence questions

## General

**What policy change would most support increased financial inclusion for the client group you represent?**

There are two issues as we see it in trying to support the clients we represent;

- ID requirements - we fully understand the requirement and need to carry out correct ID but our client base doesn't always have access to the recommended forms of ID, especially photographic.
- Removal of Welfare for our clients who are starting business for the first time places extreme pressure on them at the very early stages and in many cases could be the first time a client has moved away from receiving benefits. A change in Welfare provision to allow phase out of payments over a set period would alleviate pressure and allow a business to establish.

**What do you see as the role of the regulator, government, and financial services in promoting inclusion?**

Being sympathetic to the identified groups by encouraging the financial industry to provide products that meet their needs at a sensible, realistic cost equivalent to that offered to other clients.

**Do you have any practical examples of financial inclusion initiatives that have been successful?**

Primary school banking accounts to encourage savings / credit union savings schemes.

## Digitisation, squeezed budgets and welfare reform

**What impact, positive or negative, does the increasingly digital delivery of financial services (e.g. prepaid cards, online banking) have on financial inclusion?**

Internet access also allows user to maintain greater awareness of budgeting and financial control but not always available due to restricted access to internet.

Very positive impact if full services provided with service e.g. Standing Orders / Direct Debits / Debit Cards - regardless of credit ratings.

Prepaid cards don't allow full banking access and in many cases are a higher cost alternative.

**What opportunities are there to use technology to facilitate financial inclusion?**

More use of mobile apps, linked to all types of bank accounts, free of charge.

**How has the financial downturn changed the nature of financial exclusion?**

In the main financial industry seems to be more cautious in dealing with the market as a whole, less likely to take 'risks' in deprived areas where need for financial inclusion is at its highest.

On the other hand there seems to be a wider choice of basic accounts in the market but these offer more limited access to financial services overall, and in a lot of cases at a greater cost to those accounts offered to mainstream clients.

**What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?**

The movement of payments to a monthly basis will potentially have detrimental impact on those who currently have little or no experience of budgeting their finance through bank accounts. More need than ever for general access to internet based accounts, with high visibility of transactions and balances, for all.

<u>**Transactional banking services**</u>

**What transactional services do households on low or unpredictable incomes, or who have experienced a life shock, need and want?**

Access to making regular payments in a cost effective way - Direct Debits / Standing Orders / use of Debit Cards. These will allow people to take advantage of cheaper transactional rates available by many service providers in comparison to cash payments.

**What improvements are needed to make basic banking fit for purpose?**

- Access to full banking services by all.
- A reduction on levels of penalty charges.
- Speed of banking clearing system to reduce risks of non-payments (although online banking does negate these through 'Instant Payment' systems).

**Can technology help deliver better transactional banking services for people on low or unpredictable incomes?**

Yes definitely – though use of Apps to simplify budgeting of finance, down to daily basis.

<u>**Affordable and fair credit**</u>

**Is there scope to bring people into mainstream credit who are currently excluded, while also ensuring that this does not risk financial difficulty?**

Yes. Through developing a trusting relationship with the individual, understanding their income and expenditure and providing accounts that allow budgeting, but restrict borrowing, this will allow people to build a good credit score and improve their overall financial position.

**For people who are unlikely to qualify for mainstream credit, what might affordable alternatives be? Should banks, building societies and others play a role in provision?**

All financial providers should play a part – for those with poor credit scores we should provide a range of services including current accounts with full range of transaction method options, regular savings accounts and small loans (currently less than £500 restricts available affordable options).

**How does credit scoring contribute to financial exclusion, and are there viable alternatives to traditional credit scoring?**

Through removal of the historic 'human' element of the process automation has removed any discretion to decision making. Factors as simple as a residence postcode, employment record or even lack of previous borrowing can exclude people from access to a range of financial services.

Relationship based processes allow decisions to be made based on the individual and their circumstances whilst at same time minimising potential default.

**What reforms could be considered to ensure consumers getting into financial difficulty are protected including those who become insolvent?**

On-going debt management and support by the lender who approved the loan, who are tasked with improving the clients financial position and moving them to solvency - not merely selling off a 'book' of debt to a third party.

<u>**Insurance**</u>

**What role should the state and the insurance sector play in providing a financial safety net in the event of an unexpected life event? e.g. bereavement, family breakdown, unemployment and illness**

Low cost basic life insurance built into NI contributions?

**How can we ensure that people on low incomes, especially private tenants, have access to appropriate and attractive insurance products for their possessions and property?**

Built into rental agreements as part of cost.

__Savings products__

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

Definitely. Starting with financial education in schools all individuals should be encouraged at all stages of their life cycle to save, even the smallest amounts, on a PAYE basis ensuring access at regular intervals when required.

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

Even the smallest amount of savings would support an individual in times of need and alleviate the need for high interest borrowing, e.g. £2pw provides £100 for Christmas / £250 in savings would replace a washing machine vs. alternative of retailers finance at £12 per month over 3 years (49.9% APR).

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

Regular Savings plans, funds taken directly from pay with limited access over the term allowing to be funded by savings institution. Possibly funded by employer as a benefit of their employment to retain staff.

**What practical steps could be taken to foster a savings culture in the UK?**

- For longer term a more effective part played within the primary school education system, funded directly by schools as part of curriculum.
- 'Small payment' PAYE savings scheme facilitated by employers, with tax incentive.