Consultation response

Evidence for the Financial Inclusion Commission

from the Money Advice Service

December 2014

1. About us

1.1. The Money Advice Service is a UK-wide, independent service set up by government to improve people's understanding of money matters and ability to manage money. Our free and impartial money advice is available online, and by phone, web-chat or face to face with one of our Money Advisers. We also work with the debt advice sector to improve the quality, consistency and availability of debt advice.

1.2. We are submitting this evidence to supplement the oral evidence recently given to the Commission by our Chief Executive.

The UK Financial Capability Strategy and financial inclusion

1.3. As the statutory body for financial capability, MAS has led the work with organisations across all sectors – financial, third sector, Government and Regulators to develop a draft Financial Capability Strategy for the UK. The aim of the strategy is over time to create a step change in the financial capability of the UK population. This needs to happen for people of all ages. The aim is to create an agreed set of priorities, and workplan to co-ordinate effort and deliver change across all sectors, aligning both existing and new initiatives. The Strategy will also provide a framework and baseline for evaluating initiatives and monitoring progress.

1.4. We consider that financial capability and financial inclusion are very closely aligned. Our model of financial capability requires consumers to have financial skills and knowledge, the right attitudes and motivations and ease of access to the right financial support and products. A financially capable person should be able to use appropriate financial products, make informed choices, and build financial resilience. If any of these elements are missing – knowledge, skills, attitudes, motivation or ease and access – this can result in financial exclusion. The Financial Capability Strategy for the UK seeks to equip people with the skills, knowledge, attitudes, and motivations to tackle problem debt, manage money well, build resilience, and prepare people for life ahead.

1.5. The draft Strategy makes recommendations for a number of priority groups and issues that are closely related to questions of financial inclusion. The groups include children and young people, working age people preparing for later life, older people in retirement, and people in financial difficulties. Key issues include the ease and accessibility of financial products and services, influencing social norms around money, and improving evidence and evaluation. The recent consultation on the draft Strategy received a very favourable response from stakeholders and a final version will be produced later next year with a much more detailed plan for tackling financial capability.

1.6. The concerns of the Financial Inclusion Commission are immediate whereas some elements of the Financial Capability strategy are much longer term. The aim of the Strategy is to reduce the potential for financial exclusion in future as well as tackling some of the very immediate issues.

2. Recommendations for the commission

2.1. We would like the commission to include the following recommendations in its report:

A. **Coordination:** It would be helpful to reflect the links between financial inclusion and financial capability and lend support to the continuing development and delivery of the Financial Capability Strategy led by the Money Advice Service. Government, regulators, consumer organisations and financial service organisations must work together to systematically identify, prioritise and propose solutions to problems of financial capability, as a major part of improving financial inclusion both now and in the longer term.

B. **Accessibility of products and services:** Take-up of free-of-charge bank accounts must be monitored to ensure that those most in need are able to access them. Insurers and financial providers must ensure that low-income households are able to access suitable insurance and savings products. Providers of financial capability tools and support must also ensure that they are accessible.

C. **Clarification:** Steps must be taken to help people to understand the consequences of the choices they are making. This is going to be particularly relevant in relation to the pension changes next year. There must be very close monitoring of the impact on individuals. In addition FCA and industry should work together to increase clarity on a number of issues, including the costs of credit and the impact of missing payments, in terms that people understand, e.g. pounds and pence. Terms and conditions are a continuing thorn. The prevailing view is that simplification is not possible because of EU requirements and other regulations. This should be challenged but as a minimum there should be a standard way of presenting terms and conditions that highlights the few really key issues. Behavioural science techniques should be used to design consequence messages that people assimilate quickly.

D. **Financial Education:** There should be a comprehensive review of financial education initiatives in schools, including what is and is not provided, and its effectiveness. The UK Government should include financial education on the primary curriculum in England, bringing it in line with the devolved countries. MAS is encouraging the financial services industry and financial capability initiative providers to work with organisations that teach and support children, young people and parents, to embed financial capability within their programmes. Steps should be taken to equip and motivate parents and carers to teach their children about money at home. This learning could be enriched by educationally-sound products and resources providing opportunities for children and young people to manage their own money.

E. **Changing attitudes/social norms:** We need to think about how we break out of the "spend today" easy credit culture and return to a norm of saving. Ideally we want to create a new social norm where people feel more comfortable talking about money issues. Co-ordinated research and initiatives should be undertaken into the most effective ways to overcome attitudinal and motivational barriers to financial capability. There are particular issues around barriers to long-term saving and helping young people to feel proud to be good with money. Effort should also be put into helping people to understand how using the functionality available from basic bank accounts and other products can benefit them. Steps should be taken to drive awareness and highlight the benefits of using appropriate independent advice – including the generic advice offered by our own services, pensions advice available under the Government's guidance guarantee, not-for-profit debt advice and, where appropriate, professional advice.

F. **Evaluation:** The recommendations should encourage financial capability funders, researchers and providers to commit to evaluation of initiatives and sharing of evidence. Principles for this are set out in the draft Financial Capability Strategy for the UK.[1]

3. Response to questions posed by the commission

Q1. What policy change would most support increased financial inclusion for the client group you represent?

3.1. Effort should be put into helping people understand how the functionality available from free-of-charge basic accounts can benefit them. Provision of these accounts should also be monitored. If the current eligibility criteria set out in the voluntary agreement, which only require free-of-charge accounts to be offered to individuals who are ineligible for a full-service account, prevent those most in need accessing the free account, they should be widened.

3.2. **Steps must be taken to help people to understand the consequences of the choices they are making.** We conducted a survey[2] of 3,000 UK adults in 2014 which found that the vast majority of UK adults (84%) admit that they do not read the full terms and conditions when they take out financial products. This is compounded by many people misunderstanding key financial terms. The meaning of 'interest' was misunderstood by 32% of respondents, and the meaning of a 'budget' was not correctly identified by an additional 32%. 'Compound interest' was the most commonly misunderstood term with 46% unable to correctly identify its meaning, followed closely by 'annuity' (44%).

3.3. **Financial capability funders, researchers and providers should commit to the evaluation and evidence principles set out in the draft Financial Capability Strategy for the UK.[3]** These aim to drive consistent impact evaluation, assess the effectiveness of services using standard outcome frameworks and enable open sharing of results to create a common understanding of what works. Funders should direct funding to programmes that have been shown to work or to new and innovative projects with evaluation built in. Providers should commit to using evidence to inform delivery decisions.

[1] IMPACT Principles. http://www.fincap.org.uk/impact

[2] Money Advice Service Press Release: Misunderstanding financial T&Cs cost UK adults £21 billion last year. https://www.moneyadviceservice.org.uk/en/static/misunderstanding-financial-tcs

3.4. **There should be a comprehensive review of financial education initiatives in schools, including what is and is not provided, and its effectiveness.** The UK Government should include financial education on the primary curriculum in England so this is consistent across the UK. Financial services and financial capability providers should work with organisations that teach and support children, young people and parents, to embed financial capability within their programmes.

Q3. Do you have any practical examples of financial inclusion initiatives that have been successful?

3.5. We now require debt advice organisations we fund to develop ways of working that ensure they reach out to groups that are marginalised from advice delivery. An example of this in practice is East Dunbartonshire Citizens Advice Bureau which works with a branch of Women's Aid. This allows women suffering from domestic abuse to have access to money and debt advice from advisors at Women's Aid premises and other outreach locations. Women suffering domestic abuse who contact other agencies are also referred to the project.

Q4. What impact, positive or negative, does the increasingly digital delivery of financial services (e.g. prepaid cards, online banking) have on financial inclusion?

3.6. Increasingly people are using devices on the move to access information. In 2013, 59% of adults used a mobile phone to access the internet and 30% accessed the internet through a tablet.[4] Mobile Apps geared at encouraging children and young to engage with money, e.g. budgeting their pocket money, are becoming increasingly popular.

3.7. However, not everyone who has internet access actually uses financial services delivered digitally. For example, in our Financial Capability Tracker[5], 77% of UK adults said they used the internet, but only 58% used online banking to keep track of how much money is in their current account. So 19% used the internet but didn't use online banking to keep track of what was in their current account. This breaks down into 15% who have a current account and internet access but simply don't use online banking to keep track, and 4% who have internet access but say they don't have a bank account.

Q5. What opportunities are there to use technology to facilitate financial inclusion?

3.8. One of the main opportunities comes from partnering with other digital organisations. We have been able to embed our advice into some of the most popular websites – e.g. Mumsnet, MSN, Bt.com etc. This provides us with the opportunity to interrupt people in their daily web usage to get across messages about money management. We also look to take advantage of the workings of search engines, to slow people down when they are thinking about a major purchase, and direct them to our guidance which shows them some of the things they should consider before committing to the purchase.

[4] Ofcom: Adults Media Use and Attitudes Report 2014. http://stakeholders.ofcom.org.uk/market-data-research/other/research-publications/adults/adults-media-lit-14/

[5] Money Advice Trust: Financial Capability of the UK, 2013. https://www.moneyadviceservice.org.uk/en/static/the-financial-capability-of-the-uk

3.9. Mobile technology such as PayM provides people with a simple and accessible means of transferring money without needing to visit branch or log-in to and use online banking. In other countries mobile payment systems such as M-Pesa have facilitated financial inclusion of people who do not have access to the banking network.

Q6. How has the financial downturn changed the nature of financial exclusion?

3.10. The Money Advice Service came in to being during the financial downturn. In 2006, 35% people surveyed through the FSA baseline survey said they struggled to keep up with bills and credit commitments. In 2013, that had risen to 51% on our Financial Capability Tracker. Similarly, in 2006's FSA baseline survey, 75% of people agreed they always made sure they had some money saved for a rainy day. By 2013, this had dropped to 63%.[6]

3.11. The squeeze on household budgets has led to increased problem debt, and this is expected to get worse as interest rates begin to rise. It has become increasingly likely that people in financial difficulty owe money to priority lenders. There has been an increase in people whose incomings do not meet the cost of living struggling to 'make-ends-meet'.[7]

Q7. What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?

3.12. As people move to universal credit they will need time and support to adjust to a potentially lower income, budgeting monthly and taking responsibility for paying bills. We firmly believe that personal budgeting support should be built into the Universal Credit claims journey. But all creditors and advice organisations should be encouraged to provide support.

3.13. Many Universal Credit claimants are in MAS target customer groups of younger people and lower income families. We are working closely with DWP, to help people understand the implications of the changes so that they are able to prepare and act appropriately. We have developed budgeting support resources for claimants via the Money Advice Service website, face-to-face and telephony channels.

Q13. How does credit scoring contribute to financial exclusion, and are there viable alternatives to traditional credit scoring?

3.14. We conducted research[8] with young people and found that they are unaware of the importance of building a good credit score. This widespread lack of understanding is causing knock-on problems for many young adults with a fifth (20%) saying that their credit rating has caused them financial problems. For example, half in this group (51%)

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[6] Money Advice Trust: Financial Capability of the UK, 2013. https://www.moneyadviceservice.org.uk/en/static/the-financial-capability-of-the-uk

[7] Money Advice Trust: Changing Household Budgets. http://www.moneyadvicetrust.org/media/news/Pages/Changing-Household-Budgets-report.aspx

[8] Money Advice Service Press Release: Young people's knowledge gap on credit ratings causing financial problems. https://www.moneyadviceservice.org.uk/en/static/young-peoples-knowledge-gap-on-credit-ratings-causing-financial-problems

reported trouble getting access to credit; almost a third (30%) said they had problems getting a phone contract; 18% reported that they had trouble getting a job and 22% said they had trouble getting a mortgage.

3.15. Overall, 22% of respondents said they had previously been rejected for credit – in many cases causing them to turn to worrying alternatives. Over a quarter in this group (26%) said they instead turned to unauthorised overdrafts when denied credit. One in six in this group (17%) said they used a credit card with a higher interest rate; 19% say they borrowed from friends or family; while 12% in the group borrowed from a payday lender.

3.16. People need to be educated on the credit scoring system and the potential impact of a negative score or a lack of a credit footprint. The credit scoring system could be improved by being more responsive, for example the USA operates a live database scoring model. This would give lenders an up-to-date picture of a person's situation. Recognising categories of credit, for example when household bills are continually paid on time,would also improve the model.

Q14. What reforms could be considered to ensure consumers getting into financial difficulty are protected including those who become insolvent?

3.17. Again coordination, across the financial services industry, key creditors and the debt advice sector, is important to identify where there is scope to spot problems earlier, before debt becomes unmanageable. This involves sharing insights but also better use of data and may require statutory solutions.

3.18. Financial services, utilities and public services should provide individuals struggling to pay 'breathing space'.

3.19. There is a role for alternative providers such as credit unions and community development finance institutions to help consumers who have got into financial difficulty. In Wales in 2013 Moneyline Cymru reported that it had loaned out over £7.4 million since November 2009 and approved over 16,500 customer loans. Over 80% of their new customers had opened savings accounts.

Q17. 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?

3.20. In 2012 the Guardian reported that up to 70% of social housing residents lack any contents insurance cover.[9] Joseph Rowntree Foundation has found that uninsured households were disproportionately likely to have low incomes, few savings, and to be facing financial difficulties. They were predominantly tenants and lived in metropolitan areas.[10]

[9] The Guardian: Why housing providers have a responsibility to insure their tenants http://www.theguardian.com/housing-network/2012/oct/09/contents-insurance-social-tenants

[10] Joseph Rowntree Foundation: Access to home contents insurance for low-income households. http://www.jrf.org.uk/sites/files/jrf/spr348.pdf

3.21. About half of households interviewed without home contents insurance had a policy in the past but let it lapse, largely because they were facing financial strain. The remaining half were mainly people on the margins of financial services generally. They tended not to have a bank account or any savings, and had not come into contact with companies selling home contents insurance. Other reasons that low-income households may be less likely to have contents insurance include that standard levels of excess payments and minimum sums insured are often too high for households with few valuables.[11]

3.22. Mainstream insurers do have insurance products suitable for low income families but individuals lack an understanding around the benefits of insurance. This reflects a bias towards short-term priorities rather than planning for future resilience. Insurers that do not offer suitable products could be required to signpost to competitors and organisations that do. For example, social housing providers have created My Home Contents Insurance.[12] This offers affordable insurance to tenants on low incomes. The benefits include:

- Instant cover available over the telephone.
- Affordable premiums with flexible payment options.
- Claims service with no excess.

Q18. Will pension reforms enable inclusion, and what further improvements could be made?

3.23. Auto-enrolment is an obvious boost to inclusion. We believe the changes will encourage a new culture for saving, increasing the choice and flexibility for people planning for later life. Advice providers and government need to work together to encourage people to save more than the minimum, if they possibly can.

3.24. The pension reforms give us an opportunity to talk to people. Auto-enrolment has taken discussions about pensions back into the workplace. The advice sector can help employers through discussions about pensions and use this hook to also discuss financial capability more widely.

3.25. It is not clear what people will do when faced with the new choices of how to use their pension funds. This will need very careful monitoring to ensure people have the support they need to make good decisions.

Q19. Should policymakers enable and encourage people on low incomes to save, particularly in the economic downturn?

3.26. Having even a small amount of savings acts as a financial buffer from life's shocks, for example an unexpected bill, and can help people avoid debt. But we need to be realistic. Saving sufficient amounts to create a buffer will not be possible for all. When people are struggling, getting them into habit of saving, for example £1 a week, is more important than the amount they save. We think there might be merit in a wide and joint campaign to encourage savings.

[11] Ibid.
[12] My contents insurance: http://www.thistlemyhome.co.uk/

3.27. We have recently consulted on a standard financial statement for people seeking debt advice. This aims to provide a single, standard template which clients can use to set out their income and expenditure in a way that is easy for creditors and advice providers to accept. Recognising the importance of savings, the draft standard financial statement includes this as any area of core expenditure. Including savings within the standard financial statement received broad support from stakeholders during the consultation.

Q20. To what extent can savings act as a preventative measure, helping people to avoid debt?

3.28. Most people who become over-indebted do so as a result of not being able to cope with the impact of a reduction in their disposable income. Building financial resilience is therefore an important element of any approach to helping people avoid problem debt. A level of savings that is adequate to cope with income shocks or unexpected expenditure could usefully help some people avoid problem assuming the income shock is not prolonged. Calibrating savings levels to individual circumstances is important, as are attractive savings vehicles. In a low-interest rate environment it may in fact be more effective as a preventive measure for people to pay down any debts they have rather than to build a savings buffer.

Q21. What incentives to save work best for people on low incomes, and how might the costs of these incentives be met?

3.29. Our research ‘Money Lives’[13] shows that interventions which successfully encourage people to save share two key elements:

- they help people to feel in control of their finances by giving them the tools they need to make their own choices about their money.
- they include an element of reward, either by enabling people to easily track their progress or to treat themselves, this means that they are less likely to feel that they are being deprived and so more likely to continue.

Q22. What practical steps could be taken to foster a savings culture in the UK?

3.30. People make decisions in a social context and influences of friends, family and society more broadly are very strong. Young people often spend more than they have, or choose not to save for the future, in order to be seen by their friends as generous and living in the moment. Nearly half of adults across the UK admit to falling into debt as a direct result of their social lives.[14] We need to challenge societal norms in this area.

3.31. We need to get people talking about money and we need to normalise seeking money advice. We need as many organisations as possible uniting to put forward consistent messages to change people’s short-term mind-set and inertia around saving.

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[13] Money Lives: Research for the Money Advice Service, 2014. https://www.moneyadviceservice.org.uk/en/static/money-lives
[14] Ibid.

3.32. We can tackle attitudinal and motivational barriers to long-term planning and saving by supporting people to understand why and how to plan and prepare for a financially secure future.

3.33. Of fundamental importance to building a savings culture is starting early. Parents are the key influencers of financial behaviour and if they can support a child to build a savings habit when they are young it will stand them in good stead throughout their life. Parents talking to their children about saving, giving them pocket money – even at a minimal level – and helping them set up a savings account of their own will all help young people build savings habits that will increase their financial resilience throughout their lives.

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