The Money Charity response to the Financial Inclusion Commission call for evidence

1. As the UK's financial capability charity, we welcome the opportunity to submit evidence to the Financial Inclusion Commission.

2. We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

3. Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

4. We believe financially capable people are on top of and make the most of their money in five key areas:
    - Planning (including budgeting)
    - Saving
    - Debt
    - Financial services products
    - Everyday money (including wages, cash, bank accounts)

5. Since 2010 we have delivered financial education workshops to 100,000 young people in the UK, helping them to feel more confident about topics such as credit, banking, and student finance. We have also recently developed two money workshops designed to help adults stay on top of their money, covering the areas listed above.

6. Recent government reforms in some areas, such as requiring a bank account for receipt of Universal Credit or the introduction of auto-enrolment into Defined Contribution pensions, will go some way to improving headline figures of some measures of financial inclusion. But while these initiatives need to be accompanied by a sound understanding of those products and money more generally.

7. We urge the Commission to consider financial inclusion not just from the perspective of the *number* of people who have access to credit, transactional bank accounts etc., but also how confident and able they are to make the most of them.

8. The key points that we raise in this consultation are:
    - Improving financial capability can play a key role in improving financial inclusion; and
    - This needs to be complemented by products and services that meet people's needs.

9. Our main recommendations are:
    - A national strategy for financial capability, focusing on reaching people at major points in their lives, should be developed to support financial inclusion;
    - Industry needs to make far greater progress on simple financial products and an agreement on minimum standards of basic bank accounts; and
    - Government, the regulator and industry should work together to ensure financial products and services that support consumers' money management are as widely available as possible – including making jam jar accounts a more widespread and mainstream option.

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

10. We strongly believe that efforts to improve financial capability across people's lives would have a positive impact on individuals' financial inclusion and engagement with financial products. Improving financial capability will have a consequential impact on financial inclusion as people gain the motivation to save (for example) and are better able to manage their money to be able to do so.

11. This would in part be because it would improve people's willingness to engage at all with financial products and services, reaching the people who are most completely financially excluded. It would also mean that people had a better understanding of the importance of saving, insurance and responsible use of credit, and so were able to engage with products in these areas more effectively. This process should start at school, before people become eligible for most financial products, so that when

someone sets up their first bank account or takes out their first credit card they are not doing so ‘blind’.

12. As the body with statutory responsibility for improving the financial capability of the UK, the Money Advice Service should take a leading role in supporting and co-ordinating the financial capability sector. It recently published its draft Financial Capability Strategy for the UK[1] – an act that we welcome as an important step in the co-ordination and thought leadership of the sector from MAS.

13. However, the draft strategy suffers from a number of limitations. It is heavily focused on individuals struggling with debt or in old age – it is not a strategy for the whole population, and its primary aim appears to be to ‘keep people out of trouble’ rather than develop their underlying engagement and understanding of their money. It also does not state whether MAS intends to divert any of its funding to external organisations with an interest in financial capability.

14. To date, MAS has largely focused on its own digital delivery of advice and information, rather than funding other organisations in the sector or undertaking its own work to improve financial capability more widely. This leaves a significant gap in provision. This focus on information requires people to be aware that they need advice about a particular issue, and to be engaged and confident enough to look for it. Seeking advice is information-focused and does not emphasise behaviour, skills and attitudes, which we believe are also vital components of financial capability.

15. These issues are compounded by the fact that funding for financial capability initiatives at all levels is extremely limited. Government now sees financial capability as MAS’ domain - although as we point out above, MAS does not itself divert funding. The issue of financial capability has also somewhat fallen off the radar in recent years, lessening industry interest (and in any case many see the payment of the levy to MAS as fulfilment of their duty in this respect).

16. Neither Government nor MAS are providing any funding for training or teaching resources relating to financial education, meaning that although it is on the national curriculum its successful delivery is far from certain. While there are several third-sector organisations that offer financial education workshops and training, their funding is also not guaranteed (something which is highlighted by the recent of merge of pfeg into Young Enterprise). And an unintended consequence of including financial education on the curriculum is that it places financial education initiatives for young people outside of the criteria for funding from many trusts and foundations, which regard this as Government’s duty.

17. In the adult space, meanwhile, funding is virtually non-existent. In our view interventions at key life stages when people are more engaged with their money– such as going to university, having a child, or getting married – should be central to

[1] http://www.fincap.org.uk/the_strategy

efforts to improve financial capability. Although we see financial capability as an essential life skill, provision of financial capability training is very concentrated among a few small organisations, with only a few small-scale programmes. This means the availability of these programmes is very limited and patchy, and limits the sector's ability to innovate and develop new offerings, but it also reduces the sector's ability to commission large-scale, robust evaluation to prove the benefit of financial capability interventions and discover what works.

18. Ultimately, as the body with a statutory duty to improve people's financial capability, MAS should be taking a leading role in commissioning and funding financial capability initiatives, and lobbying Government to consider the impact of its policies on financial capability (as well as ensuring that measures like including financial education on the curriculum are properly resourced). This will require a significant change in MAS' approach to the delivery of its objectives to date and to its draft strategy, but would go a long way towards improving people's engagement with their money and their financial inclusion.

19. As we discuss later in this response, alongside measures to improve people's financial capability, products and services also need to be developed with features that help people to stay on top of their money and meet the needs of consumers.

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

20. The primary role of the regulator and government in promoting financial inclusion should be to design their policies and approaches in a way that takes into consideration the impact on financial inclusion.

21. They also have a role in encouraging industry to develop and publicise products that meet consumers' needs – and industry has a role to play in developing them. If more people are to be encouraged to save, use transactional bank accounts, and take out affordable credit and insurance, they need products and services with features that they find useful.

22. While there have been calls from policymakers and encouraging rhetoric from industry about developing a range of simple financial products and standardising the components of basic bank accounts, progress on these has been painfully slow. But developing appropriate products is essential to supporting people into financial inclusion, particularly those who may have gone through a significant part of their life un- or marginally-banked.

23. The Financial Inclusion Taskforce (FIT) found in 2010 that around 60% of people without a transactional bank account had previously had one[2]. The reason for these

[2] http://collections.europarchive.org/tna/20110406080917/http:/www.hm-treasury.gov.uk/d/fin_inclusion_taskforce_poorerhouseholds_dec2010.pdf

consumers ‘dropping out’ of mainstream banking might be related to a second figure from the FIT: on average, the newly banked (including those who’d had a bank account in the past) paid £140 a year in charges.

24. Therefore offering a bank account that does not allow people to incur charges could remove one obstacle to people opening an account. Offering products that are designed to help people manage their money – such as expanding the availability of ‘jam jar’ accounts that separate out income into different pots for expenditure – would also promote inclusion and help to stop people ‘dropping out’ again.

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

25. The continuing rollout of Universal Credit should increase the number of people with a transactional bank account, and so will, on one measure, improve financial inclusion.

26. However, as we argue above, a focus on only numbers will mask a wide range of experiences. It is quite possible that many people who become banked as a result of transitioning onto Universal Credit will continue to operate largely in cash, and so will not be meaningfully financially included.

27. If someone opens a bank account for the purpose of receiving Universal Credit, they should be given support to use that bank account’s features for a period of time after it is opened. For many people in this situation a basic bank account would be more appropriate, either because they have never previously had a bank account or because they have run into difficulties when they previously had one.

28. Putting such support in place and developing and launching appropriate products to assist people with the transition to Universal Credit takes time and resources, but the protracted rollout makes it difficult to plan – even under the current timetable it will be 2019 before all eligible claimants receive it. This understandably leads to fatigue in the wider support sector and the financial services sector, and a loss of interest in preparing customers or service users for the change. If there was greater certainty around the timetable there would be more scope to engage a range of organisations in supporting people to manage the changes well.

29. We also believe that the recommendation in the Centre for Social Justice’s report earlier this year[3] to include a savings element in Universal Credit awards should be explored.

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

30. Access to a transactional bank account is the most fundamental dimension of financial inclusion, and can act as a gateway to further products such as insurance, savings accounts, or credit, making it crucial to financial inclusion.

[3] http://www.centreforsocialjustice.org.uk/publications/restoring-the-balance-tackling-problem-debt

31. The Parliamentary Commission on Banking Standards (PCBS) recommended that banks agree minimum standards for basic bank accounts[4]. To our knowledge this agreement has not yet been reached, but would go a long way towards making basic banking fit for purpose. Almost by definition potential basic banking customers are unlikely to be equipped to choose between a range of financial products, so it is unreasonable to expect them to shop around – and choosing the 'wrong' account could have a disproportionate impact on their finances (for example one with high charges for unpaid items).

32. Research in this area has previously found that potential basic bank account customers want a consistent range of features[5], which are largely equivalent to those offered by a current account minus an overdraft facility. We would like to see banks offering an opt-out from overdrafts for their current accounts (or other facilities beyond the minimum standards cited by the PCBS) and an option to separate out pots of money within that account, similar to a jam jar account.

33. The principle of a jam jar account, which separates spending on different categories into pots, could also be expanded to more current accounts. Such a product would help all current account customers to manage their money – whether 'basic' or 'regular' account holders – and would also ease the transition from basic bank accounts to more mainstream products. It would also be an example of an account feature that we believe people would be more willing to accept a monthly fee for, which could reduce the need for cross-subsidisation of free accounts by high charges on a subset of customers who incur missed payment or unauthorised overdraft charges. As we note in paragraph 23, such charges could themselves contribute to bank account holders dropping out of mainstream banking, so reducing these charges could also support financial inclusion.

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

34. If someone has no credit score or has been declined several times for credit, it can damage their credit score and leave them unable to access affordable credit – therefore financially excluding them.

35. People with no credit history are left in a catch-22 situation: they can't get credit because they've not had credit before. If they apply for credit and are rejected, they might find it more difficult to get other credit (because the creditor will know that previous applications were turned down). This creates to a vicious circle that could lead to someone applying for increasingly expensive credit, as each rejection lowers the likelihood of them being eligible for more affordable credit. Or it could lead to borrowers applying for expensive credit – with less strict lending criteria – without considering less expensive options for fear of being rejected and damaging their credit score.

[4] http://www.parliament.uk/documents/banking-commission/Banking-final-report-volume-i.pdf

[5] http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc1205.pdf

36. One solution to this would be to have a 'fall-back' option specifically for people with no credit history. This could, as an example, see individuals undergo money management training in lieu of a credit check.

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

37. Automatic enrolment will increase the number of people saving into pensions, and new freedoms may make pension saving more attractive. But again we would highlight that simply being financially included 'on paper' with regard to pensions is only part of the solution. A society where everyone saves into a pension but no-one knows what to do with it when they retire is not 'job done' - this is a particular area where a financial capability strategy could intervene at an early stage, at the point of enrolment. We also believe that having a distinct, separate saving product for retirement savings could lessen people's motivation to save in some circumstances, as we explore in paragraph 42.

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

38. We have set out a range of steps that could be taken to foster a savings culture in the UK in our submission to the British Bankers' Association's recent consultation on saving in Britain[6]. Many of these relate to issues we have highlighted elsewhere in this response: the development of simple savings products and a national strategy that improves people's engagement with money and helps them to see saving as important and achievable. We also think linking credit unions to government buildings in local communities would improve awareness and engagement[7].

39. We also think there is scope for industry to develop a single savings product that covers saving for all purposes (for retirement, for emergency funds, and for specific goals). With the recent pension reforms likely to lead to significant changes in how people interact with their savings in retirement, the case for having a separate pension savings account is also weakened, as people with any size of Defined Contribution savings will be able to enter drawdown and interact with their savings in a manner more akin to a current or savings account.

[6] http://themoneycharity.org.uk/media/BBA-saving-consultation-The-Money-Charity-response.pdf

[7] http://themoneycharity.org.uk/media/The-Money-Charity-British-credit-unions-at-50.pdf