Financial Inclusion Commission

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Chancellor's Summer Statement

Response – Summer 2020

About the Financial Inclusion Commission

The Financial Inclusion Commission (FIC) is an independent body made up of experts from financial services, businesses, the charity sector, academia and parliamentarians from all major parties https://www.financialinclusioncommission.org.uk/

Our mission is to champion financial inclusion as a policy priority for public bodies, businesses and civil society, and challenge exclusion wherever it occurs. Our vision is for a financially inclusive UK where financial services are accessible, easy to use and meet people's needs over their lifetime, and where everyone has the skills and motivation to use them.

Financial exclusion remains a significant challenge for 21st century Britain which prides itself on being a global leader in financial services.

Just over a million people in the UK do not have a bank account, one in four households lack insurance protection and one in five adults would not be able to cover more than one month of living expenses if they lost their source of income.

Financial inclusion is the means by which people can make their money work well for them, enabling them to maximise opportunities, move into employment, become more self-reliant, and enhance physical and mental wellbeing. Financial inclusion contributes to greater social mobility and levelling up, a more effective welfare system and greater national resilience from economic shock.

This means a United Kingdom in which:

- every adult is connected to the banking system, through having access to – and the ability to make full use of – a transactional account of his or her own;
- every adult has access to affordable credit from responsible lenders;
- every adult, young person and child is encouraged and enabled to save, even in small or irregular amounts, to share in the importance of a common savings culture, to help build up resilience against financial shocks and as an additional resource for retirement;
- every adult has access to the right insurance cover for his or her needs, at a fair price;
- every adult has access to objective, affordable and understandable advice on credit, debt, savings and pensions, delivered via the channel most suited to that individual;
- every adult and child receive the financial education he or she needs, starting in primary school and carrying on throughout life and into retirement;
- the overall level of pensions provision – state plus private – in the UK, does not lag behind other developed countries, especially for the low paid;
- every adult will have a clear picture of what their income in retirement is likely to be, so they can plan and get 'no surprises'.

Introduction

There can be little doubt of the importance of financial inclusion at this time. There are now millions more people facing economic hardship as a result of the Covid-19 pandemic. Yet, the environment was already difficult enough for many before the effects of the virus on our society took hold. The UK entered the crisis with half its population financially vulnerable - 12m categorised as 'financially struggling' (generally on low incomes), and 13m as 'financially squeezed' (better off but pretty highly leveraged). The crisis has laid bare the existing weaknesses, vulnerabilities and structural inequalities that cause detriment, providing an opportunity to re-assess how financial exclusion has been addressed in the UK.

The Financial Inclusion Commission welcome the Government's package of measures announced by the Chancellor, especially the extra money for the flexible support fund, with a focus on protecting jobs and supporting people into work. However, we believe that this investment in jobs and training needs to be underpinned by a strong social security system that provides support when people need it. We are disappointed that the measures do not go further in tackling the four million households who are facing £6bn of new debt since lockdown and have low financial resilience to cope with income shocks.

We believe there are several areas where the government can help improve financial resilience and by extension create a more financially inclusive economy. We are concerned that without these protections, as the country emerges from the crisis the economic aftershock could be just as severe as the economic shock itself.

Insurance

The virus has shown how important it is for people to have protection from income shocks, whether this comes in the form of poor health or job loss. Income shocks are the biggest reason people get into debt. According to StepChange debt charity, before the current crisis 14 million people in Britain had experienced at least one income shock within a twelve-month period; with 4.5 million people experiencing two or more.

Without an adequate safety net, people can end up in a spiral of problem debt. But not everyone can afford to protect themselves privately, and the evidence suggests that the more you need insurance the costlier it is, with some people actively locked out of getting it altogether. There is a need for an adequate social security system to support people when they need it most.

For those who want insurance protection, there should be decent quality products and services that are transparently priced. Recent research carried out for Fair By Design by the University of Bristol found that in 2019 area-based premia, particularly car insurance, were the largest contributor to the overall poverty premium faced by low-income consumers. Customers who live in a higher-risk area (20th percentile Indices of Multiple Deprivation (IMD) area) paid nearly £300 per year more on average, if they had insurance, than those who lived in a lower-risk area (50th percentile IMD).

This is also vital for businesses, and in particular small businesses who are less able to save and afford insurance such as income protection insurance. The Commission supports greater income continuity insurance for individuals which can help protect households against substantial shocks. This crisis has revealed that the levels and nature of insurance products are not always suitable. Many businesses and freelancers have found their business continuity insurance has not provided them with the support they need.

Businesses are in need of swift action from government, with either insurance or assurance of help from Government to deal with the interruptions that they will see in the years to come. Even with a vaccine there will be waves of this virus to deal with for many years and small firms are unable to carry that risk.

Credit

We all need help sometimes to smooth our finances and Covid-19 has demonstrated this starkly. The virus has exposed the lack of resilience of UK households, businesses, particularly small businesses, and therefore the economy itself. However, all too often people who should have access to affordable credit, no-interest loans or grants are instead pushed into using high cost credit. This makes a bad situation worse. More must be done to support the provision of affordable credit to those who need it most. We fully support the significant amount of work and investment in tackling this issue from organisations such as Fair 4 All Finance. Fair and affordable lenders provide an important service to customers in vulnerable circumstances who are excluded from mainstream credit by providing responsible lending. However, as Fair 4 All Finance suggest in their February 2020 report, responsible lending only constitutes a fraction of the short-term lending in the UK and there is a need to scale the affordable credit sector to meet demand.

We must also make repaying debt much more manageable. Addressing this will be fundamental to ensuring families and households are financially resilient to future shocks. The Breathing Space proposals are very welcome, and there should be no delay in their planned implementation from May 2021. Other options for debt consolidation and repayment include managing it via payroll and we would strongly support these alternative options being considered. We welcome the early steps undertaken by the FCA to develop steps for an exit strategy to ensure people get the help they need when credit and mortgage payment holidays end. However, there is a need for cross-sector and cross-regulator co-ordination so that people with multiple types of debt are treated fairly and equitably by all their creditors including local and central government, utility firms and lenders. Furthermore, we are pleased by the recent Cabinet Office call for evidence on fairness in government debt management but remain concerned about the length of time it's going to take for large-scale change to happen while consumers continue to experience harm.

This is also crucial for businesses. With as much as £11 billion of business loans not expected to be repaid, there are concerns that this will lead to further financial exclusion, loss of jobs and businesses. We would like to see further details around how regulators and the government are working together to ensure creditors are treating recovery activities for businesses in a fair and consistent way.

Ensuring continued access to financial services

The access issues created by branch closures, fee-charging ATMs and the shift of financial services online have been exacerbated by Covid-19 and continue to disproportionately impact people who are least able to deal with them. This problem is not just a concern for rural areas but affects a variety of individuals as digital and financial exclusion intersects. Internet connection is essential to carry out business in the new environment providing the key to accessing cash, banking and financial services including pensions, funding through Local Authority schemes, business advice, transport and skills. A lack of access to any of, or a combination of any of these could result in financial exclusion. This is also crucial for individuals who are struggling with arrears on their bills to get the help they need.

Although 90 per cent of UK adults use the internet, this figure drops among many of the groups much more likely to be financially excluded. This is important in the current environment, where banking and financial transactions are almost exclusively taking place online. ONS data shows that women and people aged over 65 are less likely to use the internet. There are high levels of online banking among younger generations (93 per cent for 25 to 34 year olds), but among 65-74 year olds and 75-79 year olds, it is 47 and 23 per cent respectively. In addition, Ofcom data shows that while 90% of UK adults used the internet in 2018, this falls to 67% among people with a disability.

We urge the Government to ensure accessibility to financial services is prioritised as key to promoting financial resilience, especially as the country begins to emerge from the pandemic. As part of this, the Commission urge that financial inclusion should become the responsibility of a Secretary of State to allow additional attention at a time when financial resilience has become even more crucial.

Small Businesses

Small business people and in particular those working as freelance contractors or in the gig economy are likely to earn less for the same work done by their employed counterparts. As a result they are less able to save, afford insurance such as income protection insurance, and plan for retirement. They are also more likely to run business and household finances from the same accounts and therefore if the business runs into financial difficulty household bills are likely to be affected too.

There is clearly a need to work towards greater financial resilience among this significant part of the population. The Commission supports greater income continuity insurance for individuals which can help protect households against substantial shocks. This crisis has revealed that the levels and nature of insurance products are not always suitable. Many businesses and freelancers have found their business continuity insurance has not provided them with the support they need.

In addition, the ongoing problem of late payments faced by small businesses has only been exacerbated during the Covid-19 pandemic, adding further pressure on businesses. Research published by the Federation of Small Businesses (June 2020) has shown that around two-thirds of SMEs in the UK have been hit by late or frozen payments in the wake of the Covid-19 outbreak. There is concern that this is hampering economic recovery from the coronavirus pandemic. Tackling this issue is paramount to enabling small businesses to emerge from the current recession.

Long term affordable credit must also be more accessible for small businesses. All too often those small businesses who should have access to affordable credit are pushed into using Government loans that have to be paid back at a later date. The Commission welcomes the announcements around business loans, however small businesses need further clarity as there is confusion around rules and what is available to them. There is no 'one size fits all' for the small business sector and we believe that a sector by sector approach would better help small businesses and their needs.

Furthermore, as part of this there is a need for a fundamental review of how small businesses and the self-employed are taxed. The tax system does not reflect the current climate, and especially not the changes post Covid-19. Whilst there is perhaps a perception that small businesses don't pay as much tax as they should, small business people earn around ten percent less than they would do if employed to do the same work and carry all the risk. We need to get a better understanding of the vital part small businesses play, and the amount they contribute financially to UK PLC and to their local communities.

Conclusion

Whilst the steps taken in the Chancellor's summer statement are welcome, there are crucial gaps which must be addressed to ensure those with no financial resilience, especially those saddled with increased debt over this lockdown period, are not left behind.

There are now a variety of difficulties which will stem from these measures which must be addressed in the coming months, including consistency in dealing with loan repayments across the industry. We welcome the early steps undertaken by the FCA to develop steps for an exit strategy to ensure people get the help they need when credit and mortgage payment holidays end as well as the recent Cabinet Office call for evidence on fairness in government debt management.

We would be keen to see further details around how regulators and the government are working together to ensure creditors are treating recovery activities for consumers as well as small businesses in a fair and consistent way.

In addition, we urge the Government to ensure accessibility to financial services is prioritised as key to promoting financial resilience, especially as the country begins to emerge from the pandemic. As part of this, the Commission urge that financial inclusion should become the responsibility of a Secretary of State to allow additional attention at a time when financial resilience has become even more crucial.

Whilst we recognise that the Government has been keen to focus these measures largely around businesses to get the economy moving, it is crucial that the Autumn statement tackle these gaps and provide measures for those most impacted by the pandemic through debt including small businesses and the self-employed.