Financial Inclusion Commission
Statement ahead of the Queen's Speech
May 2021

There can be little doubt about the importance of financial inclusion at this time. The financial environment was already difficult for many before the effects of the virus on our society took hold. There are now millions more people facing economic hardship as a result of the Covid-19 pandemic.

The crisis has laid bare the existing weaknesses, vulnerabilities and structural inequalities that cause detriment. However this also provides an opportunity to re-assess how financial exclusion has been addressed in the UK.

The Financial Inclusion Commission welcomes the measures announced by the Chancellor in the March 2021 Budget. However, 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 calling for these new measures to be brought forward in the Queen's Speech**:**

- **The Government should implement the measures announced in the 2020 budget, to protect cash, without delay and set out a timetable for such legislation. The FCA should be given overall responsibility for meeting the cash needs as part of this.**
- **The FCA should have a cross-cutting statutory duty to promote financial inclusion.**
- **FSMA should be amended to place a duty on regulated firms to act in their customers' best interests: a Duty of Care.**
- **Regulators and Government should promote inclusive design in the development of financial products and services**.
- **A new Pensions Commission to consider how best to deal with the wide and increasing pension savings disparities which are emerging.**

Access to cash

Cash remains a significant part of the UK economy. Whilst card payments, apps and online banking have become increasingly popular, the evidence shows that a significant proportion of the UK population continues to rely on cash in their day to day lives. The Access to Cash Review estimated that, at the end of 2018, approximately eight million people (17%) said cash was an economic necessity. Although numbers have fallen during the pandemic, the Commission is concerned that vulnerable people are at risk of being unable to pay for essential products and services as they get locked out of using cash. Some, who were used to carrying out their everyday financial transactions using cash before the pandemic, will have been financially excluded as a result of an inability to access cash, or a refusal by businesses to accept cash during the lockdowns.

While the government and regulators should take measures to improve connectivity and help people make the transition to digital alternatives to cash, Britain is not ready to go cashless because digital payments don't yet work for everyone. Consumers need a guarantee that they can access and use cash for as long as they need it. The transition to a cashless society must be carefully designed and managed to ensure that financial exclusion is not increased in the UK.

We were delighted to see that the recent follow up report on Financial Exclusion by the House of Lords Liaison Committee recognised the importance of access to cash for financial inclusion.[1] We echo their recommendations that the Government bring forward without delay the measures announced in the 2020 budget to protect cash and set out a timetable for such legislation. We also believe that alongside the FCA duty to promote financial inclusion, as outlined below, the FCA should be given overall responsibility for meeting the cash needs as part of this.

The FCA

Duty to promote financial inclusion

We believe the FCA must be required by HM Treasury to have a cross-cutting statutory duty to promote financial inclusion as a core objective.

The Financial Conduct Authority has a range of powers/statutory objectives/tools that it uses to regulate the market but there is no clear statutory requirement to address financial inclusion issues. It also does not routinely have regard to issues of financial inclusion across all of its work, wherever appropriate. Without this, consumer organisations are often signposted from the FCA to HM Treasury and vice versa, and a catch 22 situation evolves where consumer representatives are unable to gain traction on issues that involve more than one organisation.

By their very nature essential services, such as credit, payment systems and insurance are needed by everyone. However, poorer people pay more for products and services than those better off, and products and services often do not meet people's needs. Some people are excluded altogether. This is the justification for having a social objective like financial inclusion.

With this proposed new objective, the FCA will have responsibility for addressing the ways in which markets often exclude those who are most vulnerable or disadvantaged. These might include:

- not being able to afford, or having to pay extra for, appropriate products and services because they are deemed to be a higher risk/not as profitable to serve;
- not being able to access products and services that meet their needs because they are 'nonstandard';
- being excluded altogether.

Duty of Care

FSMA should be amended to place a duty on regulated firms to act in their customers' best interests: a Duty of Care.

At present, the regulatory principle that firms should "treat customers fairly" (TCF) only enshrines a weak duty to the consumer, further weakened by the principle in FSMA that consumers should 'take responsibility for their decisions'. TCF does not remove conflicts of interest and so does not deter firms from mis-selling products and services, and indeed has the potential to normalise firms' unethical behaviour. The 'consumer responsibility' principle fails to take into account the imbalance of power between firms and their customers. We support the proposal of the Financial Services Consumer Panel that the Financial Services & Markets Act (FSMA) should be amended to place a duty on firms to act in

[1] https://publications.parliament.uk/pa/ld5801/ldselect/ldliaison/267/26702.htm

their customers' best interests. The FCA should supervise and enforce against this overarching duty, utilising all rules, powers and tools to support it.

Inclusive design

Alongside this, we believe that people need access to products and services that meet their needs at an affordable price, but often the way in which the market has been designed leads to discrimination and exclusion. The poverty premium means that people on low incomes pay more for essential goods and services compared to those with higher incomes. Poverty premiums can include lack of access to affordable credit and higher than average insurance costs.

We believe markets in essential services should be designed inclusively.[2] For this to happen the market needs to be able to accommodate the needs of people on low incomes and with the characteristics that are often associated with low income, regularly referred to as consumer vulnerabilities.

Over recent years regulators, including the FCA, have made significant progress in the treatment of consumers in vulnerable circumstances. However, **regulators and Government need to do more to promote and require inclusive design in the markets.** Where inclusive design cannot solve issues, the government and regulators should work together to bridge the policy divide so that markets work for everyone.

Pensions

Automatic enrolment has transformed the pension landscape, with 10 million more people saving into a workplace pension since 2012. However, there is a substantial and increasing disparity in the level of retirement provision:[3]

- Between employees of substantial businesses with an historical commitment to providing pensions, and those who work for employers who have only recently started to provide pensions, to comply with mandatory automatic enrolment; and
- Between those now in workplace pensions and around 8.5 million workers excluded from automatic enrolment because they work in the gig economy, are part time and earn too little, are self employed or work in small firms where they are the only director and there are no other employees.

This is compounded for women by a gender gap in pensions.

People in the UK generally have a poor understanding about what their financial position will be in later life[4] and the result of the disparities is, overall, a much lower level of provision than most people anticipate.[5] A report by the International Longevity Centre found that nearly 1 in 3 risk reaching retirement with inadequate incomes.[6] Further, the current pandemic has had a huge impact on

[2] See https://fairbydesign.com/inclusive-design/ for more information.
[3] References for data relating to the disparities is drawn from:
(1) https://www.resolutionfoundation.org/publications/building-a-living-pension/ (2) NEST Insight report; retirement Saving in the UK 2020; (30 Willis Towers Watson 'FTSE 350 DC Pension Survey 2020' (4) ONS report January 2021 on Defined Benefit Pension Provision (5) GOV. UK business population estimates : 2019 statistical release
[4] For further details see: https://moneyandpensionsservice.org.uk/2020/09/15/3-million-over-50s-will-leave-planning-retirement-finances-to-final-two-years-before-stopping-work/
[5] On point paper: "The Ski-Slope of Doom" – is this the most worrying chart in pensions? | Lane Clark & Peacock LLP (lcp.uk.com)
[6] https://ilcuk.org.uk/slipping-between-the-cracks/

employment levels, and even though pensions contributions have had to be continued for furloughed employees, long-term retirement provision is harmed for anyone who has become unemployed, or has had to spend savings from self-employment that were intended for providing for retirement.

Pension saving can help prevent financial exclusion and hardship in later life, but financial inclusion is arguably the Cinderella of pensions policy. The recent Pension Schemes Bill, for example, contained nothing about financial inclusion. The Financial Inclusion Commission believes that inclusion must be pushed up the pension agenda as a priority.

Furthermore, it is now nearly 20 years since the Pensions Commission's thorough review of the whole system. Although it dealt with the potential 'time bomb' then, through automatic enrolment, it does not deal with the current shift of responsibility from institutions to individuals, or with disparities which are increasingly marked, or with the risks from scams to which a largely disconnected working population is exposed now**. It is time for a fresh look, for a new Pensions Commission, looking at the situation of the 2020s not the 2000s. The problems have changed. The solutions need to change, too.**

A Roadmap out of exclusion

We fully support the work of the Money and Pensions Service in developing a National Strategy for Financial Well-being. However, this is not specifically focussed on the needs of vulnerable groups or on access and inclusion issues, being intended as a strategy to enhance the nation's overall financial well-being.

We therefore endorse the recommendation of the House of Lords Liaison Committee's recent report, suggesting that a more strategic approach to combatting financial exclusion is necessary post pandemic, bringing together the various initiatives already being developed, with others proposed, into a coherent 'roadmap' or action plan.

The Queen's Speech, setting out the future direction of travel for policy, provides an opportunity for the Government to outline the importance it attributes to building a truly inclusive Britain, levelling up and leaving no one behind. A roadmap on financial inclusion is critical to achieving those objectives.