Financial Inclusion Commission

The Financial Inclusion Commission

Response to FCA and Government: House of Lords Liaison Committee follow-up report on financial exclusion

14 July 2021

The Financial Inclusion Commission welcome the response by the Government and FCA to the House of Lords Liaison Committee follow-up report *Tackling Financial Exclusion: A country that works for everyone?* In particular, we were pleased by the statement that the Government will ensure the annual Financial Inclusion Report will include plans to reduce financial exclusion as well as the adoption of regulation for BNPL products. Furthermore, the commission welcomes the launch of consultation on the legislative proposals to protect access to cash, and support the view that the FCA would be well positioned to take overall responsibility for ensuring the retail distribution of cash meets the needs of consumers and businesses.

Nevertheless, we were disappointed that the response did not go further in adopting the recommendations made by the committee. In particular we are disappointed that the recommendation for a statutory duty for financial inclusion for the FCA was not given more consideration. Furthermore, the Commission recognise the important recent consultation by the FCA around a consumer duty and whilst we will not be addressing this in our response, we are currently undertaking detailed work to allow us to fully respond on this matter.

Duty to address financial inclusion

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.

Currently the FCA has no clear statutory requirement to address financial inclusion issues at all. It also does not routinely have regard to issues of financial inclusion across all of its work, wherever it is appropriate. This was recognised by the FCA themselves who stated they had a 'limited remit'.

When it comes to issues around financial inclusion, a situation has evolved where consumer organisations are routinely signposted from the FCA to HM Treasury (or, occasionally, the Equality and Human Rights Commission or Competition and Markets Authority), and vice versa – usually unable to meet in the same room together. Consumer representatives waste valuable resource, unable to gain traction on issues that involve more than one organisation, with a lack of clarity about who owns what among these organisations. More importantly, it is difficult to gain any traction on the issues that matter most to those in the most precarious financial circumstances in the UK today. For example, access to affordable credit and insurance, and ability to access cash easily and free of charge.

With the proposed new objective, the FCA will have responsibility for addressing the ways that markets often exclude those that are most vulnerable or disadvantaged.

A clearer remit placed on the regulator will ensure it routinely and properly explores inclusion issues across its work, allowing greater clarity on the best interventions needed, as well as who is best placed to act. This will sometimes be the FCA, the government, or a mixture if institutions working together.

Case study: Access to insurance

People need access to insurance products that meet their needs at an affordable price. For this to happen the market needs to be able to accommodate the needs of people on low incomes and the characteristics that are often associated with low income – often referred to as consumer vulnerabilities. However, a situation has emerged where those who most often have the greatest need for protection are locked out due to:

1) not being able to afford appropriate insurance because they are deemed to be a higher risk;

2) not being able to access insurance that meets their needs because they are 'non-standard';

3) being locked out of insurance altogether.[1]

There is a seminal shift occurring in individual data which insurers can use for risk assessment and pricing. How effective and justifiable those assessments are may itself be challenged. But the fact that the huge increase in individual data undermines pooling, is obvious, and needs to be addressed, in a way which works for both customers and providers.

Also needed is a look at 'type 2' access problems - where there are good value products or services, but for whatever reason, the market is not working in terms of getting them to the people who need them.

The fact the market has not, in the usual course of the way it does business, developed solutions to these issues, means that external attention is required. This may lead to Government intervention being needed - as with Flood Re, genetic testing and NEST (without which automatic enrolment into pensions saving would not work) - to deal with the problems.

It would make huge sense for there to be one place where the need for, and solutions to, inclusion problems like these, can be identified and developed. Not just for insurance, but across the spectrum of financial services products and services.

Who currently owns this problem?

Consumer representatives regularly approach the Treasury who state that consumer organisations need to prove market failure first, and to engage with the FCA.

In turn, the FCA states this is partly about social policy and signposts back to the Treasury.

Meanwhile, the Treasury Select Committee has asked the FCA to investigate how present pricing of insurance meets Equality Act requirements. The FCA states it has the resource and ability to do this but it is not responsible. The EHRC states it does not have the resource or capability to do this.

Meanwhile, the Competition and Markets Authority recognises the issues in insurance but states these issues should be dealt with by the FCA.

[1] https://www.fca.org.uk/publications/occasional-papers/occasional-paper-no-17-access-financial-services-uk

At the same time, numerous of the above will state that there is a joined up approach to such financial inclusion issues via the Consumer Policy Forum, led by BEIS, yet this forum is not transparent and consumer organisations are unable to usefully engage with it.

Consumer organisations continue to go between each of the above making no progress on insurance and other financial inclusion issues.

Result after years of engagement – the issue remains, and is steadily getting worse, and no one body is willing to act or take responsibility.

We believe that this points to the need for two things:

1) The FCA should be required by HM Treasury to have a cross-cutting statutory duty to promote financial inclusion as a core objective.
2) There needs to be the creation of a clear, open, and transparent process which consumer organisations can easily engage with on issues that involve a mixture of both regulatory and social policy. An entity needs to own this process and have responsibility for this.

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.

Please note that Baroness Claire Tyler is a member of the Financial Inclusion Commission and took an active part in the House of Lords Liaison Committee follow up inquiry.

For more information about this response please contact Chris Pond at Commission@ukfinclusion.org.uk