

Financial Inclusion Commission
HM Treasury: Financial Services Future Regulatory Framework Review
February 2021

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 across the political spectrum. <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 shocks.

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 receives 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'.

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

Introduction

The Financial Inclusion Commission welcomes the opportunity to contribute to the consultation on the Proposals for Reform for the Financial Services Future Regulatory Framework Review. We see the Review as a once in a generation chance to maintain the vibrancy and innovation of the UK's financial services industry, as well as ensuring measures to address financial inclusion are baked into the regulatory policy of the financial services market.

Financial inclusion remains a significant challenge for the UK and has long been overlooked by the financial services industry and its regulators. Data on financial exclusion paints a worrying picture, with around 500,000 adults living in households without access to a bank account,¹ and one in four households lacking insurance protection. Perhaps even more important as the economy seeks to recover from the Covid-19 pandemic, are that those on low incomes pay more for essential goods and services compared to those outside of poverty; for one in ten low-income households the premium stands at £780.² People need access to products and services 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 with the characteristics that are often associated with low income – regularly referred to as consumer vulnerabilities.

We believe that the regulator does not adequately consider vulnerable consumers' interests. The Financial Conduct Authority (FCA) has a range of powers and tools that it uses to regulate the market. These include its statutory objectives as well as the Treating Customers Fairly outcomes and its Public Sector Equality Duty. Despite all of this, there is still no clear duty or cross-cutting 'must have regard' provision to tackle financial inclusion. Without this:

- there is no clear statutory requirement for the FCA to address, or even consider, financial inclusion issues at all;
- the FCA does not routinely have regard to issues of financial inclusion across all of its work, wherever it is appropriate.

Therefore, the Commission maintains the recommendation given in its response to the call for evidence that the FCA should be required by HM Treasury to have a cross-cutting "must have" regard for financial inclusion. This will support the Government's Levelling Up Agenda.

The FCA should be required to have a cross-cutting "must have regard" to financial inclusion. This should include a statutory duty to report to Parliament annually on:

- **the state of financial inclusion in the UK**
- **measures that the FCA has taken, and is planning to take, in order to advance financial inclusion**
- **recommended additional measures which could be taken by government and other public bodies to promote financial inclusion.**

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

¹ Barrow Cadbury Trust, [Financial Inclusion Annual Monitoring Report 2020](#).

² University of Bristol Personal Finance Centre, [Paying to be Poor](#).

1) Do you agree with the government’s approach to add new growth and international competitiveness secondary objectives for the PRA and the FCA?

The Commission believes that any and all growth of the UK economy and financial services sector should be inclusive. Essentially, everyone should have the opportunity to take part in and benefit from growth in our economy. This means widespread consideration for the needs of vulnerable consumer groups and design of products and services with vulnerable consumer characteristics in mind.

The *Proposals for Reform* paper notes calls for a financial inclusion objective or principle given in the previous consultations and goes on to state that:

“The government’s view is that the FCA’s current and ongoing initiatives in the financial inclusion space, including those relating to access to cash and vulnerable consumers, demonstrates that it can already effectively support the government’s leadership on this agenda through the present operational objectives and regulatory principles.”

It is the Commission’s view that the current and ongoing initiatives from the FCA do not reflect the increasingly intertwined nature of regulatory and social policy and, therefore, cannot adequately tackle the critical issue of financial inclusion. We continue to recommend a cross-cutting “must have regard” for financial inclusion for the FCA. Such a principle would allow the UK economy to grow and compete on the international stage in an inclusive manner.

3) Do you agree that the proposed power for HM Treasury to require the regulators to review their rules offers an appropriate mechanism to review rules when necessary?

The government’s proposed intention to introduce a new power for HM Treasury is welcomed, however we believe that the rules of the regulator cannot serve the public’s interest effectively until a cross-cutting “must have regard” for financial inclusion is imposed.

The review of rules reform proposed should help solve the lack of communication between HM Treasury and the FCA on how to progress issues. Still, greater clarity is needed on who owns issues that fall in between regulators and government, in order to ensure mechanisms and rules are in place to cover the full scope of the regulators’ work. The reviewing of rules must form part of an appropriate system for dealing with issues that involved a mixture of social and regulatory issues.

The Commission wishes to see the creation of a clear, open, and transparent process which consumer organisations can easily engage on issues and rules that involve a mixture of both regulatory and social policy. We believe an entity needs to own this process and have responsibility for this, and therefore welcome the notion of an independent person appointed to oversee the review process.

The *Proposals for Reform* paper notes that:

“The government expects the proposed power would only be used in exceptional circumstance. For example, where there has been a significant change in market conditions, or other evidence suggests that the relevant rules are no longer acting as intended.”

We believe that both criteria have already been met, to justify a review to implement a cross-cutting “must have regard” for financial inclusion. A wealth of data demonstrates this point and the current state of financial exclusion clearly. For example, one in five adults would not be able to cover more than one month of living expenses if they lost their source of income.³ Furthermore, only around 14% of self-employed people are actively saving into an occupational or personal pension,⁴ and nearly 1 in 3 people aged 41-56 risk reaching retirement with inadequate funds.⁵

In short, whilst this proposed reform is welcomed, we recommend the government should go one step further and immediately introduce a cross-cutting “must have regard” for financial inclusion for the FCA.

5) Do you agree that these measures require the regulators to provide the necessary information on a statutory basis for Parliament to conduct its scrutiny?

Yes, we agree that the regulators should notify the relevant committee of a consultation and respond to Parliament. However, we think this needs to go one step further and be included as part of a ‘must have regard’ for financial inclusion. Indeed, we recommend that a cross-cutting “must have regard” to financial inclusion should include a statutory duty to report to Parliament annually on:

- the state of financial inclusion in the UK
- measures that the FCA has taken, and is planning to take, in order to advance financial inclusion
- recommended additional measures which could be taken by government and other public bodies to promote financial inclusion.

6) Do you agree with the proposals to strengthen the role of the panels in providing important and diverse stakeholder input into the development of policy and regulation?

We note the reflection from the *Proposals for Reform* paper that the FCA has recognised the importance of diversity in the membership of its panels and is now identifying means to boost diversity within those entities. The Commission was encouraged to read that a lack of representation from vulnerable consumers was also identified in the consultation process. However, we believe that the reforms suggested do not go far enough; as there exists a real issue around plurality of consumer voices, as well as representation of people with lived experience of issues such as poverty, exclusion, and wider consumer vulnerabilities. The mere requirement for the regulators to provide statements on their processes for appointing members to panels cannot be relied upon to voice consumer concerns.

We therefore recommend that the proposals are amended to include:

- The creation of an additional Consumer Panel, funded by the FCA, of people with lived experience of poverty, financial exclusion, and wider consumer vulnerability. This would

³ Lloyds Bank, [How Britain Lives study](#).

⁴ NEST Insight, [Talking with self-employed people about retirement saving](#)

⁵ International Longevity Centre, [Slipping between the cracks? Retirement income prospects for Generation X](#).

help to ensure regulatory policies are designed to meet the needs of all consumers and that the regulatory system is designed *with* people rather than without them. This panel could be created in a way that allows it to be used across essential services regulators and sponsoring government departments – with funding gained from across different markets.

- A requirement for the Consumer Panel to engage with other consumer organisations on a statutory basis through a formal annual consultation. This would give consumer organisations the opportunity to steer the Panel’s strategic priorities. This could be carried out at the start of the year. Funding made available for consumer organisations to engage with the Consumer Panel and the FCA – and bodies such as HM Treasury – would allow for a range of voices being heard.

In addition, ring fenced funding should be made available for consumer organisations to engage on financial services regulation, especially in areas that are currently the least represented (for example insurance.) This money could be sourced from the annual levy on the industry carried out by the FCA, or via allocation of money from fines placed on firms each year.

11) Do you agree with the government’s proposal for HM Treasury to have the ability to apply “have regards” and to place obligations on the regulators to make rules in relation to specific areas of regulation?

The Commission welcomes the proposal for HM Treasury to have the ability to apply “have regards”. We believe this will help to provide clarity on the key policy challenge of making sure independent regulatory bodies take full account of broader public policy issues and priorities when designing standards, polices and interventions. The FCA’s objectives must include more focus on social purpose and the ability for the government to set this direction is welcome. Clarity on responsibilities by Parliament and regulators also benefits other external stakeholders such as consumer organisations to know where to address policy concerns when they occur.

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 its work, wherever it is appropriate. Therefore, the Commission welcomes any mechanism by which a “must have regard” can be imposed on the regulator. With such a rule, the FCA will have responsibility for addressing the ways that markets often exclude those that 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 desirable to serve;
- not being able to access products and services that meet their needs because they are ‘nonstandard’;
- being excluded altogether.

Conclusion

In conclusion, the Commission welcomes several of the proposals for reform laid out by HM Treasury but we believe this must go further and introduce for a “must have regard” to financial inclusion for the FCA. We believe this should be implemented as a matter of urgency given the scale

of financial exclusion and consumer detriment in the UK. This “must have regard” should include a statutory duty to report to Parliament annually on:

- the state of financial inclusion in the UK
- measures that the FCA has taken, and is planning to take, in order to advance financial inclusion
- recommended additional measure which could be taken by government and other public bodies to promote financial inclusion.