Financial Inclusion Commission

<u>Speech delivered by John Godfrey</u>
<u>Lord Mayor's Financial Literacy and Inclusion Summit</u>
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Lord Mayor,

As you said so forcefully in your recent Gresham Lecture, the UK faces a persistent challenge with financial exclusion,both permanent and periodic, and this holds people back, disenfranchising them from making good choices about how to live within their means, do the best for their family, enter the workplace or even start a micro-business. This is a net loss for them, their communities and the broader economy. It is also a net loss for the Financial Services industry, and this is the subject of this session.

- 1 million people have no bank account
- 8.5m people have no pension savings
- One fifth of people could not cover their living expenses for more than a month if they lost their income

This sounds to me like an under-served market, and any management consultant would tell you as much.

Governments since 2010 have made progress, as Andrew Griffith has said, for example: creating ministerial accountability for Financial Inclusion at HM Treasury and DWP (aFinancial Inclusion Commission campaign so successful we ended up with two ministers having only asked for one); creating the Money and Pensions Service (MaPS) to provide guidance; supporting credit unions and mutuals through Fair4All Finance; creating "breathing space" pauses for problem debts, and through the Khalifa Review which emphasised the connection and potential of tackling both digital and financial exclusion.

The government has also addressed specific issues such as access to cash and in the last Budget, the "poverty premium" paid by users of prepayment electricity meters.

But government can't do it all. Business needs to step up. To get business to step up, requires it to move financial inclusion from CSR to the mainstream (as Royal London have shown) and this in turn requires businesses to operate out of self-interest, but <u>enlightened</u> self-interest.

This morning we heard about the role of financial education in growing the FS employees of the future. Making provision for financial inclusion is also an expected and attractive part of the package for hiring and retention.

From a customer perspective, the financially excluded constitute an under-served market. One good example is provision of contents insurance for social housing tenants with premiums collected with rent. This requires a change to FCA financial regulations on "bundling", which is now being actively considered. It would significantly expand insurers' customer base while adding financial resilience. My colleagues at FIC – especially Johnny Timpson - have been powerful advocates of this, and it is a business proposition that also works economically, ie delivering positive ROI.

A second effect of greater financial inclusion is that it closes markets to illegal or egregious operators and opens them to mainstream providers. As was pointed out in the CSJ's "On the Money" Report, financial inclusion underpins long-term financial stability. This in turn reduces reliance on illegal or unauthorised lenders, on predatory pricing in the "buy now, pay later" sector. This is a shift from Wonga to Salary Finance.

Additional knock-on effects and social consequences of financial exclusion can include reckless gambling (CSJ estimates there are 55,000 children aged 11-16 in the UK who are problem gamblers) and the creation of a vicious debt/mental health spiral – the reason financial expert Martin Lewis founded the outstanding Money and Mental Health Policy Institute. We know from Stevenson-Farmer that mental health costs businesses £45bn per year in absences and lost productivity.

Better financial education and at a very basic level, better numeracy and better-designed products enable better decision-making. Many providers of financial services, moreover, recognise that fostering greater inclusion creates better outcomes for customers, and ultimately for them as providers.

Examples would be encouraging people not to miss out on employer pension contributions by staying out of workplace pension schemes, and to consolidate and reduce debt through workplace loans where available, rather than defaulting. Better financial understanding can help small businesses, sole traders and the self-employed, for example by engaging with the Small Business Commission and resources like the Start-Up Loans Company rather than muddling business and personal finances.

New opportunities to reduce transaction costs and reach customers through digital technology or fintech are an important feature of the landscape. Better data and lower operating costs should produce compelling offers for consumers outside the mainstream. These can be delivered in low-cost ways – for example through employers who facilitate debt consolidation and repayment through payroll at better terms, for example through companies like Salary Finance.

We now need similar initiatives to help enable the growing market of gig economy workers to reduce precarity by engaging with important financial products, for savings, insurance and pensions. Whether the providers are social enterprises or traditional for-profit start-ups, the opportunity exists for Britain to lead in developing solutions with global potential, for example in insurance and microfinance.

Financial inclusion is an important part of levelling up. It is impossible to level up your own life if you have no access to basic, mainstream financial products or if you are paying a "poverty premium" to access these products. This has been the lesson from Credit Unions, and historically the driving force behind Co-operatives, friendly societies, savings clubs and indeed building societies.

Andrew mentioned the importance of cash in ancient Celtic Britain. I will only go back to Victorian times. It is worth noting that in the 19th Century, when property ownership was a requirement for being able to vote, the Building Societies as financial institutions not only delivered financial inclusion, but also democratic inclusion. By 1910, there were 1.723 building societies in existence with 626,000 members.

There are multiple examples of positive initiatives, and we have heard some today, but more is needed to create a modern financial inclusion movement that is really game-changing for those most in need. This is particularly the case post-COVID and an inflationary cost-of-living crisis.

Policy changes need to ally to best business practice so the financial sector can grow its customer base, develop new products which help those currently insufficiently included, and to create new financial services businesses that also achieve positive social outcomes, just as our forbears did to democratise home-ownership and saving.

What is needed today is an over-arching ambition to bring financial inclusion together in a coherent policy, with financial inclusion, education and regulation at its heart. Financial Regulators now have a "Consumer Duty" – an important step forward. But the Consumer Duty is not enough – it applies to existing customers and new customers – not to those who risk never becoming customers because they are excluded.

FIC is a strong supporter of secondary duty for the regulators to "have regard" to financial inclusion. It would be an important additional component in developing greater inclusion and hence greater resilience across our whole economy and allow more people to benefit from and share in economic success. A regulatory duty would moreover be a good incentive – a stick rather than a carrot – to prompt providers to take financial inclusion into the mainstream.

So we need a step change from government, industry and the third sector. Today has been fantastic but we need not to talk to ourselves but to go forth and deliver change.

Now back to Brian…