



Policy Paper: *Financial Inclusion*

Most UK residents have access to basic financial services, but significant numbers are excluded due to circumstances or geography. In 2017, 1.23 million people did not have a bank account.¹ Bank branch closures have made banking access difficult in many rural, small town and suburban areas. Easy access to cash is also under threat.² Consumers on low incomes or in vulnerable situations often do not have access to the credit they need at reasonable rates of interest so turn to high cost credit providers. Some people cannot buy the insurance they want at a reasonable price. These and other access issues present a financial inclusion challenge which needs to be addressed by Government, regulators, the financial services industry and society as a whole.

What are the issues?

Financial inclusion is an essential foundation for financial wellbeing. A person cannot be 'financially capable', if they are excluded from key services, forced to rely on high cost credit, declined for certain types of insurance or are non-digital in a digital world.

¹ <https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/financial-inclusion/financial-inclusion-2018-briefing-paper.pdf>

² <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

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Financial services are mostly provided by competing private sector firms, none of whom has a universal service obligation. This means that decisions taken separately by individual companies can have the combined effect of removing services from people with certain characteristics or living in particular geographic areas, such as when all the bank branches in a given town are closed.

Charities and consumer organisations have identified a 'poverty premium', which is the extra money that low income people have to pay arising from the fact that they are on low and/or unreliable incomes and cannot take advantage of the best commercial offers available.³

While some are excluded from financial services by personal circumstances or geography, others are excluded through lack of knowledge or information. 17% of UK adults self-rate as having low financial capability,⁴ while other tests suggest a rate as high as 40%.⁵ For many, low financial capability combines with low reading literacy to make interacting with financial services particularly hard.⁶

Government, regulators and the industry have recognised the importance of financial inclusion and taken a number of steps to address the challenges identified above, for example:⁷

- FCA regulation of the high cost credit market.
- Promotion of Basic Bank Accounts and Post Office financial services.
- Setting up the Joint Authorities Cash Strategy Group to safeguard access to cash.⁸
- Negotiating the 'Access to Banking Standard' now overseen by the Lending Standards Board.⁹
- Setting up the Money and Pensions Service (MAPS) to lead a national financial capability strategy.
- Establishing the Financial Inclusion Policy Forum.¹⁰

³ Social Market Foundation 2018, Measuring the Poverty Premium. Available at:

<http://www.smf.co.uk/wp-content/uploads/2018/03/Measuring-the-Poverty-Premium.pdf>

⁴ Financial Conduct Authority 2018, The financial lives of consumers across the UK, pp 82-83.

Available at: <https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf>

⁵ Money Advice Service 2015, Financial Capability in the UK, pp 15 and 24.

⁶ The National Literacy Trust found that 56.3% of those in the bottom quartile of financial capability skill are also in the bottom quartile of reading skill: Anne Teravainen-Goff and Christina Clark 2019, Reading and financial capability - exploring the relationships, National Literacy Trust, page 17.

⁷ <https://www.gov.uk/government/publications/financial-inclusion-report-2018-to-2019>

⁸ <https://www.gov.uk/government/news/cash-here-to-stay-as-government-commits-to-protecting-access>

⁹ <https://www.lendingstandardsboard.org.uk/access-to-banking-standard-summary-report/>

¹⁰ <https://www.gov.uk/government/publications/summary-of-financial-inclusion-policy-forum-meeting-october-2018/summary-of-financial-inclusion-policy-forum-meeting-11-october-2018>

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These initiatives have had an impact,¹¹ but some millions of people remain financially excluded in whole or part. Much remains to be done to create a fair and fully inclusive financial environment.

What needs to happen?

Overall

- It should be recognised that basic financial services such as banking and payments are essential to modern life and have the characteristics of a universal service similar to Internet, phone, water and energy supply.
- Government should ensure that basic financial services, including cash and day-to-day banking, are available universally in all parts of the country, with access channels suited to all levels of need and ability.
- Digital innovation, including Open Banking, should be designed to provide benefits to all consumers and not unintentionally create new barriers.
- Regulators should ensure that the financial services industry amends its offers and pricing to minimise any 'poverty premium' arising from financial services and addresses the needs of consumers in vulnerable circumstances.

Financial inclusion and financial capability

- Improving financial capability should be central to the UK's approach to financial inclusion.
- Financial education in primary and secondary schools should be extended to all learners. At secondary level, financial education should be a statutory part of the PSHE curriculum. All learners should receive sufficient financial education to develop their personal financial skills and prepare them for the financial challenges of further education, employment and life in general.
- All adults should have access to financial information and advice tailored to their particular needs and abilities.
- The Money and Pensions Service (MAPS) should take the strategic lead, establishing a better balance between debt advice and financial capability. It should make the case for financial capability with other branches of government, such as Ofsted, the Ministry for Education, HMRC, HMT and DWP, and with regulators such as the Financial Conduct Authority and the Payment Systems Regulator.

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¹¹ For example, the number of unbanked adults in the UK fell from 4.5 million in 2003 to 1.23 million in 2017: CHASM 2018, charts accompanying the 2018 Financial Inclusion report.

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- Through its work with young people and adults, The Money Charity provides as many people as it can reach with the skills needed to be financially included.
- We focus on the financial needs of people in vulnerable situations, such as migrants, prisoners, people from particular cultural backgrounds, Travellers and the previously homeless.
- With employees we emphasise the benefits of long-term financial planning, such as participation in pension saving.
- We provide people with the skills needed to find the best deals and navigate the array of commercial offers.
- In our policy work we propose regulatory and other reforms to promote financial inclusion.

The Money Charity is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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