The Money Charity response to the Select Committee on Financial Inclusion

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, and that this, reduces stress and hardship, increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

1. The Money Charity welcomes The House of Lords Select Committee's creation. Accessing financial services is a right for everybody, and a necessary part of full involvement in society. Exclusion, by contrast, places huge hardships on people and limits what it is possible to achieve in life.

2. As a financial capability charity, our central contention is that the issue of exclusion must not be seen narrowly as simply ensuring that people have theoretical access to products that would be useful to them. Instead the scope of concern for calls for evidence such as this should be much wider, including all the reasons why consumers do not access financial services that they would benefit from - financial capability: means, skills and knowledge.

Definitions and causes of financial exclusion

3. Anecdotally, conversations about financial exclusion with policy makers and lay-persons tend to be relatively narrow in their view of what constitutes exclusion. Examples that come up tend to be around "access" and the degree to which financial products are formally available to people.

4. For those involved in educating consumers in how finance works, it is abundantly clear that it is not simply the existence or the theoretical availability of financial products that allows people to be included. It is a much wider set of skills and knowledge that allows people to interact fully with financial services.

5. In short, financial inclusion is built on the bedrock of financial capability. Certainly work needs to be done to ensure that consumers who do try to engage with firms are not denied access to services they would benefit from unfairly. But there is a much wider issue of people not having the skills, knowledge or confidence to ever approach providers in the first place.

6. Studies find that most people do not understand the basics of personal finance, and are not generally engaged in good money management. Confidence and skills are often very low, across age and income groups[1].

7. And on top of that, it is not difficult to find examples of people take clearly detrimental financial decisions when far better alternatives are available. For instance, recent research from the Financial Inclusion Centre found over 400,000 households relying on the rent to own sector – many paying far more than they would were they to use other forms of credit. In many of these cases, credit unions or traditional lenders would offer credit far more affordably, and consumers would be able shop around for more competitively priced products. But consumers are in a sense denied access because they lack the skills and knowledge to take these alternative routes[2].

[1] MAS Financial Capability Strategy
[2] Financial Inclusion Centre, Better and Brighter-Responsible Rent to Own Alternatives, 2016

8. For these reasons too, we do not want to foster access without capability. Not every financial product is good for every consumer, and the important thing is to ensure that people are able to both access *and* understand the products that are available.

9. Taking reasons like these into account, the Financial Inclusion Commission lists financial capability as one of its key challenges[3]. We recommend that he Select Committee should take a similar view.

10. Viewed in a holistic way, the proportion of people who are affected by some form of financial exclusion is high and cuts across age, income and other groups.

11. There are particular issues with certain groups who face their own, often very difficult, challenges, such as certain types of disabilities and mental health problems. These need to be discussed and addressed in partnership with individuals and organisations who have specialist knowledge. But the discussion around financial capability should never be confined to only these groups.

Financial Education and Capability

12. Successive governments have pursued policies such as pension freedoms and Universal Credit that rely on greater individual financial responsibility. Work has become far more flexible, and technology has opened up far more choice to consumers than has ever been available in the past. For these reasons there has never been a time when personal finances have been as complicated as today. So increased financial capability through life-long money guidance services and education ought to be something government is putting significant leadership and resources into.

Capability and literacy services

13. The Money Advice Service (MAS), the body set up to deliver financial capability, literacy and advisory services is commonly perceived not to have met its objectives in entirety. Though good digital tools have been created and recent progress on the Financial Capability Strategy and commissioning has been welcome, the sector as a whole has not taken the leap forward that was hoped for as it was being set up six years ago.

14. In recognition of this, The Treasury and DWP have recently completed consultations on a new model of delivery to replace MAS. While elements of this such as the commissioning model are welcome, we have grave concerns that the new proposals are learning the wrong lessons from the MAS experience.

[3] Financial Inclusion Commission report, 2015

15. The new model, based on commissioning the provision of debt advice, money guidance and financial capability services to fill '*gaps in the market*' has many strengths and will harness the existing expertise of organisations working in these areas.

16. However, we fear that the laudable intent behind the DWP and Treasury's recent review of public financial guidance will be undermined by the structure, aims and priorities of the new proposed services:

a. **The split between money guidance and pensions guidance is purely artificial, and increasingly meaningless from a consumer's point of view.** Discussions about retirement income provision are inseparable from debt, housing costs, savings – general money advice. Having one body dedicated to providing pensions guidance and another coordinating separate money guidance and financial capability services creates a divide that simply does not exist in people's lives. This will inevitably lead to difficult hand-offs or duplication as the services evolve.

b. The aim of '*filling gaps in the market'* makes sense on paper – government does not want to replicate provision, particularly that of popular online private providers such as comparison websites or Money Saving Expert. However, while provision for specific money related needs exists somewhere (where do I find the best insurance, best credit card for air miles?...) if you have access to the internet, a huge 'gap in the market' is a **single place to go for holistic money advice and information**, not just specific missing content. To use an analogy there is a high street full of shops with guidance on specific financial issues - if you are already capable and know exactly what you need, but no supermarket where a person with ill-defined needs for financial guidance can go.

c. Ring fencing debt, and delivering pensions advice separately means that **financial education and capability will always be secondary concerns**. Ring fencing these areas while not doing the same for others is a clear signal of prioritisation from the government. Inevitably, more than just money will be focused on debt and pensions, leadership and human resources will go in that direction in the belief that the success or failure of the new bodies will be measured on these areas, even at the expense of financial capability and education.

d. In a trend that seems only to be exacerbated by the upcoming changes to debt advice and money guidance, there is disproportionate resource going to deal with financial crisis once it has happened and not enough to preventative work. It is always easier to evidence crisis services such as debt advice, but this should not justify the disproportionate resourcing it receives over more preventative services such as general money guidance or financial education – even if those have more diffuse benefits that are more difficult to measure.

17. Our full response to the public financial guidance review can be read on our website[4]. It calls for a single money guidance body with a public facing brand and a mixed model of delivery where it both commissions and provides some services directly.

18. Overall, if policymakers want there to be organisations capable of delivering good capability and literacy services, they need to refocus attention on financial capability, creating governmental leadership, and directing resources into the sector.

Education services

19. Financial education, having received significant political attention in 2014 when it was included on the secondary curriculum, has not made the advances many in the sector had hoped. Just 28% of teachers believe that their school is putting more emphasis on financial education than before the curriculum change[5]. For all the importance accorded it by policymakers and teachers who believe that financial education is key to a successful life, not much has changed beyond a few lines in a national curriculum ever fewer schools are bound to follow anyway.

20. An upcoming report from The Money Charity also shows how little has changed on the ground in schools. Mirroring some of the results found in a poll conducted for the APPG on Financial Education for Young People earlier this year[6], our survey of 126 UK teachers found:

a. Financial education is not as effective as it should be. Almost two thirds of teachers tell us financial education in the UK is somewhat or very ineffective.

b. The introduction of financial education to the curriculum achieved little on the ground. Nearly three quarters of teachers we surveyed saw little or no change.

c. Even though the vast majority of teachers see it as an important responsibility, schools face huge barriers in delivering financial education. Not least the lack of financial skills on the part of teachers.

d. In order to be worth more than the paper it's written on, a curriculum change has to be matched with serious resources and incentives for schools to deliver financial education.

[4] The Money Charity response to the public financial review proposals, 2016
[5] Financial Education in Schools: Two Years On – Job Done? 2016
[6] Financial Education in Schools: Two Years On – Job Done? 2016

21. It is good that, after a collective "*job done*" attitude in the wake of the 2014 curriculum change, financial education in schools is back on the political agenda. As policy influencers in the field of financial inclusion, the practical improvement of education provision should be an inextricable part of your vision.

Accessing affordable credit

22. The recent regulation of the high cost short term credit (HCSTC) has led to significant and so far poorly understood changes in people's access to credit. We support the efforts being made to expand the credit union model to fill the gap. But credit unions cannot and will not be a panacea. In addition, policymakers should support other schemes that give people access to affordable credit such as employer based services[7].

23. As we have similarly argued elsewhere, access to affordable credit is inextricably linked to financial capability. For example, some of the HCSTC market was fueled by consumers who had seen advertising and were drawn to the ease and speed of payday loans. Many of those consumers could access credit more cheaply elsewhere if they know how to, but are excluded because of their lower financial capability.

Government policy and regulation

24. Government policy has not been adequately led since at least the winding up of the Financial Inclusion Taskforce five years ago. The Treasury's lead role in financial access and capability has also been removed, leaving policies in these areas rudderless and piecemeal.

25. For this reason we echo the Financial Inclusion Commission's recommendations for government leadership in financial inclusion – including having a 'Minister for Financial Health' and ministerial champions within each relevant governmental department[8].

26. In order for a whole host of ongoing government reforms, improved financial inclusion and capability are necessary: pension choice, Help to Save, Universal Credit, Lifetime ISAs, to name a few. And several government departments have interest in inclusion and capability as it pertains to their particular policy aims. But what this has tended to lead to is an atomized, under-led and under-coordinated disparate set of services.

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[7] Neyber
[8] Financial Inclusion Commission report, 2015

27. The most glaring example of this is with the Treasury and DWP where, as discussed above, the former is in charge of setting up money guidance services and the latter responsible for pension guidance - and Universal Support for Universal Credit. All these services could and should be provided by a single body that can utilize economies of scale and apply expertise and resources to specific challenges, that is clearly led and accountable to a named minister.

28. The desire of these departments to engage in turf wars to maintain oversight of 'their' specific financial inclusion and capability services leaves consumers without the holistic money guidance and financial capability service which would be best placed to serve their complex needs.

29. It also means that, although MAS and its successor may undertake excellent thought leadership work, there is nobody to champion this at the top of government and coordinate action across relevant departments.

30. From a regulatory standpoint, the FCA produces important thought leadership work. For example earlier this year with their Occasional Paper on Access to Financial Services[9]. However, financial inclusion is not is not written into the FCA's objectives and work in this area is overly dependent on a few key individuals working within it. We would recommend that the statutory objectives of the FCA include this area as a key aspect of financial regulation.

Conclusion

31. Financial inclusion is a topic which requires serious thought and political attention. Like many of our greatest social challenges, it evades simple definitions and simple solutions. If this Select Committee can create new insights and stir new impetus, it will be thoroughly worthwhile.

[9] FCA: Access to Financial Services, 2016