House of Lords Financial Exclusion Committee – written evidence from the Money Advice Trust

September 2016

1. Introduction

1.1. The Money Advice Trust welcomes this opportunity to provide written evidence to the House of Lords Financial Exclusion Committee's call for evidence. This follows the oral evidence provided by the Trust's chief executive, Joanna Elson OBE, to the Committee's evidence session held on 5th July 2016.

1.2. Please note that we consent to public disclosure of this response.

2. About the Money Advice Trust

2.1. The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence. The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

2.2. Over 1.35 million people were supported by the Trust in 2015, both directly through our advice services or indirectly through training advisers in charities across the UK. This includes almost 400,000 individuals assisted through National Debtline, over 50,000 small businesses through Business Debtline and over 900,000 through our adviser training. We support advisers by providing training through Wiseradviser, innovation and infrastructure grants.

2.3. We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

3. Summary of evidence

3.1. We believe that financial exclusion is a significant social problem, the scale of which necessitates a co-ordinated, whole-society strategy in response. Improving financial inclusion in the UK will require a partnership between government, financial services, the education system, the money and debt advice sector and wider civil society.

3.2. There is a need for the Government to take a greater leadership role in tackling financial exclusion, and we support the Financial Inclusion Commission's recommendation[1] for a senior government lead and the appointment of Ministerial champions to drive this agenda forward. Given the localism agenda, this should include an emphasis on a joined-up approach between central, local, regional and devolved Government.

3.3. Problem debt is both a cause and consequence of financial exclusion – and this close relationship means that reducing the former must be a crucial component of action to tackle the latter. This should include ensuring the adequate provision of free debt advice, and that this provision reaches the large majority of over-indebted people in the UK who are not currently seeking advice.

4. Definitions and causes of financial exclusion

Is financial exclusion the inverse of financial inclusion and, if not, how do the two concepts differ? What are the causes of financial exclusion?

4.1. In our view, viewing financial exclusion as the 'inverse' of financial inclusion risks presenting the two as binary states, whereas financial inclusion is better conceptualised as a continuum – with different groups of consumers experiencing different levels of engagement with financial services (and at different times and in different ways). This better captures the complexity of this significant social problem, the scale of which demands a multi-faceted and whole-society solution.

4.2. A fundamental cause of financial exclusion is poverty – and the role that low pay, unemployment and the impact of some aspects of welfare reform plays in the financial exclusion challenge should not be underestimated. The increase in the minimum wage for over-25s is welcome, but continued efforts to address these fundamental challenges will be necessary to bring about any meaningful effect on financial exclusion.

4.3. These fundamental factors aside, other causes of financial exclusion include low financial capability, financial products and services that do not always meet customer needs, a lack of trust in financial services, new barriers created by technology, vulnerable circumstances and, significantly, problem debt.

4.4. The persistence of a low level of financial capability in the UK has been well documented, and is a problem that the new UK Financial Capability Strategy[2] seeks to address. Low financial capability acts as a barrier to engagement with financial products and services, and is one of the most significant causes of financial exclusion.

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[1] Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, http://www.financialinclusioncommission.org.uk/report

[2] Money Advice Service (2015), The UK Financial Capability Strategy, https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf

4.5. It is also the case that financial products and services do not always meet the needs of low-income consumers – for example, a lack of access to affordable credit which results in some turning to high cost borrowing, and a lack of affordable home insurance products that can leave some consumers unprotected and at greater risk of financial difficulty. Some of this unmet need has been created as a result of reductions in welfare support, most notably the Social Fund.

4.6. A lack of trust in financial services is also a cause of financial exclusion, acting as a barrier to engagement. The issue of trust in financial services has been particularly apparent over the last decade in the wake of the financial crisis, and remains a significant factor.

4.7. Financial exclusion can also be reinforced by barriers arising from new technology. While technology offers many opportunities to improve products and services for consumers (for example more channels, greater convenience), it can also present risks to financial exclusion – for example with services shifting online to the potential detriment of those who are digitally excluded.

4.8. A further cause of financial exclusion is issues around vulnerability – and there is now a greater awareness of how vulnerable circumstances (for example, mental health, terminal illness, disability or bereavement) change the way in which customers engage with financial services. While progress is being made in this area, including following the work of the British Bankers' Association's Financial Services Vulnerability Taskforce[3], this remains a significant issue that the industry and stakeholders must address.

4.9. Problem debt can be both a cause of financial exclusion – for example, through its impact on your credit rating – and a consequence of it – for example, through a lack of access to mainstream credit and the impact of the 'poverty premium' (see 4.11 to 4.14)

Who is affected by financial exclusion? Do different sectors of society experience financial exclusion in different ways? To what extent, and how, does financial exclusion affect those living in isolated or remote communities?

4.10. Financial exclusion affects a wide range of groups, but we would highlight people on low incomes, people in vulnerable circumstances and increasingly, those who are digitally excluded as three groups in society who are particularly at risk. There is a significant overlap between these groups.

4.11. There has been a significant shift in the demographics of financial difficulty in the UK in recent years. Analysis of people contacting National Debtline for help with problem debt shows significantly more people who rent (60 percent of clients now, compared to 47 percent in 2010), more people who are single (37 percent now, compared to 30 percent

[3] British Bankers Association (2015), Improving outcomes for customers in vulnerable circumstances, https://www.bba.org.uk/news/press-releases/financial-services-establishes-new-gold-standard-for-customers-in-vulnerable-circumstances/#.V9cOkrlTEy8

in 2007) and fewer in full-time employment (32 percent now, compared to 44 percent in 2007).

4.12. The UK landscape has also undergone a significant shift since the financial crisis, and these trends must be considered to fully understand the challenge of financial exclusion. In 2014 the Money Advice Trust's Changing Household Budgets research[4] showed that more people are now falling into debt because they cannot afford essentials such as utility bills and council tax, with an accompanying decline in problems due to traditional credit products. In 2007, 69 percent of callers to National Debtline had problems with loans, overdrafts or credit cards – by 2014 that had fallen to 42 percent. In the same period, the service saw a 140 percent rise in calls about household debts such as rent arrears, energy and water bills, telephone bills and council tax. Other debt advice agencies we work with, such as Citizens' Advice and StepChange Debt Charity, report very similar trends.

4.13. Given the significance of problem debt as a factor in the financial exclusion, we believe that this shift in the debt landscape towards household bills necessitates a cross-sector approach to improving financial inclusion in the UK, encompassing non-financial creditors such as utility companies and public sector bodies including HMRC, DWP and local authorities.

4.14. A further group at risk of financial exclusion that is often overlooked in this debate is those who are self-employed, with self-employment now accounting for more than 14 percent of the UK workforce. The Money Advice Trust's Cost of Doing Business research in 2015 demonstrated some of the challenges self-employed people face, including a lack of access to business banking facilities and difficulties obtaining a mortgage because of fluctuating income[5].

What is the relationship between financial exclusion and other forms of exclusion, disadvantage or deprivation? What role does problem debt play in financial exclusion?

4.15. Poverty and financial exclusion are fundamentally and inextricably linked, and any action to tackle the latter must be part of a broader strategy to address the former.

4.16. Financial exclusion is undoubtedly a cause of social exclusion – and we would highlight the close relationship between financial, social and digital exclusion in particular. The Office of National Statistics' latest Internet Access Survey[6] shows that 11 percent of households do not have access to the internet – including nearly half of single

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[4] Money Advice Trust (2014), Changing Household Budgets, https://www.nationaldebtline.org/EW/Documents/Changing%20household%20budgets.pdf

[5] Money Advice Trust (2015), The Cost of Doing Business, http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/MAT_BDL_COST_OF_BUS.pdf

[6] ONS (2016), Internet Access Survey 2016, http://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2016

pensioners. As services are increasingly shifted online, the needs of the minority without internet access must still be taken into account.

4.17. Problem debt is both a cause and consequence of financial exclusion, and understanding this complex relationship is crucial to understanding both issues.

4.18. The effects of struggling with unmanageable debt can create new barriers to financial inclusion in the future. For example, finding yourself unable to keep up with credit commitments has a negative impact on your credit rating, which makes it harder to obtain credit in the future, and bankruptcy can make it difficult to open a bank account.

4.19. Conversely, financial exclusion can lead directly to financial difficulty and debt problems. For example, the poverty premium that many low income households pay[7] increases costs and pressure on already stretched budgets, a lack of access to affordable borrowing can lead to people turning to high cost credit or even illegal lenders and a lack of savings leaves consumers without a cushion to protect them from future income shocks.

4.20. This close relationship between problem debt and financial exclusion means that reducing the former should be a priority in addressing the latter. This must include ensuring the adequate provision of free debt advice, and ensuring that this provision reaches the 83 percent of over-indebted people that the Money Advice Service found are not currently seeking advice[8].

Do individuals with disabilities, or those with mental health problems, face particular issues in regard to financial exclusion?

4.21. Vulnerable circumstances (including disability, mental health problems, terminal illness, bereavement and a wide range of other factors) can fundamentally change the way that consumers engage with financial services products and services. The FCA's Occasional Paper on vulnerability[9] and the work of the British Bankers' Association's Financial Services Vulnerability Taskforce [10]highlighted that significant improvements are needed to ensure that customers in vulnerable circumstances receive the best experience and outcomes.

4.22. It is important that all vulnerabilities – and not just disability and mental health – are considered, along with the often transitory nature of many of these factors, with

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[7] University of Bristol Personal Finance Research Centre (2016), Forthcoming Research Brief, http://www.bristol.ac.uk/media-library/sites/geography/pfrc/PFRC-Poverty-Premium-Research-Brief.pdf

[8] Money Advice Service (2013), Indebted Lives, https://mascdn.azureedge.net/cms/indebted-lives-the-complexities-of-life-in-debt-november-2013-v3.pdf

[9] Financial Conduct Authority (2016), Occasional Paper No 8: Consumer Vulnerability, https://www.fca.org.uk/publications/occasional-papers/occasional-paper-no-8-consumer-vulnerability

[10] British Bankers Association (2015), Improving outcomes for customers in vulnerable circumstances, https://www.bba.org.uk/news/press-releases/financial-services-establishes-new-gold-standard-for-customers-in-vulnerable-circumstances/#.V9cOkrlTEy8

individuals moving in and out of vulnerable circumstances at different stages of their lives.

4.23. While the industry is responding well to this agenda – including through the more comprehensive inclusion of vulnerability in the new Standards of Lending Practice[11], bringing the achievement of improved outcomes within the Lending Standards Boards' monitoring regime – there remains significant work ahead.

5. Financial education and capability

Are there appropriate education and advisory services, including in schools, for young people and adults? If not, how might they be improved?

5.1. As the Financial Inclusion Commission identified in its report[12], the UK's persistent low level of financial capability is one of the most significant drivers of financial exclusion.

5.2. A lack of financial capability acts as a barrier to engagement with often complex and jargon-filled financial products and services, can lead to consumers not shopping around to get the best rates or prices, can introduce additional costs (for example through overdraft charges and missed payment fees) and can act as a barrier to building up a savings buffer to protect against future income shocks.

5.3. Actions to address low financial capability acting as a barrier to engagement often focus on choice and the provision of more information to consumers – for example, through price comparison websites – but for people in financially excluded groups, this may not always be the best way to boost engagement. There is a need for financial capability and engagement strategies to consider the specific and varying needs of financially excluded consumers.

5.4. While there is a broad consensus that a holistic approach to improving the UK's financial capability is needed – now guided by the UK's Financial Capability Strategy[13] – **financial education** in schools remains a key element to this.

5.5. The introduction of financial education into secondary schools through the National Curriculum in 2014 was significant, but only a first step. However, with research showing that our financial habits in adulthood can be established as early as seven

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[11] British Bankers' Association and the UK Cards Association (2016), The Standards of Lending Practice, https://www.lendingstandardsboard.org.uk/wp-content/uploads/2016/07/Standards-of-Lending-Practice-July-16.pdf

[12] Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, http://www.financialinclusioncommission.org.uk/report

[13] Money Advice Service (2015), The UK Financial Capability Strategy, https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf

years old[14], financial education must begin much earlier, in primary school. In addition, with nearly two thirds of secondary schools now academies, able to set their own curricula, a more consistent and co-ordinated approach is needed.

5.6. We believe the Government should consider the recommendations of the APPG on Financial Education for Young People in its recent report reviewing the 2014 curriculum changes[15]. In particular, more work is needed to encourage all schools – including Academies and free schools – to integrate financial education into their own curricula.

5.7. The APPG on Financial Education for Young People also found that provision in those schools that do deliver financial education should be strengthened by focusing on real-life contexts, and that a significant gap exists in teacher confidence and skills, with just 17 percent having received training.[16]

5.8. Turning more directly to the question of **debt and money advice provision**, the government has proposed significant changes in the provision of public finance guidance, with the aim of ensuring that "all consumers can access the help they need to make effective financial decisions throughout their lives"[17]. We are broadly supportive of these proposals – in particular we support plans to focus public financial guidance in the debt area on filling gaps in existing provision. Debt advice needs to be commissioned across all channels that clients use – including phone and online, thus preserving more expensive face to face channels for those who really need it.

5.9. Ultimately, funding of debt advice will need to increase to meet increasing demand – and to ensure that provision reaches more of the people who need it, but who are not currently seeking advice.

How can financial literacy and capability be maintained and developed over the course of a person's lifetime?

5.10. The UK's Financial Capability Strategy[18] has rightly focused attention on the importance of understanding life events in financial capability. Research from the Money Advice Service[19] identified these as positive (such as getting married, entering work, owning a

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[14] Whitebread, D and Bingham, S (2013), Habit Formation and Learning in Young Children, Money Advice Service, https://mascdn.azureedge.net/cms/the-money-advice-service-habit-formation-and-learning-in-young-children-may2013.pdf

[15] APPG on Financial Education for Young People (2016), https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf

[16] Ibid.

[17] HM Treasury (2016), Personal Financial Guidance: proposal for c consultation, https://www.gov.uk/government/consultations/public-financial-guidance-review-proposal-for-consultation

[18] Money Advice Service (2015), The UK Financial Capability Strategy, https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf

[19] Money Advice Service (2015), Milestones and Millstones, https://masassets.blob.core.windows.net/cms/files/000/000/208/original/Milestones___Millstones_booklet.pdf

home) and negative (such as a partner dying, divorce of separation, ill health or losing employment).

5.11. Delivering timely interventions to improve financial capability at these key life events is crucial, and financial services firms should consider how behavioural insights can be used to design these. To take one example, in the Money Advice Trust's recent report on young people, credit and debt, Borrowed Years[20], we proposed that the act of seeking credit for the first time could represent a golden opportunity to offer timely support to help young first-time borrowers to better understand credit and debt.

5.12. We would also highlight the role of debt advice in improving financial capability at key moments. In particular, National Debtline's self-help model is designed to help clients both resolve the immediate problem, and also improve capability to prevent future financial difficulty – with 87 percent of National Debtline callers reporting that they are less likely to find themselves in a similar situation in the future.

5.13. To ensure that progress in addressing the UK's low financial capability is maintained – and that the present focus on 'life events' continues – we believe that the money guidance successor body to the Money Advice Service from 2018 should continue to play a statutory co-ordinating role in the area of financial capability. This is an area in which it could add significant value.

6. Addressing financial exclusion

What role should the concept of 'personal responsibility' play in addressing financial exclusion? Is appropriate support available for the most excluded and, if not, how should support be strengthened? What role should Government, the charity sector and business play in tackling financial exclusion?

6.1. When considering the response to any social problem, a balance must be struck between personal responsibility and the responsibility of organisations and the state towards individuals. However, we do not believe that the issue of personal responsibility is of particular relevance to the debate around financial exclusion. As with our experience of helping people in financial difficulty, the circumstances of the vast majority of those who are financial excluded are due to factors outside of their control – and so the emphasis must instead be on reducing these factors and providing support for people who need it (see section 4).

6.2. We believe a whole-society approach is needed to tackle financial exclusion, which requires a partnership between government, financial services, the education system, the money and debt advice sector and wider civil society.

[20] Money Advice Trust (2016), Borrowed Years: A spotlight briefing on young people, credit and debt, http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/Borrowed%20Years,%20Young%20people%20credit%20and%20debt,%20Aug%202016.pdf

6.3. At the same time, there is a need for the Government to take a greater leadership role on this issue, and we support the Financial Inclusion Commission's recommendation[21] for a senior government lead and the appointment of Ministerial champions to drive this agenda forward. This leadership role must be adequately resourced in Government.

Are appropriate financial services and products available for those who are experiencing financial exclusion? What might be done to address any deficit? What role should banks play in increasing access for those most at risk of exclusion? What is the role of the Post Office in providing access to financial services for such customers, and how might that role develop?

6.4. Progress on the issue of unbanked consumers has been made through the Treasury-brokered industry agreement on Basic Bank Accounts[22], which led to nine major banks launching fee-free Basic Bank Accounts at the beginning of 2016[23].

6.5. However, it remains the case that banking products and services do not always meet the needs of low income consumers. One example is the issue of unauthorised overdraft charges, currently totalling around £1.2 billion a year, with this cost largely borne by those who can least afford it. Following its recent retail banking review[24], the Competition and Market Authority's announcement of bank-set monthly charge caps is welcome, but unlikely to be enough to resolve this issue and that an industry-wide cap could be required.

6.6. As the work of the Financial Services Vulnerability Taskforce highlighted[25], there is also a need for greater consideration to be given to the needs of customers in vulnerable circumstances when designing products and services.

6.7. Beyond banking, the provision of appropriate products or services in the wider financial services industry must also be considered. For example, the Financial Inclusion Commission's report highlighted that 50 percent of households in the bottom half of the income distribution do not have home contents insurance[26] - potentially leaving them at greater risk of financial difficulty.

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[21] Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, http://www.financialinclusioncommission.org.uk/report

[22] HM Treasury (2014), Revised basic bank account agreement, https://www.gov.uk/government/publications/revised-basic-bank-account-agreement

[23] HM Treasury (2015), Fee-free bank accounts launched, https://www.gov.uk/government/news/fee-free-bank-accounts-launched

[24] Competition and Markets Authority (2016), Retail banking market investigation, https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf

[25] British Bankers Association (2015), Improving outcomes for customers in vulnerable circumstances, https://www.bba.org.uk/news/press-releases/financial-services-establishes-new-gold-standard-for-customers-in-vulnerable-circumstances/#.V9cOkrlTEy8

[26] Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, http://www.financialinclusioncommission.org.uk/report

6.8. The Post Office plays an important role in providing access to financial services to financial excluded people through the Post Office Card Account, and the use of the Post Office branch network has been particularly important given trends in branch closures. The Post Office should continue to play an important role, but should only be seen as one part of the solution to the problem of financial exclusion.

6.9. In addition, we have previously called for the Post Office's role to be expanded as a means of delivering inclusive access to the government's welcome new Help To Save scheme.

7. Accessing affordable credit

What has been the impact of recent changes to the consumer credit market – such as the capping of payday loans – on those facing financial exclusion? How can it be ensured that those in need of affordable credit can access appropriate products or services?

7.1. We welcome the FCA's payday lending cap and have seen a significant impact at National Debtline as a result of this intervention in the market. In 2007 National Debtline took just 465 calls for help with payday loans and by 2013 that figure had risen to a peak of more than 23,000. By last year (2015) the number of calls relating to this kind of borrowing had dropped to around 13,000 as the volume of payday lending has declined significantly in the wake of the cap.

7.2. Unlike supply, however, demand for high cost credit cannot be regulated away and it remains too early to assess the longer-term impact of these changes on financial exclusion. The FCA should regularly review the impact of the high cost credit cap and in particular, remain vigilant over the emergence of an illegal online money lending market in the UK, which Policis research based on the experience of increased regulation in the United States has pointed to as a risk[27]. The FCA's forthcoming review should also consider the remit of this cap and whether it should be expanded to other forms of high cost credit.

7.3. We believe that building a more sustainable and modernised credit union sector is an important part of ensuring affordable credit and tackling financial exclusion, and that increased support – over and above the Department for Work and Pension's Credit Union Expansion Project – should be a central component of the Government's efforts in this area.

7.4. Another significant change that should be considered is the impact of the FCA's authorisation process on fee-charging debt management companies, and support for those customers of firms that exit the market. As this process is ongoing the impact is

[27] Policis (2014), The future of Illegal Lending, https://policis.com/images/iml2014_2/5/illegal_lending_presentation_171214.pdf

yet to be seen. Government and the FCA must also be mindful of potential emerging unforeseen consequences of these changes, including the significant regulatory gap over lead generation and Insolvency Practitioner firms (see 8.13).

7.5. In addressing the lack of affordable credit, the Government and others stakeholders should also look to examples of policy outside the UK. In Australia the Good Shepherd scheme sees the National Australia Bank partner with the Australian Government to offer a range of shop-front community finance products such as Good Money and the No Interest Loan Scheme, as well as a StepUP scheme to provide low-interest loans to low-income households.

7.6. Similarly, the Irish Government has partnered with the country's strong credit union sector and the wider third sector to establish 'It Makes Sense', a microcredit scheme to reduce dependence on high cost credit. The scheme offers low interest loans of up to 12 percent APR to social welfare recipients, with repayments deduced directly form welfare payments.

8. Government policy and regulation

How effective has Government policy been in reducing and preventing financial exclusion? Does the Government have leadership role to play in addressing exclusion?

8.1. The Financial Inclusion Taskforce, chaired by Sir Brian Pomeroy, made significant progress in tackling financial exclusion between 2002 and 2011. Progress since the Taskforce was disbanded has continued in other ways, including through the introduction of financial education in the National Curriculum, a Treasury-brokered agreement on Basic Bank Accounts and pension auto-enrolment.

8.2. The government's recently-announced Help To Save scheme for people on low-incomes is a further encouraging example of a Government policy in this area. While the scheme's eligibility criteria could be wider and there are potential issues with the planned two-year timeframe for accounts, we believe Help To Save has the potential to play a significant role in tackling financial exclusion, helping many of the people who need support the most to build up a savings buffer.

8.3. However, these piecemeal examples of progress on financial exclusion have not been the product of an overarching strategy, and since the end of the Financial Inclusion Taskforce, the impact of this lack of a co-ordinated approach to financial inclusion has been apparent.

8.4. There is therefore a need for the Government to take a greater leadership role on this issue to regain momentum. We broadly support the Financial Inclusion Commission's recommendation[28] for a senior government lead and the appointment of Ministerial champions to drive this agenda forward – as part of a whole-society approach.

How effectively are policies on financial exclusion coordinated across central Government? Is there an appropriate balance and interaction between the work of central Government and the work of local and regional authorities and the devolved administrations?

8.5. Given the localism agenda and continued devolution of power away from Westminster, this more co-ordinated approach to financial inclusion should include a greater emphasis on ensuring a joined-up approach between central, local, regional and devolved government. This must include considering the particular financial exclusion challenges facing Scotland, Wales and Northern Ireland and particular regions (including urban centres in England gaining devolved powers through Metro Mayors in 2017).

8.6. One consequence of localism is the challenge of ensuring best practice is shared between local authorities. This is particularly apparent in the area of local government debt collection, where there is a growing divergence of practice across the UK. The Trust's Stop The Knock research[29] found 2.1 million debts were referred by councils to bailiffs in 2014/15 – up 16 percent on two years previously – and the impact that this has on many vulnerable and financially excluded groups is significant. Despite the overall increase, however, there are numerous examples of good practice. A more co-ordinated approach to financial inclusion should address the sharing of such practice.

What has been the impact of recent welfare reforms on financial exclusion?

8.7. We have previously raised concerns over the impact of several elements of recent welfare reforms on people in financial difficulty. For example, we are concerned that the payment of the element of Universal Credit that replaced Housing Benefit to the claimant rather than the landlord could lead to increased rent arrears as tenants use this money to pay other creditors. As it stands, payment to landlords can be considered under Alternative Payment Arrangements in some cases where the tenant is already in arrears, but we believe this option should be a right as a matter of course.

8.8. A further fundamental issue with Universal Credit that risks exacerbating financial exclusion is the significant delays between applying for Universal Credit and receiving your first payment. This is typically six weeks, including a seven-day waiting period that we believe should be removed. While budgeting loans are available, these initial delays present a significant challenge to many recipients at the worst possible time, and in our view undermines the aim of Universal Credit in supporting people back into work.

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[28] Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, http://www.financialinclusioncommission.org.uk/report

[29] Money Advice Trust (2015), Stop The Knock: Local authorities and enforcement action, http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/Council%20tax%20arrears%20and%20enforcement%20V7.pdf

8.9. The fact that Universal Credit requires a bank account makes it even more urgent that greater action is taken to tackle the problem of the 'unbanked' and those who are not able to fully access banking services. We support the Financial Inclusion Commission's view that the Government should do more to encourage financial services firms to develop products with Universal Credit recipients in mind[30].

8.10. At the same time, Universal Credit presents an opportunity to ensure that debt advice provision reaches more of the people who need advice, but who do not currently seek it. We believe there is an opportunity for debt advice to be better integrated into Universal Support, and for phone and online channels to play more of a role, in conjunction with local face-to-face agencies for those who need it.

To what extent is the regulation of financial products and services in the UK tackling financial exclusion? Are alternative or additional regulatory interventions required to address financial exclusion? What balance should be struck between regulations and incentives for financial institutions?

8.11. The Financial Conduct Authority's intervention in the high cost credit market through its cap on interest charges is an example of where regulation has contributed to tackling financial exclusion, although the regulator should keep the impact of this under close review (see Section 7).

8.12. The Competition and Markets Authority's announcement of bank-set monthly unauthorised overdraft charge caps is also a welcome regulatory intervention, although this is unlikely on its own to have sufficient effect in reducing charges for customers. We are of the view that the FCA should be prepared to step in with an industry-wide cap if significant reductions in charges paid do not materialise.

8.13. There are also a wide range of additional regulatory interventions that we believe would help to address exclusion, including direct regulation of lead generation companies that operate in the debt sector, prohibiting unsolicited real-time financial promotions and providing a system of redress for customers who lose money when a debt management company is refused authorisiation or collapses.

8.14. We agree with the Financial Inclusion Commission's recommendation for the FCA to be given a statutory remit to promote financial inclusion[31], which would provide a greater focus to its regulatory work on financially excluded groups. It should be noted, however, that the FCA is already increasing its work in this area, including through its welcome Access to Financial Services in the UK project[32].

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[30] Financial Inclusion Commission (2015), Financial Inclusion: Improving the financial health of the nation, http://www.financialinclusioncommission.org.uk/report

[31] Ibid.

[32] FCA (2016), Occasional Paper No. 17: Access to Financial Services in the UK, https://www.fca.org.uk/publications/occasional-papers/occasional-paper-no-17-access-financial-services-uk

8.15. In addition, the present patchwork system of debt and insolvency options risks leaving some people in financial difficulty without an option appropriate to their situation. There remains a need for a full review of the options available to people struggling with debt, to ensure than an appropriate option exists for people in all circumstances. This should include the proposed Breathing Space scheme currently under review by HM Treasury.

9. Financial technology (Fintech)

Does the Government have a role to play in ensuring that the development of financial technologies (FinTech) and data capture helps to address financial exclusion? If so, what should this role be?

9.1. New technology presents significant opportunities in addressing financial exclusion, and we believe the Government has a role to play in encouraging financial services and other firms to focus on financial excluded groups in their innovation agendas. This must include new providers and market entrants.

9.2. To give one example, we believe that work is needed to explore what opportunities exist for new smartphone-based payment systems, to be used to detect early signs of financial difficulty, and deliver timely interventions as needed.

9.3. The current drive towards Open Banking, given a welcome recent boost by the recommendations of the Competition and Market Authority's retail banking review, presents hope that FinTech companies will be able to develop innovative technology-based solutions to many aspects of the financial exclusion challenge.

9.4. One barrier to harnessing the potential of financial technology for financial inclusion is the lack of clear financial incentives for companies to develop solutions that benefit financially excluded groups. The Government could play a specific role to address this 'incentives imbalance' by establishing a Financial Inclusion Technological Innovation Fund to encourage and incentivise the development of solutions that explicitly address the challenges that financially excluded people face.

9.5. At the same time, while new technologies present opportunities, they also present potential new barriers to financial inclusion, including those linked to digital exclusion. This is particularly true of certain groups at high risk of financial exclusion, such as people in vulnerable circumstances and older people.

10. Contact details

10.1. For more information about this response contact Matt Hartley, Money Advice Trust Head of Public Affairs, on 0207 653 9741 or matt.hartley@moneyadvicetrust.org