HM Treasury

Department for Work & Pensions

Financial Inclusion report: 2020-2021

December 2021

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Foreword

Financial inclusion and financial capability continue to be priorities for us personally and for our departments. As the UK moves towards its recovery from the COVID-19 pandemic, being “financially included” remains of central importance throughout peoples’ financial lives, from the basic necessity of being able to open your first bank account, to accessing credit, insurance, and the right mortgage products at an affordable price, and when planning for retirement.

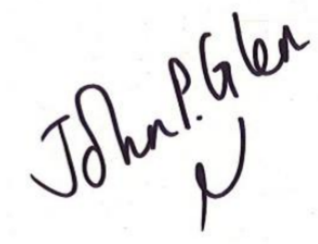
Over the last year, we announced and delivered significant further work on the financial inclusion agenda. We consulted on how we protect access to cash, published a consultation on regulation of Buy-Now Pay-Later products and are bringing forward legislation to enable credit unions to offer a wider number of products and services. A particular highlight has been the launch of the £3.8 million No-Interest Loan Scheme (NILS) pilot with Fair4All Finance. The NILS pilot will help consumers in financially vulnerable circumstances who struggle to access affordable forms of credit and we look forward to seeing the outcomes of this important initiative. All this has been achieved against a backdrop of considerable uncertainty.

We are delighted to continue working with members of the Financial Inclusion Policy Forum, who have provided us with invaluable soft intelligence on the impacts of the pandemic. Their ongoing, insightful contributions in Forum discussions have in particular, supported us in understanding the barriers to accessing contents insurance for low-income renters.

We also continue to work closely with the Money and Pension Service (MaPS) to support people’s financial capability and provide free-to-consumer guidance for individuals, whatever financial difficulties they are facing. MaPS will also launch delivery plans in each nation for their UK Strategy for Financial Wellbeing. They will co-ordinate this 10-year strategy, working with a range of organisations, to bring together efforts to contribute to our common goal of doing all we can to help people from all backgrounds manage their money well.

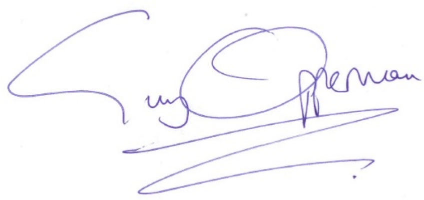
We are immensely grateful to firms, the Financial Conduct Authority, members of the Financial Inclusion Policy Forum, consumer organisations and frontline staff across the financial services industry for all their efforts in working towards our shared goal, that all people, whatever their income or background, can access appropriate and affordable financial products and services.

We remain committed to reducing financial exclusion in communities across the UK and strive to do more to support individuals as the economy continues its recovery from the pandemic over the next year.



John Glen MP

Minister of State (Economic Secretary), HM Treasury



Guy Opperman MP

Minister for Pensions and Financial Inclusion, Department for Work and Pensions

Executive summary

Ensuring access to useful and affordable financial services

Access to cash, banking and bank accounts are the three key pillars of financial inclusion which support people as they go about their day-to-day lives. These services help them pay for goods and services and receive an income whether that be a salary, benefits, tax credits or a pension. During the COVID-19 pandemic, the government worked closely with financial regulators to ensure that firms-maintained access to essential banking services such as cash, while balancing the needs of customers, safety, and the welfare of staff. Industry also took a range of actions to support customers that rely on cash. These have included improving communications to signpost to alternative services, offering cash deliveries and issuing carer cards to enable trusted third parties to make a payment. These interventions helped many people who rely on cash and were warmly welcomed by consumer organisations. In the longer-term, to protect cash in the future, the government has committed to legislating to protect access to cash and ensure that the UK's cash infrastructure remains sustainable. Following the publication of the call for evidence on access to cash in October 2020, the government made legislative changes to support the widespread offering of cashback without a purchase by shops and other businesses as part of the Financial Services Act 2021.

The way people interact with banking is changing. As observed during the COVID-19 pandemic, more and more customers are using a range of banking methods, including telephone or online banking, and are less reliant on access to a physical bank branch. However, some people, especially those who are vulnerable or digitally excluded, may need additional support with their banking so physical branch access continues to be an important part of the financial inclusion agenda. While the government does not intervene in commercial decision making, it believes that the impact of branch closures should be carefully understood and – where possible - mitigated so that all consumers can access over-the-counter banking services. The government will continue to work with the Financial Conduct Authority (FCA) and industry to ensure that banks are expected to carefully consider the impact of their planned closure on the customers' everyday banking, cash and access needs, and the implementation of closure decisions is done in a way that treats customers fairly.

Basic Bank Accounts remain a crucial part of allowing people who are not eligible for a current account to access a fee-free account, which can provide a springboard for customers to move onto more advanced banking services. As of June 2020, there were almost 7.2 million basic bank accounts open in the UK. Between July

2019 and June 2020, nearly 500,000 new basic bank accounts were opened and around 400,000 basic bank account customers were upgraded to standard personal current accounts. HM Treasury will continue to work closely with industry to ensure there is broad access to this important product.

Over this year, there has also been a wealth of work on consumer borrowing. The government acted quickly during the COVID-19 pandemic, working with the FCA and industry, to ensure borrowers facing financial difficulty received the support they needed for existing mortgages and consumer credit products and industry continue to offer tailored forbearance options to affected customers. The last year has seen significant work to improve the broad and responsible provision of credit. At Budget 2021, the Chancellor announced £3.8 million of funding for a pilot No-Interest Loans Scheme (NILS), and, in September, Fair4All Finance announced that they had been appointed to lead the scheme, partnering with Toynbee Hall and Fair By Design to deliver the pilot. In October, the government launched a consultation to seek stakeholder views on the best way to introduce a balanced and proportionate regulation of Buy-Now Pay-Later (BNPL) products, which is open until 6 January 2022 and will be used to inform final decisions about the scope and form of regulation. The government also continues to recognise the vital role which credit unions play in tackling financial exclusion. Following the announcement at Budget 2020 that the government will bring forward legislation to enable credit unions to offer a wider range of products and services, HM Treasury has been engaging closely with the FCA, the Prudential Regulation Authority (PRA) and representatives of the credit union sector to understand priorities for legislative reform.

While many financial products help an individual to manage their finances day-to-day, insurance plays an important part in building financial resilience and provides protection against financial shocks. The government recognises that some groups struggle to access suitable insurance cover which meets their needs. Following the flooding events in South Yorkshire in 2019, the government commissioned a review to understand why some residents did not have sufficient insurance cover and how to improve protection against future events. The government is now working closely with the insurance industry to improve accessibility and availability of flood insurance for those most vulnerable to flooding or who have had flood risk excluded from their policy.

Fintech has become an important part of the financial inclusion agenda, offering consumers innovative ways to manage their money. Following the conclusion of the Kalifa Review of UK Fintech in February 2021, the government has continued to support this sector and has taken several steps to make the UK the best place in the world to found and scale a fintech. At the 2021 Spending Review, the government confirmed that it will provide £5 million of seed funding to establish a new industry-led Centre for Finance, Innovation and Technology (CFIT). The CFIT was a key recommendation of the Kalifa Review and will aim to tackle barriers to growth and accelerate the UK fintech sector. By promoting competition and innovation in the financial services sector, the government has helped new players to offer customers better digital banking, saving, and budgeting options which allow consumers to access a broader range of products and better manage their finances.

Fair4All Finance, the organisation set up to distribute funding from Dormant Assets on financial inclusion, continues to play an important role to improve the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable, and appropriate financial products and services. Since 2019, the government has allocated £96 million of funding from dormant assets towards financial inclusion. In response to the COVID-19 pandemic, Fair4All Finance launched a £5 million COVID-19 Resilience Fund, to help the community finance sector emerge from the crisis in a strong position where they are capable of future growth. The fund has supported 31 community finance providers. The government will continue to work closely with Fair4All Finance over the coming year, including on its delivery of the NILS pilot, one of the government's key financial inclusion initiatives (referenced above).

The government is committed to ensuring financial services consumers are appropriately protected and engages closely with the FCA to tackle financial exclusion and ensure that vulnerable consumers are treated fairly. The Financial Services Act 2021 requires the FCA to consult on whether it should make rules providing that authorised persons owe a duty of care to consumers. It also obliges the FCA to publish its analysis of the responses to such a consultation by the end of 2021. The FCA published their consultation on 14 May 2021 proposing a new "consumer duty" and the consultation closed on 31 July 2021. A second follow-up consultation is due before the end of 2021.

Financial capability and resilience

The COVID-19 pandemic has demonstrated how important it is for government to support consumers to manage their money well and to build their financial resilience from any income shocks they may have experienced during this time.

Since 2019, the Money and Pension Service (MaPS) has provided free-to-consumer, money guidance, debt advice (in England) and pensions guidance, so people can access the information they need at each stage of their financial lives. Last year, MaPS launched its UK Strategy for Financial Wellbeing with five ambitious national goals the country should strive to achieve by 2030. Working together with leaders from the private, voluntary, and public sectors, who developed a series of recommendations to support the achievement of these goals, MaPS are now publishing delivery plans for each UK nation. This year also saw the launch of MoneyHelper, which brings together guidance from MaPS' predecessor bodies The Pensions Advisory Service, the Money Advice Service and PensionWise and provides a single first point of contact for free-to-consumer money and pensions guidance. The Department for Work and Pensions (DWP) is also working closely with MaPS to improve how work coaches can better support people who are in receipt of benefits and are experiencing financial difficulties.

It is important to for individuals to have savings to manage unexpected financial shocks. Help to Save launched in 2018 and continues to be an important part of supporting working people on low incomes and in receipt of certain benefits to build their financial resilience while encouraging a long-term savings habit. By June 2021, 284,050 accounts had been opened showing a 7% increase on the total number of accounts opened by January 2021. Total deposits to the scheme between

February 2021 to March 2021 exceeded £15 million.[1] The government is taking steps to encourage customers to develop an ongoing savings habit and, once the account matures after four years, customers will be directed to information about how to continue saving using other products.

Security in retirement has been a central part of the Government's reforms since 2010 through the introduction of automatic enrolment into workplace pensions. This has been an extraordinary success, with over 10 million workers enrolled into a workplace pension to date and an additional £22.7 billion per year being saved compared to 2012. The Government has also taken steps to give people more control over their pensions savings, so that they can make decisions about their savings that reflect their individual needs. In this context, the government has been very conscious of the importance of providing customers with sufficient support for their financial decision-making through services like PensionWise and MaPS, as well as providing clear and simple communications when people receive information about their pensions and ensuring that safeguards are in place to protect pension holders from scams and fraud.

When people fall into debt it is important that they are helped to reach a sustainable financial footing. The government works closely with MaPS and the wider free-to-client debt advice sector to provide access to high quality debt advice and MaPS continues to be the biggest funder of free debt advice in England. MaPS developed the Money Adviser Network to bring together referral partners so more people have quicker access to advice services when and where they need them.

This year, the Government also launched the first part of the Debt Respite Scheme, known as breathing space, which provides a 60-day period of protection from creditor contact and enforcement action while most interest and charges on debts are frozen. It also offers this protection to people in mental health crisis treatment for the duration of their treatment, plus another 30 days. Since it launched on 4 May 2021, over 32,000 people in problem debt have accessed a breathing space. [2]The Statutory Debt Repayment Plan (SDRP) is the second part of the Debt Respite Scheme and will provide a new statutory debt solution in England and Wales, similar to the Debt Arrangement Scheme already in place in Scotland, that will allow those in problem debt to repay their debts to a manageable timetable. The government is aiming to lay regulations for the SDRP by the end of 2022, with the intention of launching the scheme in 2024.

1 'Annual Savings Statistics', HMRC, June 2021

2 'Commentary – Monthly Insolvency Statistics', The Insolvency Service, October 2021

Chapter 1

Financial inclusion

1.1 The last year has provided many challenges for financial inclusion; there has been continued uncertainty around personal and household finances due to the pandemic, and the public health risks created a greater exclusion risk to vulnerable individuals. However, the government, industry and the regulator have worked effectively together to tackle this challenge and continue to support consumers through this difficult time as we transition towards recovery. The government has continued to make significant progress on our longer-term aim to support consumers to access useful and affordable financial products and services whatever their background or income.

Access to cash

1.2 In recent years, the ongoing trend in payments in the UK has been moving away from cash and towards card and other digital payment methods. The COVID-19 pandemic has further impacted cash use, and likely accelerated the longer-term decline in cash use. Nonetheless, the government recognises the continued importance of cash to the daily lives of millions of people across the UK, particularly those in vulnerable groups. Indeed, cash remains the second most frequently used payment method in the UK; as of 2020, cash represented almost a fifth (17%) of the total number of payments made.

1.3 The provision of cash access across the UK remains extensive: as of June 2021, over 95% of the population were within 2 kilometres of a free cash withdrawal point according to an assessment by the Payment System Regulator (PSR) and the FCA.[1]

1.4 Throughout the COVID-19 pandemic, the vast majority of people have continued to have access to cash. The government has worked closely with the financial regulators to ensure firms maintain access to essential banking services, including cash, while balancing the needs of their customers with the safety and welfare of staff. Through coordination by public bodies, including via the Joint Authorities Cash Strategy Group, industry has taken a range of actions to support customers that rely on cash. This has included improving communications to signpost customers to alternative services; offering cash deliveries; and issuing carer cards to help trusted third parties make a payment. These interventions were welcomed by consumer organisations.

[1] Access to cash coverage in the UK 2021' Q2, FCA, July 2021

1.5 The government believes that industry will continue to have a key role to play in protecting access to cash and is supportive of creative initiatives to develop solutions, such as the Community Access to Cash Pilots. These pilots have been testing a range of bespoke cash access solutions in eight local communities. The Economic Secretary to the Treasury visited the Post Office Bank Hub pilot in Cambuslang, Scotland, in October 2021, to highlight the importance of innovative new approaches and to see first-hand the benefits to local communities. The government looks forward to the outcomes of industry initiatives to protect access to cash, including the pilots, and how they could inform long-term solutions in areas across the UK.

LINK's commitments to protect free-to-use ATMs

LINK (the UK's largest ATM network) has commitments in place to protect the broad geographic spread of free-to-use ATMs, including in remote and deprived areas.

This includes processes to protect free-to-use ATMs more than one kilometre away from the next nearest free ATM or Post Office and ensure free access to cash on high streets.

Furthermore, LINK's members have made £5 million available to fund ATMs at the request of communities with poor access to cash. The PSR continues to hold LINK to account over its commitments and the regulator has consulted on a new Specific Direction on maintaining free-to-use ATMs to come into effect from 2022.

1.6 In order to protect cash for the future, the government committed at the March 2020 Budget to legislate to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long term.

1.7 In October 2020, the government published a Call for Evidence on access to cash which sought views on the key considerations associated with protecting access to cash, including deposit and withdrawal facilities, cash acceptance, and regulatory oversight of the cash system.[2] Responses to the Call for Evidence demonstrated broad support for legislation to protect access to cash and providing a single regulator with lead responsibility for oversight of the retail cash system. The responses also recognised that individuals and businesses should remain free to determine which form of payment they wish to accept and expressed strong support for removing legislative barriers to the provision of cashback without a purchase.

1.8 Following the Call for Evidence, the government made legislative changes to support the widespread offering of cashback without a purchase by shops and other businesses as part of the Financial Services Act 2021. The government's view is that cashback without a purchase has the potential to be a valuable facility to cash users, support local cash recycling and contribute to continued cash acceptance, ultimately playing an important role in the UK's cash infrastructure. The government welcomes the

2 'Annual Savings Statistics', HMRC, June 2021

announcement of industry plans to rollout cashback without a purchase following the changes to the law.

1.9 On 1 July 2021, the government published the Access to Cash Consultation which sought views on proposals for new laws to make sure people only need to travel a reasonable distance to pay in or take out cash. The government's proposals would support the continued use of cash in people's daily lives and help enable local businesses to continue accepting cash by ensuring reasonable access to deposit facilities. The proposals included: establishing geographic requirements for the provision of cash withdrawal and deposit facilities, the designation of firms for meeting these requirements, and establishing further regulatory oversight of cash service provision.

1.10 To ensure that there is appropriate regulatory oversight, the consultation proposed that the FCA becomes the lead regulator for oversight of the retail cash system, including having responsibility for monitoring and enforcing new legislative cash access requirements. The consultation closed on 23 September 2021, and responses are helping to inform final legislation. The government will set out next steps in due course.

Access to banking services

1.11 The government recognises that most individuals in the UK primarily interact with financial services and products through their bank: from budgeting their monthly salary to managing their mortgage or credit card payments. However, the way consumers interact with their banks is changing. In 2020, 83% of UK adults used contactless payments, 72% used online banking and 54% used mobile banking.[3] This increasing use of a wider set of banking channels rather than just a traditional bank branch means that more consumers and businesses than ever are enjoying the convenience, security, and speed of online and telephone banking. Banking customers have never had more choice than now in how they fit their banking into their everyday lives.

1.12 While the longer-term impact of the COVID-19 pandemic on banking is not yet clear, this switch to digital channels is likely to have been accelerated, and many people have started using digital banking services for the first time. However, it's clear that some people, particularly those who might be vulnerable or digitally excluded, may need additional support with their banking and so physical branch access continues to play a key part in the financial inclusion agenda.

1.13 The government worked closely with the financial regulators during the COVID-19 pandemic to ensure banks, building societies, the Post Office and credit unions continued to maintain branch access for essential services, while balancing the needs of their customers with the safety and welfare of their staff. Despite some of the challenges faced by firms, the vast majority of branches remained open which ensured that people who needed to use their local branch during the pandemic were able to do so.

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3 UK Payment Markets Summary 2021, UK Finance, June 2021

1.14 At the start of the pandemic, the banking sector rapidly established several schemes and initiatives to support its customers. For example, some firms provided elderly customers with free tablet devices and many set up dedicated phone lines to provide training, support and help to older and vulnerable people to set up and access online or telephone banking. Firms also increased communications with consumers, signposting people to alternative services and making proactive calls to vulnerable consumers to ensure they had the support they needed at such a challenging time. Many firms also provided branch staff with the appropriate training to provide telephone customer support, which has increased their capacity to provide timely support to customers in the longer-term.

1.15 In future, banks and building societies will need to continue to balance customer interests with a variety of commercial factors when making decisions about the size and shape of their branch networks and how they provide services to their customers. The government believes that the impact of branch closures should be understood, considered, and - where possible - mitigated, so that all consumers, across the UK, can continue to have access to over-the-counter banking services.

1.16 That's why in 2017, the government brokered a voluntary agreement with the major high street banks which is known as the Access to Banking Standard. This commits banks to ensure that customers are well-informed about branch closures and options for continued access to banking services.

1.17 In order to ensure that banks are assessing the needs of customers and considering the availability and provision of alternative services, the FCA also published guidance in September 2020 setting out its expectation of firms when they consider whether to reduce their physical branches or the number of free-to-use ATMs. Firms are expected to carefully consider the impact of a planned closure on their customers' everyday banking and cash access needs, consider possible alternative access arrangements and communicate any changes to their customers. This ensures that the implementation of closure decisions is done in a way that treats customers fairly. Firms are also expected to be particularly mindful of customers with characteristics of vulnerability and encouraged to consider whether individual support or communications may be necessary to ensure they continue to be able to access the banking services they rely on.

1.18 When a local branch closes, alternative access for over-the-counter banking services is available via the Post Office's extensive UK network, where 99% of personal and 95% of small business customers can carry out their everyday banking. This ensures essential banking facilities remain available in as many communities as possible. The Post Office is also trialling "Bank hubs" as part of the Community Access to Cash Pilots. These are shared branches in Rochford, Essex and Cambuslang, Scotland, that have been set up in dedicated retail spaces to exclusively support customers' cash needs. The hubs also provide access to face-to-face community banking services, provided by those banks which have the most customers in each area. This is an exciting pilot which is testing the concept of shared services and industry announced in August 2021 that it was extending the two pilots until April 2023. To be appropriate for the long-term, the solutions need to be commercially viable, and the government looks forward to receiving further updates on the trials and how they could inform potential long-term industry solutions.

Basic bank accounts

1.19 The government believes that it is vital that everyone is able to open a bank account if they wish to. That's why the nine largest personal current account providers in the UK are legally required to offer fee-free basic bank accounts to customers who are "unbanked", so people can manage their money on a day-to-day basis effectively, securely, and confidently.

1.20 Each of the nine designated providers are required to report their basic bank account data to HM Treasury and this is published annually. The latest report showed that as of June 2020, there were almost 7.2 million basic bank accounts open in the UK and between July 2019 and June 2020, over 500,000 new basic bank accounts were opened.[4]

1.21 During the same period around 400,000 basic bank account customers were upgraded to standard personal current accounts, highlighting how basic bank accounts are a crucial step to allowing people to move onto more advanced banking services. As the banking sector continues to develop a steady stream of exciting new products and features for their customers - such as spending trackers which allow customers to set budgets and save for the future, or voice recognition ID software to make telephone banking easier and safer for those impacted by dementia – it is vital that everyone is able to benefit from these innovations by having access to a bank account.

1.22 In 2020, the FCA published its Review of Basic Bank Accounts.[5] As part of this, it found good examples of customers being informed about basic bank accounts and offered assurance that there was an account available to them which is suitable for their circumstances. The government continues to work closely with firms to ensure they consider the areas for improvement identified by the FCA in this review and also supports the FCA's recommendation of encouraging firms to create a customer journey that is inclusive of all customers and their needs.

1.23 When opening a new basic bank account, banks and building societies must verify the customer's identity. Providing the relevant identity documents can be an obstacle to accessing an account for some people. How banks verify their customers' identities is not stipulated in law or by the regulator, and they are instead assisted in making such policies through industry-produced guidance notes. The guidance encourages firms to consider a wide range of other forms of identification and to act reasonably where, for example, customers simply do not have common forms of identification. The government continues to work with DWP, MaPS, the FCA and UK Finance to ensure that consumers are aware of the identification required by firms and that firms continue to make use of the flexibility in the guidance.

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4 'Basic Bank Accounts July 2019 to June 2020', HM Treasury, January 2021

5 'Retail Banking: Our review of Basic Bank Accounts, FCA, February 2020

HSBC UK's "No Fixed Address" Scheme

The "No Fixed Address" Scheme is HSBC UK's partnership with Shelter and other national and local charities. This scheme helps individuals without a fixed home address open a bank account at participating HSBC UK branches by using the address of the charity supporting them.

- Between April 2020 and March 2021, the Department for Levelling Up, Housing and Communities assessed that 11,580 single households were rough sleepers in England.[6]
- This initiative enables individuals experiencing homelessness to take control of their finances, build financial capability, and receive wage payments and benefit support.

1.24 DWP continues to support people in how they receive their benefits. Financial inclusion is at the heart of DWP's Method of Payment Policy, which is to pay electronically into a bank account, building society account, credit union account, internet-based account, or a basic bank account of the benefit recipient's choice. This provides a safe, modern, and reliable method of payment, which gives people greater choice about where and when they collect their money.

1.25 Most people can open or access an account themselves, and are actively encouraged to do so, and are signposted to MaPS for assistance when appropriate. As the contract for the Post Office card account (POCA) is coming to an end, DWP continues to write to customers to encourage them to provide a transactional account to receive payments. This supports DWP's drive to improve financial inclusion for the people it supports. HM Treasury and DWP are working closely with the financial services industry to ensure a smooth transition for POCA customers onto mainstream banking services, enabling some customers to have access to a bank account for the first time in their lives.

Consumer borrowing

1.26 The COVID-19 pandemic and associated restrictions have had a significant impact on the consumer credit market with the demand and supply of credit falling across most products. Since restrictions have eased, the demand for credit has seen an uptick with the availability of credit also increasing. The mortgage market also saw a significant decrease in lending at the outset of the pandemic but has recovered strongly, backed by measures to support household income and low deposit lending. In response to COVID-19, the government acted quickly, working with the FCA and industry to ensure borrowers received the support they need with their mortgages and consumer credit products. In 2020, lenders provided 2.7 million mortgage payment holidays and 2.5 million consumer credit payment holidays to borrowers to help those struggling with the impact of the COVID-19

6 'Statutory Homelessness Annual Report 2020-2021 England', DLUHC, September 2021

pandemic and are continuing to offer tailored forbearance options to affected customers in line with FCA guidance.

Regulation of Buy-Now Pay-Later

1.27 In recent years, there has been rapid growth in the use of unregulated interest-free deferred payment products, usually known as Buy-Now Pay-Later (BNPL). When used appropriately these products can be a useful tool to help people manage their finances and give consumers the flexibility to spread or delay payments. Their short-term and interest-free nature also means that they are inherently lower risk compared to most other regulated credit agreements.

1.28 However, concerns about the use of BNPL products has grown alongside their popularity. These concerns were investigated further in The Woolard Review, published in February 2021, which identified several areas of potential consumer detriment that could crystallise as this market continues to grow.[7]

1.29 Key objectives for this regulation include ensuring that any regulatory controls introduced adequately protect consumers from detriment without disproportionately impacting firms' ability to offer the product, thereby reducing customer choice.

No-Interest Loan Scheme

1.30 At the Spring Budget 2021, HM Treasury announced £3.8 million of funding to pilot a No-Interest Loan Scheme (NILS). This followed the publication of the HM Treasury-commissioned Feasibility Study into a NILS in March 2020. The loans will help consumers in vulnerable circumstances who struggle to access affordable forms of credit. The pilot, the first of its scale across the UK, will test the optimal design and impact a permanent nationwide NILS could have on addressing the needs of consumers in financially vulnerable circumstances and whether it can be delivered in a sustainable way.

1.31 On 6 September, Fair4All Finance announced they had been appointed to deliver the pilot and would partner with Toynbee Hall and Fair By Design. Fair4All Finance have completed a period of market engagement and are inviting bids from social lenders, ahead of beginning lending next year.

Mortgage guarantee scheme

1.32 At Budget 2021, the Chancellor announced that HM Treasury would launch a new mortgage guarantee scheme to increase the availability of 95% loan-to-value mortgages. This scheme would benefit households who were unable to get onto the housing ladder without a sizeable deposit, as the COVID-19 pandemic led to a reduction in the availability of high loan-to-value mortgage products. The launch of the scheme on 19 April 2021, with the participation of six major mortgage lenders (NatWest, Barclays, Lloyds Banking Group, Santander, HSBC, and Virgin Money) is successfully

[7] 'The Woolard Review: A review of change and innovation in the unsecured credit market', Report to FCA Board, February 2021

revitalising the 95% loan-to-value mortgage market providing greater choice to consumers and returning product availability to pre-pandemic levels.

Work on mortgage switching

1.33 In 2019, the FCA announced amendments to mortgage regulations, introducing a modified affordability assessment to remove regulatory barriers to borrowers being able to access new deals. This change was especially relevant to borrowers with inactive firms who are struggling to switch to a deal with a new lender following the tightening of regulations since the 2008 financial crisis to prevent unaffordable lending. HM Treasury has laid in Parliament a review of these interventions and the FCA data on borrowers who have mortgages with inactive firms but are unable to switch despite being up to date with payments. It will now use the results of the review to establish whether there are any further possible solutions that can be found which are practical and proportionate.

The role of credit unions

1.34 The government has consistently supported the vital role of credit unions in enhancing the financial wellbeing of their communities, providing an ethical home for their members' savings, and affordable loans to those who may otherwise have to resort to high-cost lenders. At Budget 2020, the Chancellor announced that the government will bring forward legislation to enable credit unions to offer a wider range of products and services, which will help them both to better meet the needs of existing members and to reach new audiences.

1.35 HM Treasury has been engaging closely with the FCA, the PRA and representatives of the credit union sector to understand priorities for legislative reform and how the government can promote the sustainability of the sector, whilst maintaining credit unions' proportionate regulatory framework. During his engagement with the credit union sector, the Economic Secretary to the Treasury highlighted that these changes may include allowing credit unions to offer hire purchase/conditional sale agreements and insurance distribution services, which are long-standing priorities of the sector. The government also intends to future-proof legislation to make it easier to permit credit unions to offer further products and services in the future. This will help to ensure credit unions can adapt more easily to changing market trends and member demands. The government will continue to engage with the sector to understand and best support its diverse needs.

Insurance

1.36 Over the last year, insurance has provided protection against financial shocks when consumers needed it the most, paying up to £2.5 billion for COVID-19 insurance claims incurred in 2020. [8] The COVID-19 pandemic has further highlighted the key role of adequate insurance in building financial resilience. It is therefore vital that consumers have access to insurance suited to their needs and at an affordable price and the government recognises

8 'COVID-19: Insurers expect to pay up to £2.5 billion for UK insurance claims', ABI, February 2021

that there are instances where some groups have struggled to access suitable cover.

Flood insurance signposting

1.37 Following the severe flooding events in South Yorkshire in 2019, it became apparent that several households and businesses affected did not have sufficient insurance cover. As a result, the government commissioned an independent review, led by Amanda Blanc, currently Group CEO of Aviva, which looked at the reasons for this and what action might improve protection against future events.

1.38 In response, the Department for Environment, Food and Rural Affairs, working closely with HM Treasury and other departments, are taking forward a programme of work to progress the review's recommendations. As part of these efforts, the government is engaging extensively with the insurance industry to improve accessibility and availability of flood insurance for those most vulnerable to flooding or who have had flood risk excluded from their policy. The British Insurance Brokers Association (BIBA), the Association of British Insurers (ABI) and Flood Re are developing a Code of Practice for insurers and a new, specialist directory of firms who can offer flood insurance for household building and contents cover. This will help consumers understand their insurance options, including which household policies include cover for flooding, and support consumers in accessing the cover they need.

Insurance for elderly consumers

1.39 The government and industry continue to make progress in improving access to insurance for older consumers who have historically struggled to find suitable insurance at an affordable price. Since 2012, the government has engaged in a voluntary signposting agreement with the ABI and BIBA for motor and travel insurance. This certifies that where an insurer or insurance broker cannot offer cover due to upper age limits on their policies, it will refer the customer to another insurer who can provide cover, or an appropriate signposting service. Whilst the COVID-19 pandemic has impacted the number of customers seeking motor or travel insurance, the Age Agreement continues to be a success with over 800,000 enquires made to BIBA's "Find-Insurance service". This agreement is periodically reviewed, most recently in 2019. The government intends to review the agreement again in 2023.

Insurance for consumers with pre-existing medical conditions

1.40 The FCA found that consumers with pre-existing medical conditions (PEMCs) can have problems navigating the travel insurance market and finding affordable cover appropriate to their needs, incurring exclusions for their PEMCs, being declined cover, or offered high premiums. As a result, consumers can end up travelling without insurance cover, cancelling trips, or paying significantly more for policies than they need to.

1.41 To address these concerns, in February 2020 the FCA published a policy statement introducing rules and guidance to improve outcomes for customers with PEMCs navigating the travel insurance market. These rules include a requirement that firms must signpost consumers to a directory of specialist travel insurers in the following circumstances:

- When consumers are declined cover, or have cover cancelled, because of their medical condition
- When consumers are offered a policy that excludes their medical condition, where the exclusion cannot be removed
- When consumers are charged an additional premium of £100 or more (per person) due to their medical condition.

1.42 The FCA has worked with MaPS to create a public directory of firms that meets its requirements, which was launched in October 2020. In addition, in January 2021, the FCA confirmed that the firms listed in BIBA's Travel Medical Insurance Directory all met FCA requirements. This will help consumers with PEMCs more easily navigate the market and find travel insurance appropriate to their needs.

1.43 As of April 2021, all firms offering retail travel insurance are now required to abide by these signposting rules. Following the FCA's intervention, it is expected that consumers with PEMCs will find it easier to access affordable travel insurance that covers their conditions. It is estimated that consumers with PEMCs could collectively save between £6.8 million and £7.5 million per year.[9]

Access to insurance for low-income consumers

- Insurance can act as a vital tool in building financial resilience against small-scale financial shocks. Despite this, 2.5 million (61%)[10] renters in low-income households do not possess contents insurance, even though they are at a greater risk of suffering loss or damage[11] to their personal possessions. This leaves these individuals vulnerable when faced with unexpected financial losses.
- With this in mind, the Economic Secretary to the Treasury announced the formation of a subgroup of the Financial Inclusion Policy Forum in April 2021, focused on examining access to contents insurance for low-income renters. This group presented a range of policy recommendations at the November Financial Inclusion Policy Forum meeting, which will be considered by HM Treasury.
- Furthermore, the DWP Behavioural Science team has been working with HM Treasury and a range of external stakeholders to explore consumer demand for insurance from a behavioural perspective. This work set out to identify any behavioural assumptions or "pain points" in user

9 'Signposting to travel insurance for consumers with medical conditions, PS20/3', FCA, February 2020

10 'Low-income renters' risk financial distress', Aviva plc, July 2019

11 'Low-income renters' risk financial distress', Aviva plc, July 2019

journeys that could potentially be addressed using insights from behavioural science.

Fintech

1.44 Financial technology, or "fintech", has become an increasingly important part of the financial inclusion agenda. This includes Open Banking, which has made it possible for customers to share their payment data far more easily and make payments through third-party apps. Fintech firms are using open banking services to innovate and enable consumers to manage their finances in more intelligible and effective ways. Fintech offers consumers, including the disadvantaged and the vulnerable, greater choice, and more tailored services, helping them improve their finances through better management of their credit and savings.

1.45 The government has sought to create an environment in which fintech firms can thrive. In particular, following the conclusion of the Kalifa Review of UK Fintech in February 2021, the government has taken several steps to make the UK the best place in the world to found and scale a fintech. At the March 2021 Budget, the Chancellor announced the introduction of a new visa "scale up" stream to attract global talent and to boost the fintech workforce.

1.46 The FCA has also announced the launch of a High Growth Oversight pilot and an Early Oversight pilot. These offer enhanced oversight for newly authorised firms as they grow accustomed to their regulatory status. Furthermore, through the 2021 Spending Review, the government confirmed that it will provide £5 million of seed funding to establish a new industry-led Centre for Finance, Innovation and Technology (CFIT). The CFIT was a key recommendation of the Kalifa Review and will aim to tackle barriers to growth and accelerate the UK's fintech sector.

Open Banking

1.47 The roll out of Open Banking is a central part of the Government's broader support of fintech. Open Banking enables consumers to share their current account data securely with third party providers, allowing fintech firms to offer them a range of innovative services. These include automatic price comparisons, improved financial tracking, and more affordable lending options. The UK is a leader in this field, having been the first country to develop Open Banking standards, and the UK's approach is being closely observed around the world.

1.48 The government began implementing Open Banking in 2017 and the rollout process is expected to be completed in early 2022. A recent report found that the services which Open Banking enables could save individual consumers up to £12 billion.[12] For instance, account information services can

12 'Priorities for Open Banking', Faith Reynolds, Mark Chidley, June 2019

identify what individuals and households spend on household, insurance, and mortgages bills, and if there may be cheaper alternatives available which can benefit to vulnerable individuals and households.

Open finance

1.49 The FCA published a Call for Input on Open Finance in October 2019 to identify what regulatory action may be necessary to extend Open Banking to products such as insurance, pensions, and investments to further improve choice for consumers. Open Finance has the potential to unlock other areas not currently possible under the remit of Open Banking. For instance, holistic personal financial management platforms could provide a better overall financial picture, including data not captured by Open Banking such as certain types of savings and investments. This stands to support improved consumer engagement, decision making, and understanding of their financial products and position.

FCA innovation: Advice Unit

The government supports the work of the FCA's Advice Unit, a firm-facing service within the FCA's Innovate Department, that provides regulatory feedback to firms developing automated propositions to deliver lower cost advice and guidance to consumers.

The FCA's Innovate Department has a range of support services which may be of interest to innovative firms including not-for-profit providers. These include the following:

- The Regulatory Sandbox allows businesses to test innovative propositions in the market with real consumers, and with regulatory oversight. The FCA is able to see how new technologies and innovations work in the market, gain a balanced understanding of the benefits and the risks that arise from them and what controls can be put in place to mitigate any potential risks. These insights are used to inform policy making and supervisory functions.[13]
- The Direct Support service provides regulatory guidance to firms with innovative propositions to understand the regulatory regime and answer complex regulatory questions in relation to their business model. It also supports businesses that are considering applying for authorisation or a variation of permissions. [14]

The Advice Unit provided regulatory feedback to Firm A on its model. This included an initial and follow-up meeting with the Advice Unit and other specialist areas of the FCA including the Behavioural Economics and Design Unit of the FCA, and the provision of iterative feedback following demonstrations of the model to the Advice Unit.

13 https://www.fca.org.uk/firms/innovation/regulatory-sandbox

14 https://www.fca.org.uk/firms/innovation/advice-unit

Firm A launched its digital debt advice service in October 2020. This offers several new developments including:

1. 24/7 access to digital debt advice.
2. Use of Open Banking technology to enable verification of income and expenditure with the client's consent.
3. Access to online money management and financial capability tools.

By making the customer journey more efficient and engaging for the consumer, Firm A aims to provide its clients, including customers with characteristics of vulnerability, with access to debt advice at the point of need and to increase capacity in the market.

Dormant assets

1.50 The UK Dormant Assets Scheme was established by the Dormant Bank and Building Society Accounts Act 2008. It is led by industry and backed by the government, with the aim of reuniting owners with their financial assets. Where that is not possible, this money supports important social and environmental initiatives across the UK. In England, funding is currently distributed to four specialist organisations who work across the areas of youth, financial inclusion, and social investment. To date over £650 million has been allocated to the following organisations: The Youth Futures Foundation, Fair4All Finance, Big Society Capital, and Access – The Foundation for Social Investment.

1.51 This includes an accelerated release of £150 million for the response and recovery to the COVID-19 pandemic across the UK. This funding supported a variety of initiatives delivered by the four spending organisations including £65 million allocated to Fair4All Finance to tackle the heightened needs of the financially marginalised as a result of the pandemic.

Fair4All Finance

1.52 The government works closely with Fair4All Finance, a not-for-profit organisation founded in early 2019 to improve the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable, and appropriate financial products and services. Since 2019, the government has allocated £96 million of funding from dormant assets towards financial inclusion, which are being distributed by Fair4All Finance.

1.53 One of Fair4All Finance's key priorities is expanding provision of affordable credit through a scaled community finance sector. Its Affordable Credit Scale Up Programme provides tailored support, investment, and grant funding to increase the sustainable capacity of community finance providers such as credit union and community development financial institutions. Last year, in response to the pandemic, Fair4All Finance launched a £5 million COVID-19 Resilience Fund, to help the community finance sector emerge from the crisis in a resilient position and capable of future growth. The fund has supported

31 community finance providers, helping preserve around half of affordable credit lending capacity targeted at customers in vulnerable circumstances.

1.54 The COVID-19 pandemic has presented an unprecedented financial shock to millions of people in the UK. Last year the FCA and the financial services industry took swift action to support affected customers, offering payment deferrals on loans and access to an interest free overdraft on personal current accounts at a time of real uncertainty. Fair4All Finance will research what lessons can be learned from these extraordinary measures, to determine their impact on customers and operations, and assess what could feasibly become standard practice.

1.55 As referenced earlier, Fair4All Finance will deliver the pilot NILS, one of the government's key financial inclusion policies. Fair4All Finance is now working with Toynbee Hall and Fair By Design to deliver a NILS pilot with £3.8 million in funding from HM Treasury. The NILS pilot aims to test the benefits to customers, society and the economy and show whether a permanent nationwide NILS can be delivered in a sustainable way.

Fair4All Finance - race and financial services

The government recognises that some consumers may have greater difficulties accessing financial services than others. For the government to meet its objective to ensure everyone regardless of their background can access financial services, the Economic Secretary to the Treasury led a discussion on race and diversity at the temporary Consumer Finance Forum, set up with key stakeholders in the financial services industry during the COVID-19 pandemic to gather data and views and help the government understand this issue further.

People from Black, Asian and minority ethnic communities currently face greater financial exclusion and inequalities such as:

- 60% of Asian and 63% of Black households have no savings, compared to 33% of White households.[15]
- Black African, Black Caribbean and Bangladeshi groups are 4 times, 3.5 times and 2.5 times more likely to be denied a loan respectively compared to White groups.[16]

Fair4All Finance is partnering with Esmée Fairbairn Foundation, NatWest Group and StepChange Debt Charity on new research into how ethnicity influences access to financial products and services in the UK. The outcomes of this research should be to:

- Improve understanding of the financial lives of Black, Asian, and minority ethnic communities, including the many factors that contribute to race-based gaps in economic indicators

15 'Financial Inclusion and Ethnicity: An agenda for research and policy action', Omar Khan, Runneymede Trust, July 2008

16 'Banking on Racial Equality: A Roadmap for Positive Change,' NatWest Group, October 2020

- Identify and understand formal and informal products and services used by Black, Asian, and minority ethnic communities and the opportunities or challenges they present
- Gain an insight into the root causes of financial exclusion of Black, Asian, and minority ethnic communities that come from shortcomings in financial service design
- Inform financial service providers on how to design products and services to be more inclusive of Black, Asian, and minority ethnic communities

Insights from the research will be used to develop well designed and effective solutions that support the financial inclusion of these communities and the government will work closely with Fair4All Finance as this work develops.

Improving financial inclusion through financial services regulation

1.56 The FCA's Financial Lives Survey 2020 published on 11 February 2021 showed that 46% (24 million) of UK adults have one or more characteristics of vulnerability related to poor health, low financial capability, low financial resilience, and significant life events. Its COVID-19 panel survey found that this had increased to 53% in October 2020, showing that there were many more people who found themselves at greater risk of harm due to the pandemic and its effects.[17]

Consumer Duty

1.57 The government is committed to ensuring financial services consumers are appropriately protected. The Financial Services Act 2021 (the Act) requires the FCA to consult on whether it should make rules providing that authorised persons owe a duty of care to consumers. It also obliges the FCA to publish its analysis of the consultation responses by the end of 2021. Furthermore, it sets out that the FCA must, before 1 August 2022, make such general rules about the level of care that must be provided to consumers, or particular classes of consumer, by authorised persons as the FCA considers appropriate, having regard to this consultation. In accordance with the requirements set out in the Act, the FCA published a consultation on 14 May 2021 proposing a new "Consumer Duty". The FCA proposes that the new Consumer Duty would seek to clarify and raise expectations for the standard of care that should be provided by financial services firms to consumers. The consultation closed on 31 July 2021, and the FCA is due to publish a second, follow-up consultation before the end of 2021.

FCA vulnerability guidance

1.58 The government supports recent work conducted by the FCA on the fair treatment of vulnerable customers. Its Principles for Businesses require firms

17 'Financial Lives Survey 2020: the impact of coronavirus', FCA, February 2021

to treat all customers fairly including customers with characteristics of vulnerability. In February 2021, it published guidance to make clear what the standards set by its Principles mean for firms' treatment of customers with characteristics of vulnerability, so that firms understand what is expected of them. It sets out what firms should do to meet those standards.[18]

1.59 To achieve good outcomes for customers with characteristics of vulnerability, firms should take action to:

- *understand the needs* of their target market/customer base
- make sure staff have the right *skills and capability* to recognise and respond to the needs of customers with characteristics of vulnerability,
- *respond to customer needs* throughout product design, flexible customer service provision and communications
- *monitor and assess* whether they are meeting and responding to the needs of customers with characteristics of vulnerability, and make improvements where this is not happening

18 'Guidance for firms on the fair treatment of vulnerable consumers', FCA, February 2021

Chapter 2
Financial capability and resilience

2.1 For many, the pandemic has deeply affected their personal finances and has demonstrated the importance of money management and having financial resilience through savings. Therefore, the government wants to ensure that people can access appropriate and relevant guidance when they need it and have the confidence and skills to successfully engage with their finances. It is also committed to ensuring that people build financial capability, meaning that they are able to use, and maximise their use of, products and services made available by the financial services industry.

Money and Pensions Service

2.2 To support this ambition the government established MaPS in 2019, to simplify the existing public financial guidance landscape and offer more holistic support to consumers for every stage of their financial lives. Last year, MaPS launched the UK's first Strategy for Financial Wellbeing, with five ambitious national goals the country should strive to achieve by 2030. These goals are to increase the number of children and young people receiving financial education; to encourage saving; to reduce the use of credit to pay for essentials, and to enhance access to affordable credit; to increase the number of people accessing debt advice; and support people to plan for later life.

2.3 Leaders from the private, voluntary, and public sectors were then brought together by MaPS to make a series of recommendations which have informed the development of Delivery Plans for each nation, which will be published in 2021/2022.

2.4 MaPS also launched its new consumer service, MoneyHelper, in June 2021. MoneyHelper brings together the best of The Pensions Advisory Service, the Money Advice Service and Pension Wise and aims to provide a single first point of contact for money and pensions guidance – over the phone, online and face-to-face – as well as utilising established connections across the sector to link people with other free and trusted support agencies.

2.5 The government remains strongly committed to helping people in receipt of benefits access the support they need to get their finances back on track and MaPS provides an important role in supporting this group. Finding new touch points for Jobcentre Plus front-line staff and providing strong signposting are vital in helping individuals get the help they need quickly and efficiently, allowing them to focus on getting back into the workplace. Therefore, DWP continues to work closely with MaPS to improve how work coaches can better help claimants who are experiencing financial difficulties and improve how they link those in need to local organisations that provide free-to-use consumer guidance.

Savings

Help to Save

2.6 The pandemic has shown that having a rainy-day savings fund to help weather both economic and financial shocks is important. Low earners are more likely to find it challenging to build up savings and this lack of financial resilience means they are more likely to fall into costly problem debt when facing income shocks or unexpected essential costs. The government is committed to supporting people at all income levels and at all stages of life to save, including working families and individuals on low incomes. Help to Save, launched in September 2018, aims to support working people on low incomes and in receipt of certain benefits to build their financial resilience while kickstarting a regular, long-term savings habit.

2.7 The Scheme offers a generous 50% government bonus on up to £50 of monthly savings over a four-year period. This means that a bonus of £1,200 is available on a maximum savings pot of £2,400. As of March 2021, 284,050 accounts had been opened showing a 7% increase on the total number of accounts opened by January 2021. The total value of deposits by March 2021 surpassed £141 million.[1] Research published by HMRC in August 2021, showed that over 4 in 5 of account holders surveyed strongly agreed that the scheme helps them to save and 3 in 5 save more than they did before using the scheme.[2]

2.8 It is important that the scheme benefits as many eligible individuals as possible. That is why the government is continuing to promote the scheme to raise uptake and ensure eligible individuals can open and save in these accounts over the coming years. Help to Save's success will depend on the scheme encouraging a long-term savings habit in the individuals who open an account. Once the account matures after four years, customers will be directed to information about how to continue saving using other publicly available savings products.

2.9 HM Treasury and HMRC are also collaborating with DWP to consider how best to raise awareness of the scheme for working Universal Credit claimants. These individuals will be able to continue saving into Help to Save accounts for four years even if their circumstances change and they have no further need for Universal Credit, enabling them to build up resilience savings for years to come.

Child Trust Funds

2.10 The government is committed to reuniting all young adults with their Child Trust Funds (CTF) and recognises the importance of ensuring that they can benefit from these funds as they reach adulthood. The government is working together with industry to encourage CTF holders to re-engage with

1 'Annual Savings Statistics', HMRC, June 2021

2 'Help to Save customer experience research', HMRC, August 2021

their accounts, HMRC have developed an online tracing mechanism where individuals can sign in using their Government Gateway details, and the National Insurance Notification letter sent to all 16-year-olds now includes details about how CTFs can be located. A press release was published in September 2021 to mark a year since the first accounts started to mature, receiving engagement from national and regional press. Social media activity on Facebook and Twitter has also resumed since the onset of the pandemic, engaging, and informing the public about CTFs. Looking forward, the government will continue with this activity.

2.11 The government is aware of the current challenges and administrative burdens of accessing funds held in a portion of mature CTFs where the young adult lacks mental capacity. That is why the Ministry of Justice has published a consultation on a "small payments scheme" which includes, among many other things, the treatment of matured CTFs where the young adult lacks mental capacity. Under this proposal, access may be granted to one account without a Court of Protection Order for 6 months, with withdrawals or payments permissible up to a total value of £2,500.[3] This consultation closes on 12 January 2022.

PrizeSaver and credit unions

The government ran the PrizeSaver pilot from October of 2019 until 31 March 2021. Fifteen credit unions located around Great Britain were appointed to participate, and nearly 14,000 accounts were opened over the course of the pilot.

HM Treasury developed and launched the PrizeSaver pilot with three key aims:

- to increase membership and awareness of credit unions
- to build financial resilience for individual savers
- to test whether the prize-linked savings model works in encouraging savings.

Overall, the findings suggest that the pilot has been successful in meeting these aims. Evidence was inconclusive on whether PrizeSaver substantially increased membership for the participating credit unions, but the report conducted by IFF Research, who independently evaluated the pilot, shows that PrizeSaver increased positive perceptions of credit unions amongst general savers.[4] This supported the aim of raising awareness of the sector.

The pilot was successful in helping individual savers build both short- and long-term financial resilience. Over 50% of PrizeSaver account holders opened their accounts with money from either a current account or directly from their salary, creating new savings. Over 1 in 10 PrizeSaver account holders listed PrizeSaver as their only savings account, suggesting the scheme also

3 'Mental Capacity Act: Small Payments Scheme, Ministry of Justice, November 2021

4 'PrizeSaver Evaluation: Final evaluation', IFF for HM Treasury, July 2021

encouraged some first-time savers. Additionally, though some savers did withdraw money during the scheme, the amount of overall savings at the end of the scheme was 45% higher than at the beginning. The pilot also helped people save more regularly; of those who had another savings account, 40% said they were now saving more regularly since opening a PrizeSaver account.

Qualitative research conducted by IFF Research found that the chance to win a prize was a strong incentive to open the account and deposit savings, as well as a deterrent to withdrawing these savings. This shows, alongside the findings above, that prize-linked savings works as a way to encourage saving and raise awareness of the credit union sector.

A further finding to highlight is the continued support from the credit union sector for the PrizeSaver scheme. Most of the participating credit unions from the pilot, alongside the Association of British Credit Unions Limited (ABCUL), are now taking PrizeSaver forward independently of government. The government regards this as a strong mark of success.

Pensions

2.12 The pensions landscape has changed dramatically in recent years, with more and more workplace schemes moving from a Defined Benefit (DB), guaranteed income model, to Defined Contribution (DC) schemes. The government has made security in retirement a central priority since 2010 through the introduction of automatic enrolment into workplace pensions. This has been an extraordinary success, with over 10 million workers enrolled into a workplace pension to date and an additional £22.7 billion per year being saved compared to 2012. Alongside this, the introduction of Pension Freedoms has allowed pension savers much greater choice and flexibility on how they access their savings.

2.13 Pension Freedoms are reflective of broader societal changes in the way people approach their retirement and it is therefore right that individuals are afforded the opportunity to access their hard-earned savings in the way that best reflects their needs. However, the government recognises that this new freedom and the changing pensions landscape have introduced more complexity into the system. Therefore, the government has been very conscious of the importance of providing pension holders with sufficient support through guidance services like PensionWise, encouraging engagement by simplifying the information and communications they receive about their pensions, and ensuring there are appropriate safeguards to protect people from scams and fraudulent behaviour.

Workplace pensions

2.14 Since 2012, with the introduction of Automatic Enrolment (AE), the majority of employees have been defaulted into saving in a workplace pension, unless they choose to opt out. As a result, more than 10 million workers have been automatically enrolled by over 1.8 million employers. It has transformed workplace pension saving for millions of people. Despite this, there are some remaining challenges. There are still low-savings levels for retirement among the working age population. The 2017 Review of Automatic Enrolment set out the government's ambition to build on the success of AE, with the aim of strengthening resilience for retirement among lower earners, including younger people and the self-employed. Following this review, progress has been made for the self-employed. DWP is undertaking research and trials to build the evidence base to find ways to make retirement saving easier for self-employed individuals, looking at, among other approaches, the role of behavioural messages and savings mechanisms using digital platforms.

2.15 In addition, DWP has conducted a project to evaluate the impact of the COVID-19 pandemic on the savings and financial wellbeing and resilience of self-employed businesses. Later this year, the next stage of the trials will re-commence, as they had been paused in light of the pandemic, testing behaviourally based savings mechanisms. DWP is also working with HMRC to explore whether it is possible to make use of behavioural prompts that encourage saving amongst the self-employed, using established accounting and tax processes, either through Making Tax Digital or other routes.

Benefit statements

2.16 The pensions landscape can be complex, and it is crucial that savers can easily understand and engage with their pensions, so that they know how to achieve the retirement they want. For this reason, DWP has introduced a new requirement from October 2022 for firms to provide shorter, simpler pension benefit statements with a more standardised format and language for those DC schemes used for AE pensions. This will give savers the key information they need to understand their pensions over a maximum of two sides of A4 paper, without overwhelming them with jargon, and to avoid them receiving this information in a variety of different formats. To further generate greater awareness of the importance of pension saving, DWP is also exploring the concept of a statement season – a mandated period each year when all pension statements should be sent to savers. DWP is working with a working group of external partners to understand how a mandated approach to a season can be delivered, including the optimal timing.

Helping people in problem debt

Debt advice

2.17 The government has an important role to play to protect individuals from falling into financial difficulty, but it also has a role to ensure vulnerable consumers are supported to manage their debts and return to a more sustainable financial footing. Therefore, the government continues to work closely with MaPS as well as the wider free-to-consumer debt advice sector to provide access to high-quality debt advice that leads to lasting, positive outcomes for those in problem debt. MaPS' debt advice commissioning exercise is an important step towards creating a more resilient debt advice sector and will drive better quality of advice and customer outcomes. MaPS continues to be the biggest funder of debt advice in England.

2.18 To support this activity, MaPS have also developed the Money Adviser Network (MAN). In just over a year, MAN has onboarded 42 referral partners – including many government organisations that previously did not refer people to debt advice – so more people have quicker access to advice services when and where they need them. MaPS has also developed a new Need for Debt Advice measure and will share the findings of the 2021 Debt Need Survey early next year using this new measure.

Default notices

2.19 To help people in problem debt across the UK, in November 2020, the government changed the rules around Default Notices sent to consumer credit borrowers who are in financial difficulty to reduce the adverse mental health impacts of their language and tone. The new rules have made Default Notices less threatening by restricting the amount of information that must be made prominent and requiring lenders to use bold or underlined text rather than capital letters. Lenders can now replace legal terms with more widely understood words and letters to clearly signpost people to the best source of free-to-consumer debt advice.

Breathing space

2.20 Breathing space, the first part of the Government's Debt Respite Scheme, was launched in May 2021 to help those in problem debt get their finances back on track. The government recognises that it can be very challenging to return to financial stability after falling into significant debt. A breathing space gives people a 60-day period where they are protected from creditor contact and enforcement action, and most interest, charges and fees on their debts are frozen, supporting them to engage with debt advice to find sustainable solutions.

2.21 Further, recognising the link between problem debt and mental health issues, a mental health crisis breathing space offers these protections for the duration of mental health crisis treatment, plus another 30 days. Recognising that the individual may not be able to access debt advice or apply themselves during this time, applications for a mental health crisis breathing space can be made on behalf of the individual in need, using evidence from an Approved Mental Health Professional.

2.22 Over 32,000 people in problem debt have accessed the breathing space scheme since it launched.[5] Over time, the scheme should also benefit the wider economy, including because of more people accessing earlier debt advice, improved outcomes for debtors and higher repayment rates.

Statutory Debt Repayment Plan

2.23 The Statutory Debt Repayment Plan (SDRP) is the second part of the Debt Respite Scheme and will provide a new statutory debt solution in England and Wales, similar to the Debt Arrangement Scheme already in place in

[5] 'Commentary – Monthly Insolvency Statistics', The Insolvency Service, October 2021

Scotland, that will allow those in problem debt to repay their creditors to a manageable timetable. By seeking advice from a debt advice provider, individuals will be able to obtain tailor made plans that combine their debts into one affordable regular repayment based on their income and expenditure. Similar to breathing space, the SDRP will provide debtors with legal protections from creditor contact and enforcement action for the duration of their plan and will freeze most interest, charges, and fees on their debts.

2.24 The SDRP aims to fill a gap in the market for a statutory debt repayment solution, addressing the barriers to completion of voluntary debt management plans and is expected to ultimately provide increased repayment rates for creditors, as well as improving the personal and financial wellbeing of those in problem debt. The government is aiming to lay regulations for the SDRP by the end of 2022, with the intention of launching the scheme in 2024.

Chapter 3

Looking forward

3.1 While the government has made significant progress on objectives to support financial inclusion over the last year, there is always more to do, either to make further progress with existing priorities or address new emerging challenges.

3.2 Looking forward over the coming year, there are several established and emerging trends that we expect to impact on financial inclusion. These include the acceleration in the adoption of digital technologies, offering both new opportunities for innovative solutions to the problems of financial exclusion as well as the risk of a cohort of consumers that are left behind as they struggle to access the technology. In addition, the economy and labour market are likely to see a great deal of change in the coming year, as the UK continues to emerge from the worst effects of the pandemic. This includes the potential for changes to the interest rate environment, after an extended period of very low central bank rates.

3.3 These and other trends will inform the ongoing development of the government's approach to tackling financial exclusion. In addition, there is already a pipeline of work to which the government is committed over the coming year which improve and enhance the provision financial products and services available to consumers. This will include:

- Ensuring that consumers remain able to access cash through developing legislation to protect access to cash and working with industry to understand the outcomes of the community access to cash pilots.
- Working with industry to ensure that consumers can bank in a way that suits them and their needs as well as providing Basic Bank Accounts
- Supporting the role of credit unions towards financial inclusion by bringing forward legislation to allow them to offer a wider range of products and services.
- Continuing to work with Fair4All Finance to deliver the NILS pilot and to support the provision of affordable credit.
- Developing a proportionate approach to the regulation of BNPL.
- Consideration of the recommendations of the Financial Inclusion Policy Forum sub-group on access to contents insurance for low-income renters.
- Work to deliver the SDRP by 2024, with the aim of laying regulations by the end of 2022.

- Continuing to promote innovation in the financial services sector for the benefit of consumers. Notably, we will support the creation of the CFIT which was a key recommendation of the Kalifa Review of UK Fintech.
- Continuing to promote help to save, including by exploring opportunities to raise awareness with those who may be eligible and by engaging with large employers and other relevant stakeholders.
- Monitoring Help to Save uptake, savings, and withdrawal rates to identify the impact of external influences on the target population's ability to save.
- Continuing to work closely with MaPS to deliver their UK Strategy for Financial Wellbeing and improve the provision of free-to-consumer debt advice and money guidance.
- Identifying ways for DWP to work more closely with MaPS to ensure those in receipt of benefits are signposted quickly and directly to expert financial help.

3.4 This is not an exhaustive list of the government's work to tackle financial exclusion but an indication of our current priorities. It would expect priorities to develop further, in response to changing circumstances, and looks forward to reporting on progress again in late 2022.

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This document can be downloaded from www.gov.uk

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