



HM Treasury



Department  
for Work &  
Pensions

# Financial inclusion report 2018-19

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March 2019





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# Foreword

This government is committed to building an economy where everyone, regardless of their background or income, can access the financial services and products they need. Financial inclusion enables people to fully participate in the economy and empowers them to achieve their goals in life, whilst offering them protection in the face of adversity. In order to deliver this, we are working collaboratively across government and in close partnership with the financial services industry and civil society. This is why in November 2017 we established the Financial Inclusion Policy Forum, bringing those key actors together to provide strategic leadership and promote best practice in tackling financial exclusion. This report highlights progress over the last year, and looks ahead at how the government plans to build on existing work over the next twelve months.

The Financial Inclusion Policy Forum's work is already making an important impact. In its first year, ideas developed by forum members on access to affordable credit have informed crucial government interventions. At Budget 2018 the government set out an ambitious vision for the affordable lending sector, articulating a long-term aspiration that all families can access affordable, responsible loans to meet their needs and coupled that vision with a package of measures to support alternatives to high-cost credit. This includes a feasibility study for a no-interest loans scheme, a prize-linked savings scheme pilot for credit unions and a £2 million fund harnessing UK fintech innovation to help social and community lenders. Improving access to affordable credit remains a key challenge and we will continue working with the sector throughout 2019 to deliver solutions. We particularly look forward to the work of Fair4all Finance, which was established to deliver £55 million from dormant assets towards financial inclusion initiatives over the next three years.

The government also continues to work closely with the regulators and in particular the Financial Conduct Authority (FCA) to create the right regulatory environment for firms to tackle financial exclusion. In 2019 the FCA will continue its work on the high-cost credit market, including on promoting alternatives to high-cost credit, and will launch a signposting service to support access to travel insurance for people with pre-existing medical conditions. In addition, following the launch of its Approach to Consumers paper, the FCA will publish formal guidance for firms on how to treat vulnerable consumers and will use responses to its discussion paper on a duty of care to inform next steps in this area.

We will also continue to monitor progress on existing government policies. Following extensive negotiations with the banking industry, in December 2014 the coalition government announced a new voluntary agreement ('the 2014 agreement') with the 9 largest personal current account providers in the UK to improve basic bank accounts. Since the start of 2016, these providers have offered

basic bank accounts under the terms of the Payment Accounts Regulations 2015, which complements the 2014 agreement. These accounts are fee-free for standard operations, and do not allow the customer to go overdrawn.

The government will also continue to promote the Help to Save scheme, launched in September 2018 following a successful trial. Over 90,000 working people on low incomes have so far created an account, with the government offering a 50% bonus on deposits of up to £50 a month.

Alongside financial inclusion, the government is taking significant steps to improve people's financial capability. We are delighted that the new Single Financial Guidance Body (SFGB) was formally launched in January. In 2019 we will work with its new leadership to develop a long-term national strategy to improve people's understanding of money, pensions and their ability to manage debt. The government will also continue work to roll out a breathing space scheme to give people in problem debt the opportunity to take control of their finances.

This is a very ambitious agenda and we look forward to continuing to engage closely with the sector to find solutions to tackle financial exclusion.

John Glen MP  
Economic Secretary to the Treasury  
HM Treasury

Guy Opperman MP  
Minister for Pensions and Financial Inclusion  
Department for Work and Pensions

# Executive summary

## Financial inclusion

### Access to banking

Government considers access to a transactional bank account key to enabling people to manage their money on a day-to-day basis effectively, securely and confidently. Research from the University of Birmingham shows that the number of the unbanked in the UK reached an all-time low in 2017 at 1.23 million.<sup>1</sup> The latest government data shows there are 7.5 million basic bank accounts open with the nine largest providers of personal current accounts.<sup>2</sup>

In November 2017, the Economic Secretary wrote to the Chief Executives of UK Finance and Post Office Ltd asking them to consider how, working with the banks, they might further raise awareness of the banking services offered by the Post Office. This led to the launch of a Five-Point Plan in 2018, including trial publicity campaigns, signposting, an advertising campaign and collaboration with consumer groups.

### Affordable credit

At Budget 2018, the government announced a package of affordable credit measures. These are designed to foster a larger, more vibrant social lending sector that can offer a real alternative for lower-income customers who may often only access high-cost credit.

The FCA is conducting a review of the high-cost credit market, and has introduced a price cap in the rent-to-own market. It is also consulting on changes to simplify the way banks charge for overdrafts and tackle high charges for unarranged overdrafts, and additional protections for buy-now pay-later offers.

### Dormant assets

The government has directed £55 million of funding from dormant accounts to be deployed towards financial inclusion initiatives by Fair4all Finance, which launched in February 2019.

### Savings

The government is committed to supporting people at all income levels and at all stages of life to save, including those on low incomes. Following a successful trial,

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<sup>1</sup> 'Financial Inclusion Annual Monitoring Briefing Paper 2018', University of Birmingham, September 2018.

<sup>2</sup> 'Basic bank accounts: July 2017 to June 2018', HM Treasury, December 2018.

the government launched the Help to Save scheme in September 2018. Over 90,000 people have so far opened an account and £13 million has been saved.

## **Insurance**

In June 2017, the FCA invited views on the ability of consumers who have or have had cancer to access travel insurance. In its feedback statement, the FCA committed to working with the insurance industry and consumer groups to help people with pre-existing health conditions access the insurance they need.

In October 2018, new rules came into force requiring insurers and brokers to produce a short document that contains key product information about a policy, to make it easier for all retail (including vulnerable) consumers to understand what risks their insurance policy will protect them against and what is not covered.

## **FCA's work on consumers, including vulnerable consumers**

In July 2018, the FCA published its Approach to Consumers paper, which sets out the regulator's expectations on how consumers should be treated by financial firms and where the FCA will intervene if things are going wrong. This paper also announced the FCA's plan to consult in early 2019 on guidance for firms on the identification and treatment of vulnerable consumers, in order to provide clarity on its expectations of firms and to ensure good outcomes for all consumers, particularly vulnerable consumers. The FCA will use responses to its Discussion Paper on a duty of care to inform next steps in this area.

In October 2017, the FCA published its first Financial Lives Survey. This was the first of a biennial large-scale survey designed to show how the financial circumstances of consumers, and their use of financial products, change over their lifetimes. The FCA will be carrying out its next Financial Lives Survey in 2019.

## **Financial technology**

The government is currently working closely with industry to roll out Open Banking, a radical intervention that will allow consumers and SMEs to access a range of new and innovative products that better meet their needs, by providing third party providers with secure access to their current accounts.

In January last year, the government launched the Rent Recognition Challenge, a £2 million competition challenging UK fintech firms to develop innovative applications to enable rental tenants to record and share their rent payment data with lenders and credit reference agencies. Six successful firms received funding.

## **Financial capability**

### **Single Financial Guidance Body**

The Financial Guidance and Claims Act 2018 created a Single Financial Guidance Body (SFGB) that is bringing together government-sponsored financial guidance and debt advice, previously provided by the Money Advice Service (MAS), Pension Wise and The Pensions Advisory Service (TPAS). The SFGB formally launched in January 2019 and has also been tasked with developing and coordinating a national strategy with the aim of improving people's financial capability, their ability to

manage debt and the provision of financial education for children and young people.

## **Breathing space**

The government is implementing its manifesto commitment to introduce a breathing space and statutory debt repayment plan. The policies aim to give people in problem debt the opportunity to take control of their finances and put them on a sustainable footing.

# Chapter 1

## Financial inclusion

- 1.1 'Financial inclusion' means that individuals, regardless of their background or income, have access to useful and affordable financial products and services. These include products and services such as banking, credit, insurance, pensions and savings, as well as transactions and payment systems, and the use of financial technology.<sup>1</sup> The government has put in place a strong regulatory regime to ensure that markets are working fairly, and has given the FCA a clear mandate to protect consumers and consider access to financial services within its competition objective.
- 1.2 However, effective regulation is only one part of delivering the government's vision of a financially inclusive society. Too often it is the poorest and most vulnerable who pay the most for basic services. The government has a role to ensure that services and products are available at all stages of people's lives, help them build resilience to financial shocks and support them when facing financial difficulties. Often this means government must intervene to deliver these outcomes, but it also requires working closely together with the financial services industry and civil society to achieve this in an effective and sustainable way.
- 1.3 Elements of financial inclusion policy fall within the remit of many government departments, which is why, in November 2017, the government set up the Financial Inclusion Policy Forum, co-chaired by the Economic Secretary to the Treasury and the Minister for Pensions and Financial Inclusion at the Department for Work and Pensions (DWP). The forum brings together government departments, the FCA, the financial services industry, charities and consumer groups. It provides leadership in tackling financial exclusion, monitors progress and ensures collaboration across government and with the sector.
- 1.4 Since the establishment of the forum, the government and the FCA, working collaboratively with industry and consumer groups, have taken steps to tackle restrictions and barriers to accessing financial products and services. The rest of this section sets out what the government and the FCA have delivered over the last year and highlights future plans. The section also covers the actions the FCA has taken to ensure vulnerable consumers of financial services are protected. Finally, it covers the government's work to promote the potential of UK fintech to develop solutions in financial inclusion.

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<sup>1</sup> ['Government response to the Financial Exclusion Select Committee'](#), November 2017.

# Banking

## Basic bank accounts

- 1.5 Government considers access to a transactional bank account key to enabling people to manage their money on a day-to-day basis effectively, securely and confidently – a crucial indicator of a financially inclusive society.
- 1.6 Since 2016, the Payment Accounts Regulations 2015 requires the nine largest current account providers in the UK to offer fee-free basic bank accounts to customers who are either unbanked or who are ineligible for a standard current account, including those who have histories of bankruptcies or County Court Judgments. These regulations complement the 2014 Agreement between the nine providers and HM Treasury. The 2014 agreement makes clear that basic bank accounts should be accessible to the most vulnerable and least affluent in society. While they offer the same standard features as an average current account (e.g. cash withdrawals, direct debits, online payments), basic bank accounts are not permitted to have an overdraft facility and are fee free for standard operations, including a failed payment. This means the basic bank account is ideal as both a starter product for those unfamiliar with mainstream banking and for those customers who struggle with problem debt.
- 1.7 Research from the University of Birmingham shows that the number of people “unbanked” in the UK, who are without a current or basic bank account, reached an all-time low in 2017 at 1.23 million. However, this is still 1.23 million too many. The FCA’s Financial Lives Survey shows that groups of adults more likely to be unbanked include 18-24 year olds and the unemployed, which may help to explain the higher than average levels of the unbanked in London and core cities. The government is committed to helping all consumers across the UK access suitable banking products and supports a variety of options across the financial services market. We are working closely with industry to improve access to Basic Bank Accounts, which are specifically designed to support the unbanked, but also work to promote awareness of local credit unions, for instance through piloting a prize-linked savings scheme to increase awareness of these institutions and their products.

## Access to banking

- 1.8 Access to a transactional bank account is crucial, and enables customers to benefit from a wide range of services as a result. It is also important to ensure that people can easily access banking services wherever they live, regardless of their age, disability or any other vulnerability.
- 1.9 Today, there are multiple ways that customers can access their bank accounts, via a mobile app, over the phone, or in branch. Many customers choose to use a mix of channels to best meet their needs. However, the government recognises that there are customers who prefer or need to bank in person, and that bank branch closures can be difficult for them. While the decision to close a branch is a commercial one for a bank, the government welcomes the industry-wide agreement on banking at the post office which is helping to ensure access to physical banking facilities for those who need

it. That is why in November 2017 the then Economic Secretary wrote to both the Chief Executives of UK Finance and Post Office Ltd asking them to consider how, working with the banks, they might further raise awareness of the banking services offered by the Post Office. This led to the launch of a Five-Point Plan in November 2018. This included two trial publicity campaigns in the North West of England and in Dumfries and Galloway; signposting to Post Office services on banks' websites and branch leaflets; a Post Office advertising campaign; and close collaboration with organisations who work with those consumers who would most benefit from knowing about these services. UK Finance and the Post Office have committed to carry out an evaluation of these activities and report back to HM Treasury with the results.

## Credit

- 1.10 The government's vision is for a fair and sustainable consumer credit sector which meets the needs of all consumers. Over recent years, the government's focus has been on creating a more robust regulatory regime for the sector. This led to transferring supervision of the consumer credit market to the FCA in 2014, giving the FCA strong powers to protect consumers and a broad enforcement toolkit which includes the power to levy unlimited fines. This has been a successful approach and the FCA has secured over £900 million in redress for consumers who have been treated unfairly since taking over regulation. Transferring regulation to the FCA has also resulted in a review of the sector and a number of targeted interventions to tackle the consumer detriment identified in certain areas of the high-cost credit market.
- 1.11 It is clear, however, that effective regulation is only one part of delivering the government's vision. Too often it is the poorest who pay the most for credit. Social and community lenders such as credit unions and Community Development Finance Institutions (CDFIs) provide a lower cost alternative to high-cost lenders, they are small in comparison and lack the visibility and capability to compete at scale. The UK needs a much larger, more vibrant social lending sector to offer a real alternative for people who are currently only able to access high-cost credit, as well as alternatives for consumers who would struggle to repay loans from even lower cost, social lenders.
- 1.12 At Autumn Budget 2018, the government set out its long-term ambition to ensure that all families can access affordable, responsible loans to meet their needs and demonstrated this commitment by announcing a number of proposals to boost the provision of affordable credit. This work was underpinned by work undertaken by members of the Financial Inclusion Policy Forum, and the proposals announced were informed by recommendations made by the forum and the wider sector. This section covers recent progress, both in terms of enhancing regulation of the high-cost credit market, as well as interventions aimed at supporting the affordable credit sector.

## Regulation of high-cost credit

- 1.13 One of the key interventions to protect consumers from excessive costs associated with credit was the introduction of a cap on the cost of high-cost

short term credit loans. The government legislated to require the FCA to introduce the cap, which came into force on 2 January 2015. In July 2017, the FCA published a review of the price cap, which showed that it has been effective, leading to savings of approximately £150 million for 760,000 individuals using high-cost short-term credit loans each year. Other FCA action in recent years has included measures to tackle persistent credit card debt including a package of voluntary remedies agreed by the credit card industry, giving customers more control and restricting credit limit increases.

- 1.14 Since the introduction of the high-cost credit cap for short term loans, the FCA has been conducting a further review of the high-cost credit market. This includes products and services such as overdrafts, rent-to-own, buy now pay later offers and catalogue credit.
- 1.15 The FCA's consultation on overdrafts includes proposals to mandate that firms cannot charge more for unarranged overdrafts than arranged overdrafts, banning daily fixed charges, and a package of measures to improve the transparency of pricing. The FCA also announced plans to make it easier for customers to understand how their overdraft facility works and better manage their use through alerts. The FCA plans to publish the results of the consultation and their final remedies in June, with a view to firms implementing the remedies by December this year.
- 1.16 Following consultation, the FCA has introduced a price cap on rent-to-own which will come into force on 1st April 2019. The measures are designed to improve outcomes for consumers paying the highest prices when using this product, and are estimated to save consumers in the UK up to £22.7 million a year. Additional protections for buy now pay later offers are also under consultation. Changes have already been made to home-collected credit, catalogue credit, store cards, and rent-to-own extended warranties. The measures aim to support credit markets in which consumers can understand their options and choose products that meet their needs.
- 1.17 A key part of the FCA's work in this area is promoting the availability and awareness of alternatives to high-cost credit. These alternatives include both lower cost credit and non-credit options that meet a consumer's needs, for example sources of essential household goods. In December 2018, the FCA published guidance for social landlords to help clarify the types of activities they are likely to require FCA authorisation for when seeking to assist their tenants.

## Access to affordable credit

- 1.18 At the first meeting of the Financial Inclusion Policy Forum in March 2018, access to affordable credit was recognised as a key challenge, which government and the sector need to come together to address. In response, the forum set up a subgroup that worked to analyse gaps and develop recommendations that would improve people's access to affordable credit and would support the affordable credit sector. The Affordable Credit subgroup was co-chaired by UK Finance and Toynbee Hall and attended by industry, charities, consumer groups, government officials and regulators, including non-forum members. The recommendations from the Affordable Credit subgroup were presented to the second meeting of the forum in

October 2018. These included options to tackle regulatory barriers for affordable credit providers, improve use of creditworthiness data, improve the digital verification of ID, promote investment to social lenders, support social lenders target consumers, introduce a no-interest loans scheme, and look holistically at improving people's resilience to reduce the need for credit.

**1.19** These recommendations played a key role in shaping the government's long-term vision in this area. In line with the recommendations of the forum, the government announced a package of affordable credit measures at Budget 2018. These are designed to foster a larger, more vibrant social lending sector that can offer a real alternative for lower-income customers who can often only access high-cost credit. Specifically:

- The Budget provided £2 million for an **Affordable Credit Challenge Fund**, due to be launched by HM Treasury in summer 2019. The fund will seek to harness the power of the UK's world-leading fintech industry, inviting participants to devise technological solutions addressing the challenges faced by social and community lenders such as credit unions and CDFIs.
- For those at the margins of the financial system, and for whom borrowing from social and community lenders can be unaffordable, the government is launching a **feasibility study to design a pilot no-interest loans scheme** – a study which will see the government partnering with leading debt charities and the banking industry. The government has commissioned London Economics to undertake the Feasibility Study, which will begin in March 2019 for publication by early summer.
- The government is also tackling barriers faced by social lenders, and will simplify legislation to make it easier for **Registered Social Landlords (RSLs)**, to direct tenants to social and community lenders such as credit unions and CDFIs. This will help to raise awareness of alternatives to high-cost credit. The government aims to lay the relevant legislation during the Summer.
- To strengthen credit unions further, the government will also **pilot a prize-linked savings scheme** which will support the sector through increased membership, awareness and deposits. The scheme will encourage participants to build up savings, boosting their financial resilience as well as helping more people benefit from these valued community institutions. The government will select a diverse group of credit unions from throughout the UK to participate in the pilot, who are in a position to use the deposits gained from their participation in the scheme to increase their overall lending. Working with academics, the government will also embed evaluation into the pilot to leverage the behavioural insights gained to understand how the model could be scaled. The scheme will be available before the end of 2019.

## **Dormant assets**

**1.20** The government's measures to support affordable credit providers at Budget 2018 followed the announcement made in August 2018 in the Civil Society Strategy that £55 million of funding from dormant bank and building

society accounts will be directed towards financial inclusion. These funds will be delivered by a new, independent organisation – Fair4all Finance – which will work with partners across the private and social sectors to tackle financial exclusion, primarily addressing the problem of access to affordable credit and alternatives. Fair4all Finance launched in February 2019 and is expected to be fully operational in autumn 2019. Distribution of funds from dormant accounts will start towards the end of 2019.

- 1.21 This funding will help the affordable credit sector to grow and support alternatives to credit, through both investments and grants that support existing and new organisations. This will help these organisations reach more customers, many of which are currently using expensive forms of credit. To achieve that, Fair4all Finance will aim to bring in co-funding from a range of investors, including the private sector. It will also build partnerships with other organisations working hard in this area, including the Financial Inclusion Commission, the End High Cost Credit Alliance, and the social sector more widely. It will also develop strategic partnerships with housing associations, as potential partners who deal with many customers at risk of financial exclusion.
- 1.22 Fair4All Finance will also look to support other ways of helping individuals strengthen their financial resilience, for instance by working with providers of affordable credit to develop approaches to helping customers save money alongside taking out credit. Fair4all Finance will also explore ways to help people protect themselves against income shocks, such as through insurance.

## Savings

- 1.23 Having access to credit is extremely important for people to be able to manage and smooth their income over time. However, it is also crucial that people build up their financial resilience and are supported to save for a rainy day. This is particularly important for those on low incomes who may be more vulnerable to financial shocks but who may find it harder to save and for whom incentives to save are often weaker. The government is committed to supporting people at all income levels and at all stages of life to save, and has stepped up action to ensure that useful products are available for people on low incomes.
- 1.24 To that end, in September 2018, the government launched the Help to Save scheme, following a successful trial from January 2018. Over 90,000 people have so far opened an account and £13 million has been saved. Help to Save supports working people on low incomes to build up a rainy-day fund while encouraging the development of a long-term savings habit, by offering a 50% government bonus on up to £50 of monthly savings. The first bonus is paid after two years, and customers can continue saving for a further two years and receive a second bonus. This means that people can save up to £2,400 and benefit from government bonuses worth up to £1,200. As well as incentivising people on low incomes to save, Help to Save will help to promote financial inclusion more broadly by encouraging people to engage with formal savings products beyond the life of the scheme.

- 1.25 For people at all income levels, Budget 2018 provided stability. Savers will continue to benefit from generous allowances in 2019-20, including the record annual adult ISA subscription limit of £20,000 and the Personal Savings Allowance. This means that over 95% of UK adults with savings income pay no tax on that income.

## Insurance

- 1.26 Access to adequate insurance is another crucial way to protect individuals from financial shocks, such as being burgled, crashing their car or something going wrong on holiday. It therefore plays a vital role in the financial resilience of consumers, particularly those on low incomes and those who are vulnerable.
- 1.27 In June 2018, the FCA published its response to its call for input on access to insurance which invited views on the ability of consumers who have or have had cancer to access travel insurance. In the FCA's feedback statement, the FCA committed to working with the insurance industry and consumer groups to help people with pre-existing medical conditions access the insurance they need. The FCA has committed to the setup of a new signposting service that will better enable these consumers to access a range of providers who may be able to offer more appropriate cover for their condition.
- 1.28 In addition, in October 2018, new rules came into force governing how insurers and brokers must treat their customers during the sale or distribution of insurance. These rules introduced an Insurance Product Information Document (IPID) to be issued to retail customers. This is a two or three-page document that contains key product information about a policy. The IPID is designed to make it easier for all retail (including vulnerable) consumers to understand what risks their insurance policy will protect them against and what is not covered.
- 1.29 In October 2018, the FCA also announced a Market Study into the general insurance market and launched its terms of reference in November. This study will be a detailed investigation into outcomes for all consumers, including vulnerable consumers, from pricing practices. It will also examine the fairness of these practices, their impacts on competition, and the options, if any, that should be considered for addressing consumer detriment in this area. Prior FCA work has identified that the greatest potential for harm arose from pricing practices relating to long term renewal consumers which includes those over 65 years old.

## FCA's work on consumers, including vulnerable consumers

- 1.30 Often vulnerable consumers face particular challenges when dealing with financial services providers and, in some cases, can be excluded from certain services because of their vulnerability.
- 1.31 In July 2018, the FCA published its approach to consumers paper, which sets out the regulator's initial view on what good looks like for all retail consumers, and explained how they will work to diagnose and remedy actual and potential harm, giving more certainty about their regulatory

framework. This paper also announced the FCA's plan to consult in early 2019 on guidance for firms on the identification and treatment of vulnerable consumers, to provide clarity on its expectations of firms and ensure good outcomes for all consumers, particularly vulnerable consumers.

- 1.32 As part of its approach to regulating for retail consumers, the FCA also published its discussion paper on a duty of care in 2018. The discussion paper was published to help the FCA better understand:
- whether there is a gap in their regulatory and legal framework, or the way they apply it in practice, that could be addressed by introducing a new duty
  - assess whether change is desirable and, if so, what form it could take, how it would work in practice alongside its current framework, and what consequences it would have for consumers, firms and the FCA
  - better understand and consider possible alternative approaches that might address stakeholder concerns
  - what a new duty might do to enhance good conduct and culture in financial services, and how this could influence consumer outcomes alongside their Senior Managers and Certification Regime
- 1.33 The consultation closed in November 2018 and the FCA are now carefully considering the responses which will play an important role in informing their future work.
- 1.34 In October 2017, the FCA published its first Financial Lives Survey. This was the first of a biennial large-scale survey designed to show how the financial circumstances of consumers, and their use of financial products, change over their lifetimes. The FCA will be carrying out its next Financial Lives Survey in 2019.

## Financial technology

- 1.35 Financial technology can play a key role in tackling financial exclusion and offers opportunities for firms to develop innovative ways to increase consumer access to and use of financial services, delivering big benefits such as lower prices, increased choice, and better service to all, including the disadvantaged and vulnerable.
- 1.36 The government is currently working closely with industry to roll out Open Banking, a radical intervention that will allow consumers and SMEs to access a range of new and innovative products that better meet their needs, by providing third party providers with secure access to their current accounts. These products could include more affordable lending solutions, as well as products to help consumers to track and manage their money and make payments.
- 1.37 The government also actively supports Nationwide's Open Banking for Good initiative. As part of the Inclusive Economy Partnership, a collaboration between business, civil society and government, Open Banking for Good brings together people and organisations to create scalable solutions to issues of financial well-being that utilise Open Banking technology. It focuses

on three key challenges: income and expenditure, income smoothing and money management and help. In November 2018, Nationwide launched the challenge with a £3 million challenge prize fund, providing a package of support which will enable those offering innovative solutions to scale their ideas. In Spring 2019, the winning solutions will be provided with access to expertise, mentors, funding and a 'lab' to build and develop their offer.

- 1.38 Another example where financial technology has made a breakthrough in promoting financial inclusion is in improving the data available for creditworthiness assessments. In January last year, the government launched the Rent Recognition Challenge, a £2 million competition challenging UK fintech firms to develop innovative applications to enable rental tenants to record and share their rent payment data with lenders and credit reference agencies to help in getting a mortgage or other loan. Six successful firms received funding. This will allow credit reference agencies to reflect the history of consumers successfully paying their rent in their credit scores and help them access a mortgage or other loan.
- 1.39 The government also welcomes the announcement by the credit reference agency, Experian, that the rental data from their Rental Exchange – an initiative that allows social housing providers, local authorities and letting agents to report rental payment information – is now being reflected in their credit reports for the first time. Experian is working with the winners of the Rent Recognition Challenge, to allow consumers to report their rental data directly to the platform.

## Payment systems

- 1.40 Efficient means of payment can play another crucial role in improving financial inclusion, as it allows consumers to conduct financial transactions more effectively. Over the past year, government, regulators and industry have continued work to help ensure that payments systems and services are accessible, secure and flexible.
- 1.41 At Spring Statement 2018, government launched a call for evidence which, amongst other things, sought to gather information on what more could be done to support digital payments, recognising that they can increasingly offer ways to help people conduct their transactions efficiently, but also to budget or keep a better record of their transactions. Natalie Ceeney's Access to Cash report also highlighted the importance of making sure that digital payments are an option for everyone.
- 1.42 The Payment Systems Regulator (PSR), which government established in 2015 to drive competition and innovation and ensure that payment systems work well for their users, continued its mission to improve accessibility to these systems. The first non-bank Payment Service Providers joined one of the UK's major payment systems, Faster Payments, last year, thanks to legislation and regulatory action. Direct access to payment systems for firms will put them on a more level playing field with incumbent banks and help them reduce costs and provide cheaper, faster and more reliable payment services for customers.

- 1.43 The payments industry also continues to develop the Request to Pay service which aims to give more control to a customer being asked to pay for something. This digital service is expected to support individuals with their financial decision-making and help more people avoid the cliff edges that can be created by an irregular income or an unexpected bill. Pay.UK, the new operator of the UK's payments systems, is setting the standards and rules needed to make Request to Pay work and enable industry to deliver this service over the coming year.

## Access to cash

- 1.44 The government wants to make sure that our economy keeps pace with changes in the way that people manage their finances. At the same time, the government recognises the importance of cash, especially for the more vulnerable members of society, and continues to work closely with the PSR on access to cash to ensure the public's cash needs continue to be met. The government also welcomes Natalie Ceeney's Access to cash report, that sets out a number of recommendations for government, regulators and industry to ensure that cash access is maintained for those who need it.
- 1.45 LINK, which runs the UK ATM network, implements a Financial Inclusion Programme that aims to ensure ATMs are available in the most vulnerable and deprived communities in the UK, where low footfall would otherwise make them unviable. LINK recently enhanced the programme, increasing the subsidies it provides to ATM operators who run free ATMs in these deprived areas. LINK has also committed to maintaining the broad, geographic spread of ATMs in the UK. The PSR, holds LINK to account for its commitments and utilised regulatory powers to this effect last October.
- 1.46 The cheque Image Clearing System (ICS) continues to be implemented by industry. Facilitated by government legislation, cheque imaging allows those consumers, charities and businesses who use cheques to receive their funds more quickly. The innovation enables banks and building societies to offer customers the additional option of paying in an image of a cheque – by using a secure mobile banking app on their smartphone or tablet – rather than having to go to a bank to pay it in. This can benefit customers living in areas without ready access to a bank branch, people with limited mobility or people who, due to work or other reasons, find it difficult to visit a branch during banking hours.

# Chapter 2

## Financial capability

- 2.1 Separate but closely linked to financial inclusion, 'financial capability' means that people have the ability to manage their money well. The definition captures people's ability to use, and maximise their use of, products and services made available by the financial services industry. Government policy regarding 'financial capability' is therefore consumer centred and focuses on guidance and advice services that help individuals to manage their finances, financial literacy among young people, and attitudes and motivations concerning budgeting and saving.
- 2.2 In line with this definition, 'financial capability' cuts across a number of government departments and bodies. These include HM Treasury and the FCA, as well as the Department for Work and Pensions (which provides services to improve the capability of welfare claimants and is the department responsible for the new Single Financial Guidance Body), the Department for Education (responsible for financial education in schools) and the Ministry for Housing, Communities and Local Government (responsible for oversight of guidance and advice services provided by local authorities) amongst others.

### Access to financial guidance and advice

- 2.3 In July 2017, following an extensive review of the public financial guidance landscape, the government introduced legislation to create a new Single Financial Guidance Body (SFGB), bringing together the services of the Money Advice Service (MAS), The Pensions Advisory Service (TPAS) and Pension Wise. The Financial Guidance and Claims Act, which put the new body onto a statutory footing, received Royal Assent in May 2018 and the SFGB was formally launched in January 2019.
- 2.4 The new body will provide a more holistic set of services to consumers, including money guidance, pensions guidance and debt advice and will be better placed to support people at all life stages. Merging the three bodies together will also deliver efficiency savings that can be channelled to frontline delivery of services. The SFGB was also given a statutory function to develop a national strategy on financial capability, debt and financial education, working together with the financial services industry, the voluntary sector and the devolved administrations to offer a roadmap on how to make long-lasting impact across the UK, improving people's ability to manage their money effectively and avoid falling into problem debt. From April to June 2019 the SFGB will embark on an extensive listening and stakeholder engagement exercise to hear a diverse range of views and learn from others' experiences, in relation to the key challenges it exists to address.

This is designed to help it shape and develop the national strategy and its three-year corporate plan (covering the period 2020-2023), by autumn 2019.

- 2.5 The government also recognises that regulated financial advice can help consumers manage their finances and make decisions about their future. This is why HM Treasury and FCA launched the Financial Advice Market Review (FAMR) in August 2015 to explore ways to make financial advice more accessible and affordable. On 14 March 2016, FAMR published its final report, setting out a package of 28 recommendations, which have now been implemented. As recommended by FAMR, the government and FCA are conducting a review of FAMR throughout 2019, to identify its impact on the market and explore remaining challenges for firms or consumers.

## **Debt advice and breathing space**

- 2.6 Promoting financial inclusion and capability is crucial to protect consumers from falling into financial difficulty. The government has a key role in supporting vulnerable consumers to manage their debts and return to financial health. So, alongside this preventative action, the government has taken steps to support those who have fallen into problem debt, including through providing access to high-quality, free-to-user debt advice. To that end, over the past year, the government has taken steps to improve access to high-quality, free-to-user debt advice, and implement the manifesto commitment to a breathing space scheme.
- 2.7 To improve access to debt advice, the government has increased funding for publicly-funded debt advice has increased to over £56 million in this financial year, enough to provide support to over 530,000 people. This advice helps vulnerable consumers to seek expert help with their debts and get their finances back on track.
- 2.8 The government is also implementing its manifesto commitment to introduce a breathing space and statutory debt repayment plan. The polices aim to give people in problem debt the opportunity to take control of their finances and put them on a sustainable footing.
- 2.9 Breathing space would give someone in problem debt the right to legal protections from creditor action whilst they receive debt advice and enter an appropriate debt solution. In addition to the strong protections offered by breathing space, the government has committed to providing a suitable alternative access mechanism to the scheme for those receiving NHS treatment for a mental health crisis. The statutory debt repayment plan would enable someone in problem debt to enter a statutory agreement to repay their debts to a manageable timetable. Individuals entering the plan would receive legal protections from creditor action for the duration of their plan.
- 2.10 In the past year, the government has set out a detailed policy proposal for the scheme in a consultation launched in October 2018. The consultation is now closed, and the government will shortly publish a consultation response. In its response, the government intends to set out its approach to

the whole scheme. It then intends to lay regulations for the implementation of breathing space before the end of the year.

# Conclusion

Tackling financial exclusion is a priority for this government. Significant progress has been made over the past year and we have set firm foundations for increased collaboration across government and with the regulators, industry and civil society through the Financial Inclusion Policy Forum. Progress will continue throughout this year, focusing on delivering the important measures and long-term vision outlined for the affordable credit sector at Budget 2018. We will also continue to measure progress on existing policies, such as basic bank accounts and Help to Save.

The FCA will continue its work on the high-cost credit market, on access to travel insurance for people with pre-existing medical conditions and on guidance for firms on how to deal with vulnerable consumers. These are crucial areas and the government will work closely with the regulator and firms to ensure that services and products remain accessible to everyone.

Finally, we will work closely with the new SFGB to develop a long-term national strategy on improving people's financial capability across the UK and will continue work on protecting and supporting consumers who already face financial difficulties, through increased funding for debt advice and the roll out of breathing space. The successful implementation of all these measures will make a real difference in people's financial lives and will signify important progress towards building a financially inclusive society.



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