HM Treasury

Department for Work & Pensions

# Financial Inclusion Report

## 2019 - 2020

November 2020

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# Foreword

Promoting access to useful and affordable financial products and services and tackling financial exclusion - through our policy making and by working closely with the regulators and the wider sector - has been a key priority of this Government and remains high up on our agenda. Throughout the United Kingdom all consumers, regardless of their background or income, deserve the ability to access the financial services and products that are right for them and meet their specific needs. Being "financially included" is of central importance throughout peoples' financial lives, from the basic necessity of being able to open your first bank account, to being offered credit, insurance and the right mortgage products at an affordable price, and when planning for retirement. Over the past year, we have continued our focus on supporting individuals with their financial journeys including by announcing additional funding to scale up access to affordable credit; encouraging fair and responsible behaviours from service providers; and improving people's financial capability and resilience.

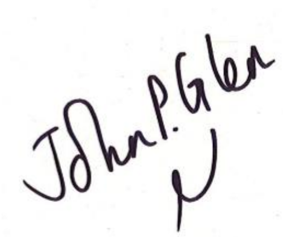
The Coronavirus (COVID-19) pandemic continues to deeply impact lives throughout the UK, not only because of its threat to physical health, but also because of its impact on the economy. The outbreak has created a range of challenges which may result in increasing financial exclusion for some of the most vulnerable people in society. In response, the Government, regulators and the financial services sector have taken unprecedented, collective action to ensure that financial services remain accessible for consumers at this difficult time, and that those who have been affected by the pandemic can access the forbearance they need through the introduction of payment holidays. The Government has also agreed to provide an additional almost £38 million support package for free-to-client debt advice providers to help people whose finances have been severely affected by COVID-19.

We are grateful to the financial services sector and regulatory authorities for offering significant support to consumers during this challenging time and for working alongside us to mitigate the threats to financial inclusion. The Financial Inclusion Policy Forum and the newly established Consumer Finance Forum have played important roles in maintaining collaboration across the sector so that we could work together to protect consumers. At a local level, the tremendous efforts of key workers are ensuring that customers continue to be supported throughout the pandemic. In particular, it has been a significant success that the majority of bank and building society branches and Post Offices remain open for those who need them, despite the operational challenges involved.

Shortly before the Government introduced the first lockdown measures, the Chancellor announced important steps to improve financial inclusion at the Spring Budget. This included a commitment to bring forward legislation to protect the long-term sustainability of the UK's cash infrastructure and to enact legislation to enable credit unions to offer a wider range of products and services. In May, the Government also announced the immediate release of £65 million dormant assets funding to Fair4All Finance to scale up access to fair, affordable and appropriate financial products and services for those in financial difficulty. And the Government is going even further, expanding the dormant assets scheme to include other financial assets in order to unlock more funds for good causes, including financial inclusion. These measures will make a significant difference in advancing this agenda over the coming year.

The Government has also continued to focus on improving people's financial capability. The Money and Pensions Service (MaPS) published its ten-year National Wellbeing Strategy earlier this year which sets out five "agendas for change". This covers ways to support individuals throughout all stages of their financial lives, including: financial education for children and young people, the better provision of debt advice, and the importance of financial resilience and planning for retirement.[1] As part of this, we welcome the work MaPS is doing to develop more detailed implementation plans for their 10-year strategy to be published in early 2021. We look forward to working closely with MaPS in the coming year to bring the strategy to life and provide people across the UK with the information and skills they need to manage their money effectively.

Though this year has created unprecedented challenges for the UK, and for financial inclusion specifically, it has also brought exciting opportunities for the future through a range of innovations that tackle financial exclusion. We remain fully committed to meeting these challenges and seizing the opportunities that arise over the coming year to meet our ambitious objectives for a financial sector that serves all individuals and communities across the UK.



John Glen MP

Economic Secretary to the Treasury

HM Treasury

Guy Opperman MP

Minister for Pensions and Financial Inclusion

Department for Work and Pensions

1 'The UK Strategy for Financial Wellbeing: 2020-2030', Money and Pensions Service, January 2020.

# Executive summary

## Ensuring Access to Useful and Affordable Products and Services

Access to a bank account is key to being financially included in the UK. Basic bank accounts enable consumers to access mainstream banking and act as a starter product for many customers, who later move on to use standard banking services. In June 2019, there were almost 7.5 million basic bank accounts open in the UK.[1]

The way consumers and businesses interact with their banking continues to develop at pace, bringing significant benefits to those who choose to opt for the convenience, security, and speed of digital payments and banking. In 2019, UK Finance data found that 72% of adults had used online banking and 50% had used mobile banking.[2] The early signs indicate that this trend towards the use of digital banking has been accelerated by the COVID-19 pandemic. However, it is clear that access to banking via face-to-face services continues to be an important channel for many customers. It is therefore crucial that we continue to ensure that the impact of branch closures is understood, considered, and – where possible – mitigated, so that all consumers across the UK can continue to have access to over-the-counter banking services if they choose to use them.

For many consumers, cash also remains important in their day-to-day lives. The Chancellor announced in the Budget this year that the Government will bring forward legislation to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long-term. To inform the development of the Government's legislation, the Government launched a Call for Evidence on access to cash in October 2020. This has allowed a wide range of stakeholders, including consumer groups, to feed in their views and expertise to help ensure that the approach delivers the best outcomes for consumers.

Consumers also need to access a range of financial products to help them manage their day-to-day budgets and any unexpected costs or financial shocks. At Budget 2018, the Government announced a package of affordable credit measures. This included: the Affordable Credit Challenge, a feasibility study for a no-interest loans scheme, and a prize-linked savings scheme. This year we have progressed this package and have announced the winning partnerships of the Affordable Credit Challenge Fund; London Economics has published a feasibility study of a no-interest loans

1 'Basic bank accounts July 2018 to June 2019', HM Treasury, December 2019.

2 'UK Payment Markets Summary', UK Finance, June 2019.

scheme; and in October 2019, HM Treasury launched the "Credit Union Prize Saver" prize-linked savings scheme pilot. [3]

At the Spring Budget this year, the Government also committed to bring forward legislation to allow credit unions to offer a wider range of products and services to their members, supporting their vital role in financial inclusion.

The Government also continues to work closely with Fair4All Finance, the organisation set up to support financial inclusion using funds from dormant assets. In response to COVID-19, the Government accelerated the release of the next tranche of dormant assets funding, including making £65 million immediately available to Fair4AllFinance to support their work on financial inclusion.

Insurance allows consumers to protect themselves from uncertain, unanticipated costs and it is important that all consumers can find products that meet their needs. To support this, the Government reviewed the Agreement on Age and Insurance in November last year and the FCA published a Policy Statement in February this year, with rules to require firms to signpost consumers with medical conditions to a directly specialist travel insurers, in certain circumstances. [4]

The UK is a world leader in fintech, and consumers continue to access financial products and services in innovative ways through new applications and approaches. A vital element of this is the roll out of Open Banking. This provides a secure way for consumers to share their current account data, opening a wide range of innovative products that can better meet consumer needs. This year the Government launched the Strategic Fintech Review, which will consider how the UK can continue to promote the integration of new technologies across financial services for the benefit of consumers.

## Improving Financial Capability and Resilience

The Government wants to ensure that everybody across the UK can access the information they need to make the right financial decisions about their money throughout the different stages of their lives. In order to offer more holistic support, the Government launched the Money and Pensions Service (MaPS) in January 2019 and simplified the existing public financial guidance landscape.

Building up financial resilience to income shocks is a key part of financial wellbeing. The Government is therefore committed to supporting people of all incomes to save. Through the Help to Save scheme, which launched in September 2018, working people on low incomes and in receipt of certain benefits are supported to develop a regular, long-term savings habit. We are making preparations to ensure that once these accounts reach maturity, customers are encouraged to continue to save.

When consumers do get into financial difficultly, the Government wants to ensure there is strong support available to help them get back on track and we are working

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3 'Feasibility Study into the Viability of Establishing a No-interest Loans Scheme', London Economics, March 2020.

4 'Transparency and Access in Motor and Travel Insurance for Older People an Agreement on Age and Insurance' British Insurance Brokers', Association and Association of British Insurers, November 2019; 'PS20/3: Signposting to travel insurance for consumers with medical conditions', Financial Conduct Authority, February 2020.

closely with MaPS and the debt advice sector on the provision of high quality free-to-consumer debt advice.

Going forward, the Government will help those in problem debt further through the introduction of a breathing space and statutory debt repayment plan. It will provide a period of up to 60 days, where people in problem debt will be protected from enforcement action by their creditors and the charging of further interest and fees on their debts. Regulations for breathing space have been approved by Parliament and breathing space will go live on 4 May 2021.

# Chapter 1

# Immediate Response to COVID-19

1.1 Over the past year, the Government has made significant progress towards its long-term financial inclusion objectives to improve financial wellbeing for all individuals and communities in the UK. Of course, the global outbreak of COVID-19 continues to have a dramatic impact on people's lives and affected many of this Government's priorities. Financial inclusion is no exception and it has become even more crucial as a result of the pandemic, with new challenges and considerations.

1.2 The public health risks and effects of COVID-19 continue to threaten to financially exclude those who struggle to access digital services and brought an even greater exclusion risk to vulnerable individuals who have been "shielding". The pandemic has also caused significant financial shocks for some households, by restricting their ability to work.

1.3 The Government's response to support households' personal finances at this difficult time therefore centres around three immediate objectives: providing financial support, through income support and forbearance; safeguarding access to financial services for consumers nationwide; and supporting households to manage their finances through money guidance and debt advice. This robust response has ensured that consumers can continue to access the financial products and services they need and provided the necessary support to help individuals manage their money under these difficult circumstances.

## Providing Financial Support to Affected Households

1.4 The Government has acted in unprecedented ways to provide financial support for households soon after the pandemic began and continues to do so. On 20 March, the Chancellor announced the Coronavirus Job Retention Scheme to keep people in employment by allowing firms to apply for Government grants to cover a proportion of their employees' wages, where those employees would have otherwise been made redundant. Soon after, the Government announced the Self-Employment Income Support Scheme to provide taxable grants to those who are self-employed or members of partnerships. To support families who rely on the safety net of the welfare system, the Government also announced a significant package of temporary welfare measures in addition to planned annual uprating of benefits. This included raising the Universal Credit (UC) standard allowance and Working Tax Credit basic element by up to £1,040, relaxing the Minimum Income Floor for self-employed UC claimants, and increasing the Local Housing

Allowance rates used to calculate Housing Benefit and the UC housing element.

1.5 The Government also works closely with the FCA and the financial services sector to ensure that consumers who are experiencing financial difficulties as a result of the pandemic, and finding it difficult to meet credit and mortgage payments, can access temporary forbearance to manage the disruption to their finances.

1.6 On 17 March, the Chancellor announced on behalf of the sector that a three-month mortgage payment holiday would be available for those struggling with the financial impact of COVID-19. This enabled homeowners to pause their monthly payments, giving people time to get back on their feet as their financial situation became clearer.

1.7 In addition, the FCA published guidance on 9 and 24 April setting out its expectation that lenders offer all consumers who are experiencing financial disruption as a result of COVID-19, payment holidays on a range of consumer credit products.[1] From April 2020, the FCA also expected firms to provide customers impacted by COVID-19 with support on their overdrafts, including 0% interest on the first £500 of an arranged overdraft for three months.

1.8 It was also important for Government itself to provide forbearance to individuals who were already financially struggling and in debt. To help support claimants through the COVID-19 emergency, the Department for Work and Pensions (DWP) suspended the recovery of various Government debts, including benefit overpayments, social fund loans, Tax Credit debt that has transferred from HMRC and any Housing Benefit being recovered by the department on behalf of local authorities. This change came into effect for three months, beginning in late March. The department also suspended the referral and notification of new overpayments for the same period of time. These suspensions have now been lifted and recovery has now re-started. DWP are encouraging anyone now finding themselves in different financial circumstances to those prior to the pandemic and unable to afford the proposed rate of repayment to contact them to discuss an affordable rate.

## Safeguarding Access to Financial Services

1.9 The financial pressures created by the crisis have made access to financial services and products more important than ever, but COVID-19 has also created a range of logistical challenges for the sector. Given the public health risks of COVID-19, customers were advised, where possible, to use alternatives to branches when carrying out their banking. However, the Government recognised that bank and building society branches continue to be an important channel for many people, including those who either do not have access to digital services or require specialist support. That is why

[1] https://www.fca.org.uk/firms/information-firms-coronavirus-covid-19-response

banks, building societies, credit unions and postal services were designated as essential retailers in the Government's guidance on 23 March 2020.

1.10 Since then, the Government has worked closely with the financial regulators, industry and the Post Office to maintain branch access for essential services while balancing the needs of their customers with the safety and welfare of staff and the wider community. To ensure this, firms have the flexibility to operate in a way that was best for them and their customers. The vast majority of branches have remained open for customers and, as restrictions have continued to change, firms have adapted their services to ensure customer needs have been met. The Government has also worked with the FCA to ensure that firms continue to prioritise essential services to vulnerable customers.

1.11 To work safely during the COVID-19 pandemic, guidance from the Department for Business, Energy and Industrial Strategy recommended that retailers minimise physical contact around transactions, for example, by considering using contactless card payments. It is at the discretion of retailers as to which forms of payments they wish to accept, including cash, cards and digital payment methods. Nonetheless, cash acceptance is a matter of concern for the government and regulators given its importance to the cash system. The Call for Evidence on Access to Cash seeks views on the factors affecting cash acceptance.

1.12 Significant action has been taken to maintain access to cash during the COVID-19 pandemic. Facilities such as banks, building societies, credit unions and Post Offices were designated as essential services. In addition, regulators have worked closely with industry to help return access as quickly as possible in light of temporary ATM and branch closures, and to make sure that vulnerable people have alternative ways to access cash and other essential services, such as making in-person payments via a trusted third party. The Government and regulators are continuing to engage closely with industry to monitor risks to the cash system and ensure that cash remains available for those who need it. The FCA has also published guidance on how they expect banks, building societies, and credit unions to inform the FCA, communicate with customers, and treat customers fairly when closing a branch, or closing or converting an ATM.

1.13 For some vulnerable individuals at this time, it may be more suitable to use digital payment services to meet their needs. DWP, working alongside Post Office Limited, undertook urgent work to support vulnerable Post Office Card Account customers who were "shielding" and having trouble managing their payments during the crisis. The primary focus of DWP and the Post Office was therefore to assist customers to change their method of payment, particularly to mainstream bank accounts, which offer flexibility and enhanced features, including online banking, to best support customers who are unable to access services in their usual way.

1.14 COVID-19 has also had an impact on the supply of affordable credit. The Government acknowledged the need for immediate funding to support the affordable credit sector and in May announced the release of £65 million dormant assets funding – which includes over £41 million of new funding -

to Fair4All Finance, the independent organisation set up to distribute funds for financial inclusion, including affordable credit provision.

## Supporting Households to Manage their Finances

1.15 As well as ensuring consumers have access to financial services and supporting them financially, consumers also require support to manage their money. Over recent months, the restrictions that the Government has had in place to control the spread of COVID-19 have affected many businesses and jobs which has meant that millions of people have found themselves unable to work. This has caused significant disruption to many households' finances. It has become increasingly important that financial guidance is widely available to help individuals make these new financial decisions.

1.16 MaPS has played an important role in supporting consumers though its free money and pensions guidance offering. In the wake of the initial phase of this crisis, MaPS updated their website's money guidance content and created new dedicated content on the financial issues resulting from COVID-19, including the key areas of: state benefits, employee rights under income replacement schemes, payment holidays for mortgages and other loans and travel insurance. MaPS has also worked closely with the regulators to understand, address and raise awareness of the risks of COVID-19 related financial scams, and of consumers accessing pension savings to bridge COVID-19 financial difficulties.

1.17 To support those people moving away from temporary payment holidays, MaPS has also developed a new online Money Navigator, which provides online money help and guides people to linked services that can help with wider money and debt guidance needs.[2]

1.18 In response to COVID-19, the Government also announced an additional £37.8 million funding for free-to-client debt advice in England, bringing MaPS budget for debt advice to over £100 million this financial year. The additional funding will help providers to deliver advice to more people who may be experiencing financial problems due to COVID-19, it will also finance measures to maximise the capacity of existing debt advice services, including through the greater use of digital tools and solutions. Delivery of debt advice is a devolved matter, so the additional funding has been matched for the devolved administrations, resulting in an extra, combined £5.9 million for Scotland, Wales and Northern Ireland.

[2] https://www.moneyadviceservice.org.uk/en/tools/money-navigator-tool

# Chapter 2

# Progress on Financial Inclusion

2.1 Over the past year, the Government's progress on financial inclusion has been governed by two principles. The first is *ensuring consumers have access to useful and affordable products and services*; this is the foundation of financial inclusion which aims to enable everyone to participate in the economy and mainstream society. The second principle is *improving financial capability and resilience*. It is not enough for consumers to have access to financial products and services; they should also be given the information and support needed to manage their money well. This and the following chapter demonstrate how Government has worked towards these three principles over the past year to tackle financial exclusion and improve the financial wellbeing of the nation.

## Ensuring Access to Useful and Affordable Products and Services

2.2 "Financial inclusion" means that individuals, regardless of their background or income, have access to useful and affordable financial products and services. This Government is committed to ensuring that all consumers across the UK are able to access the financial services they need, from opening a first bank account to securing a mortgage and planning for retirement.

2.3 In order to be financially inclusive, products such as credit, insurance and mortgages must be made available at an affordable price and should not exclude certain cohorts of consumers because of their background or income.

2.4 It is important to encourage service providers to ensure that all customers are treated fairly and are not denied access to financial products or services. In July 2020, the FCA published a consultation paper proposing guidance for firms on the fair treatment of vulnerable customers.[1] The consultation closed on 30 September 2020 and the FCA is now considering responses. Finalised guidance will be published in early 2021.

2.5 In recent years, the rise of financial technology has also played a key role in providing new opportunities for consumers to access a range of useful and more affordable financial products.

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[1] GC20/3: Guidance for firms on the fair treatment of vulnerable consumers, FCA, July 2020.

2.6 The Government, the FCA and industry all have a part to play in combatting financial exclusion, and together we have made significant progress over the past year.

## Basic Bank Accounts

2.7 For all individuals, having access to a bank account is key to becoming financially included in the UK. It provides people with a way of receiving income, whether that be salary, pension, benefits or tax credits, enables people to feel part of mainstream society, and opens up opportunities to access other financial products such as savings accounts, credit, insurance and mortgages. It is also important because it enables people to manage their money on a day-to-day basis effectively, securely and confidently.

2.8 According to the University of Birmingham, the number of unbanked adults in the UK has steadily declined from 2.85 million in 2005-6 to a record low of just below 1 million in 2018-19. The number of adults living in households without access to a relevant account has also fallen to a record low of just under half a million.[2]

2.9 A basic bank account is a key financial inclusion product, providing consumers who are refused a standard account with a transactional bank account which is fee-free for everyday banking, but does not have a chequebook or overdraft facility. The Government is committed to reducing the number of unbanked adults further by encouraging the provision of basic bank accounts for those who are unable to obtain a standard bank account and ensuring firms are meeting their obligations to provide these accounts.

2.10 Since 2016, the nine largest personal current account providers are legally required to offer basic bank accounts to customers who are either unbanked or who are ineligible for a standard personal current account. This captures well over 90% of the UK's personal current account market, meaning that customers have a choice of basic bank account providers.

2.11 Each of the nine providers are required to report their basic bank account data to HM Treasury on an annual basis; this data was most recently published in December 2019.[3] It showed that as of June 2019, there were almost 7.5 million basic bank accounts open in the UK. From July 2018 and June 2019, nearly 650,000 new basic bank accounts were opened and around 300,000 basic bank account customers were upgraded to a standard personal current account, highlighting the success of basic bank accounts as a way for people to access mainstream banking services and as a starter product for customers who move on to standard banking services. The Government continues to work closely with industry to further improve access to basic bank accounts.

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2 'Financial Inclusion: Annual Monitoring Report 2020', Stephen McKay and Karen Rowlingson, 2020.

3 'Basic Bank Accounts July 2018 to June 2019', HM Treasury, December 2019.

### Lloyds Banking Group and Basic Bank Accounts

HM Treasury publish an annual basic bank account report to hold firms to account for their market share of basic bank accounts.[4]

Lloyds Banking Group is the largest provider of basic bank accounts in the UK, providing 36% of basic bank accounts in the UK, as of July 2019 over 2.5 million accounts. In 2014, the three banking brands, Lloyds Bank, Halifax and Bank of Scotland committed to provide 1 in 4 of all basic bank accounts in the UK from 2017-2020, as part of their Helping Britain Prosper plan. Since 2016, Lloyds has supported over 1.3 million customers upgrade from a basic account to other personal current accounts that provide customers with access to an increased number of additional features, such as the option to apply for a planned overdraft and hold a cheque book.

Lloyds has committed to helping customers access banking and is partnered with over 30 charities in the UK to support the opening of bank accounts for consumers with limited documentation, including people who are homeless, refugees, fleeing domestic abuse, impacted by modern slavery and ex-offenders.

## Access to Banking

2.12 While access to a transactional bank account plays a vital role in giving everyone in society a stake in mainstream financial services and further access to other financial products, we must also consider more generally how people access their banking and ensure that everyone, whoever they are and wherever they live, has appropriate access to useful banking services which meet their needs.

2.13 The way people interact with their banking continues to develop at pace, as more consumers and businesses opt for the convenience, security, and speed of digital payments and banking services. However, the Government also recognises that access to banking using a branch continues to play an important role in many people's lives. Customers who are vulnerable or digitally excluded, for example, may be more comfortable dealing with their finances by talking to someone, and so physical branch access continues to play a key part in the financial inclusion agenda.

2.14 As firms need to balance customer interests with a variety of commercial factors it is right that decisions to close branches remain as commercial decisions for firms. However, the Government equally 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.

2.15 The Government therefore strongly welcomed the Banking Framework 2 between the Post Office and the high street banks, which took effect in

4 'Basic Bank Accounts July 2018 to June 2019', HM Treasury, December 2019.

January of this year. This gives certainty for 95% of business and 99% of personal banking customers that they will continue to be able to carry out their everyday banking at over 11,500 post offices across the UK for at least the next three years. Under the new agreement, there has been a significant increase to the fees that the Post Office receives from the banks for processing transactions. This will allow for investment in automation, training and security in post offices to support postmasters and improve consumers' experience when carrying out banking transactions.

2.16 The Access to Banking Standard also plays a key role in ensuring high street banks work with customers and communities so they are well informed about branch closures, the bank's reasons for closure and options for continued access to banking services. Following discussions between HM Treasury and representatives from the Lending Standards Board (who enforce the Standard) and UK Finance (who own the Standard), signatory firms are in the process of agreeing a common definition of an 'impacted customer' and common metrics to use in impact assessments if banks close their branches.[5] This will help drive greater consistency and provide those who regularly use branches with information about where to access help and support following a branch closure.

2.17 In September 2020, the FCA published guidance setting out their expectation of firms when they are deciding whether and how 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, and other relevant branch services and consider possible alternative access arrangements. This will ensure the implementation of closure decisions is done in a way that treats customers fairly.

## Access to Cash

2.18 Safeguarding access to cash is also a crucial part of financial inclusion, ensuring that all individuals across the UK are able to fulfil financial transactions and participate in mainstream society. Despite the digitalisation of payments in recent years, with debit cards having now overtaken cash as the most frequently used payment method in the UK, cash remains important to the day-to-day lives of many consumers. In 2019, 23% of UK payments were made in cash and 51 million adults used cash machines.[6]

2.19 In the Summary of Responses to the Call for Evidence on "Cash and Digital Payments in the New Economy" in 2019, the Government found that cash remains important as a symbol of independence, as a budgeting tool and as a way that elderly and vulnerable consumers can access social opportunities.[7]

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5 'Access to Banking Standard: Summary Report', Lending Standards Board, February 2020.

6 'UK Payments Markets 2020', UK Finance, June 2020

7 'Cash and Digital Payments in the New Economy: Call for Evidence', HM Treasury, March 2018.

2.20 Through its response, the Government committed to support digital payments while protecting access to cash for those who need it.[8] As part of this, the Government launched the Joint Authorities Cash Strategy (JACS) Group, which brings together HM Treasury, the Payment Systems Regulator (PSR), the FCA and Bank of England to ensure comprehensive oversight of the end-to-end cash infrastructure.

2.21 The Government's response document also emphasised that the financial services sector has a key role in protecting access to cash in our economy.[9] It is important that industry develops initiatives to support a broad and sustainable access to cash system and considers overall outcomes for consumers when making commercial decisions. The Government welcomes the critical work of industry to explore ways to develop a sustainable cash infrastructure to meet consumer needs to date.

2.22 Several industry initiatives have proven effective in the short-term. LINK, the scheme that runs the UK's largest ATM network, has taken action to help protect the broad geographic spread of ATMs across the UK. This includes premium fees paid to ATM deployers to protect ATMs in remote and rural areas. In October last year, LINK launched a "request an ATM" scheme, which directly commissions ATMs at the request of communities with poor cash access.

2.23 While ATMs are likely to be the primary means of accessing cash in the short-to medium-term, the Government recognises that access to cash is a much broader issue. The Government therefore continues to encourage industry to develop new, innovative ways of accessing and depositing cash. The "Community Access to Cash Pilot Initiative", which was launched in nine pilot locations across the UK in September this year by UK Finance and chaired by Natalie Ceeney CBE, will help to inform the most effective ways of protecting access to cash at a local level.

2.24 The Government recognises that further action needs to be taken to protect access to cash in the long term. Therefore, at the Spring 2020 Budget, the Chancellor announced that the Government will bring forward legislation to protect access to cash and ensure the long-term sustainability of the UK's cash infrastructure.

2.25 As part of delivering this commitment, the Government launched a Call for Evidence on access to cash in October 2020. The Call for Evidence seeks views on the key considerations associated with cash access, including deposit and withdrawal facilities, cash acceptance, and regulatory oversight of the cash system. Responses to this call for evidence will directly support and inform the development of the government's legislation. It allows industry and consumers to feed in their views on the design of the legislation, ensuring that the approach reflects the evolving cash use across the economy and delivers the best outcomes for consumers.

2.26 Alongside the development of legislation, the FCA and PSR are developing a comprehensive picture of cash access infrastructure across the UK in relation

8 'Cash and Digital Payments in the New Economy: Summary of Responses, HM Treasury, May 2019.

9 'Cash and Digital Payments in the New Economy: Summary of Responses, HM Treasury, May 2019.

to socio-economic factors that reflect consumer needs. They are also convening industry to develop long-term, sustainable solutions for providing access to cash.

## Access to Credit

### Implementation of the Budget 2018 Affordable Credit Package

2.27 There are a range of financial products, such as credit and insurance, which support individuals to manage their finances and smooth any unexpected costs. In order for these products to be financially inclusive, the Government recognises they must also be made available at an affordable price without excluding certain cohorts of consumers.

2.28 For those consumers who require access to credit, the Government aims to ensure that there is a well-functioning and sustainable consumer credit market which can meet the needs of all consumers, recognising that too often it is the poorest who pay the most for credit. At Budget 2018, the Government sought to ensure that all consumers could access affordable loans to meet their needs by announcing a package of measures to boost the provision of affordable credit. This included: the Affordable Credit Challenge Fund, a feasibility study for a no-interest loans scheme, and a prize-linked savings scheme. Over the past year, there has been significant progress in putting these policies into practice.

### Affordable Credit Challenge Fund

2.29 In 2019, the FCA reported that three million consumers used high-cost credit in the UK (excluding overdrafts).[10] These individuals are often declined by mainstream credit providers and turn to high-cost lenders as a quick and easy way to access the money they need. Payday lenders make the loan application process straightforward to understand through well-designed mobile interfaces and can often communicate decisions back to the customer within minutes. However, due to high interest rates and the potential for customers to quickly become trapped in a cycle of debt, these are not the right products for everyone or for every circumstance.

2.30 Credit unions, Community Development Financial Institutions (CDFIs), and other responsible and social lenders offer an alternative to high-cost lenders but, because of limited resources and often outdated technology, their ability to compete on speed and awareness lags behind their high-cost competitors. With this in mind, the Government launched the Affordable Credit Challenge Fund to try to tackle this issue.

2.31 This £2 million challenge fund, delivered through a partnership with the innovation charity Nesta, aimed to utilise the UK's world-leading fintech sector to help improve awareness of and access to affordable lenders through the development of innovative tech solutions. In October 2019, six finalists were chosen by an expert judging panel and each received £150,000 to develop the solutions they had proposed. Following this, three of the six partnerships were announced at the Spring Budget this year as winners of

10 'Alternatives to High-cost Credit Report', Financial Conduct Authority, July 2019.

the challenge and each received further funding of £200,000 to continue developing and scaling their solutions. The winners were chosen on the basis that their solutions are scalable and have the potential to be adopted by the wider affordable credit sector and support the customers they serve.

2.32 The winners of the challenge are:

- **Fair For You with EML Payments and Lending Metrics** who are developing a revolving credit facility for frozen food shops to help families impacted by food poverty during school holiday periods.
- **Police Credit Union with Credit Kudos** who are developing a loan model that dynamically reduces the interest rate when good financial behaviours are demonstrated. This reduces the initial risk on the credit union for accepting the borrower and incentivises the borrower to make positive changes to their finances.
- **Capital Credit Union with Nivo and Soar** who are developing an end-to-end mobile app to streamline and speed up joining, applying, engaging, and communicating with the credit union.

### Affordable Credit Challenge Fund Winner: Capital Credit Union with Nivo and Soar

When it comes to personal finances, customers increasingly want the process to be quick, easy and on-demand. However, for credit unions, often with limited resources, this is proving to be a difficult problem to address. That is why Capital Credit Union has partnered with two leading fintechs: Nivo and Soar.

The proposal that they are developing with funding from the Affordable Credit Challenge is an end-to-end mobile app designed to streamline a customer's experience with the credit union. This solution will make it far quicker and easier for customers to sign up, apply for loans, track their accounts, and communicate with the credit union than was previously possible through outdated back office systems or paper-based applications.

To achieve this goal, the app has several different tech features.

1. Member Onboarding: simple and easy download without any need for physical documentation.
2. Loan Application: easy and fast process to submit a loan and receive a decision.
3. Account Management: to keep track of savings and loans, make changes to payments, and keep in touch with the credit union.

By making these processes more efficient and engaging for the customer, Capital Credit Union hope to retain existing members and attract a whole new cohort of customers, helping people chose affordable credit options and supporting the credit union sector to thrive in the 21st century.

## No-Interest Loans Scheme

2.33 At the Budget in 2018, the Government also announced that it would undertake a feasibility study into a no-interest loans scheme in the UK. This followed the success of a similar scheme run by Good Shephard Microfinance in Australia. The Government has been examining the possibility of a no-interest loans scheme to help some of the most financially vulnerable access credit when they need it and welcomed the feasibility study conducted by London Economics which was published in March this year.[11]

2.34 The Government continues to work closely with stakeholders towards a pilot, recognising that this will require careful design and partnership working to ensure the scheme is appropriately targeted and can be sustainable over the long-term.

# Credit unions

## Prize Saver

2.35 Budget 2018 also announced plans to pilot a prize-linked savings scheme with credit unions. Based in part on the Save to Win model in the US, this is designed to build financial resilience for individual savers and increase awareness and membership of credit unions. The pilot launched in 15 credit unions across Britain in October 2019 and will run until March 2021. In December 2019, we ran our first Credit Union PrizeSaver draw and announced the first winners. The lucky saver who won the first £5,000 headline prize, a postal worker from London, opened one of the PrizeSaver accounts with participating credit union Commsave. As of October 2020, over 11,000 accounts have been opened, and over 300 lucky members have won various monthly prizes.

2.36 HM Treasury has appointed an external agency to evaluate the pilot's success in attracting new members and new savings to credit unions, to assess the long-term sustainability of the model for the sector to take forward.

## Changes to credit union legislation

2.37 To further support the credit union sector, at Spring Budget this year HM Treasury 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.

2.38 These changes will benefit consumers, particularly those who are at risk of financial exclusion, by enabling them to access a wider range of services through credit unions, who have a long track record of serving their

11 'Feasibility Study into the Viability of Establishing a No-interest Loans Scheme', London Economics, March 2020.

communities. They will also help to create a sustainable credit union sector for the future, ensuring that individuals continue to be able to access low-cost loans through credit unions for years to come.

## Fair4All Finance and Dormant Assets

2.39 The Government has also shown its commitment to improving the provision of affordable credit in its allocation of dormant assets funding to support financial inclusion.

2.40 Fair4All Finance was founded in February 2019 to support the financial wellbeing of people in vulnerable circumstances with support from the Department for Culture, Media and Sport and the Inclusive Economy Partnership. Initially funded by £55 million of dormant assets money for financial inclusion, its mission is to increase access to fair, affordable and appropriate financial products and services. Its initial focus is on addressing the problem of access to affordable credit by providing support and funding for the affordable credit market.

2.41 Fair4All Finance's Affordable Credit Scale-up Programme aims to meet a "10x challenge" of scaling the affordable credit sector to meet existing demand. The programme is designed to support sustainable growth of community finance organisations through a combination of investments, grants and capacity and capability development.

2.42 The Government will continue to work closely with Fair4All Finance over the coming year.

### Fair4All Finance's COVID-19 Resilience Fund

In April, Fair4All Finance launched a £5 million COVID-19 Resilience Fund, to allow affordable lenders to provide customers with appropriate forbearance and to ensure that the sector can emerge from the crisis in a resilient position and is capable of future growth. By July, it had committed around £3.1 million in grants to 23 responsible lenders. These organisations collectively lent around £100 million in the last year and serve 122,000 customers, meaning that this intervention has helped to preserve around 40% of capacity targeted at people in vulnerable circumstances in the affordable credit sector.

## Insurance

2.43 Adequate insurance is a vital tool for individuals to protect themselves from financial shocks throughout their financial lives, making its broad availability an important part of financial inclusion. As with access to affordable credit, the Government believes that consumers should be able to access suitable insurance at an affordable price whoever they are and whatever their needs may be. Over the past year, there has been a focus on improving access to insurance for older consumers and those with medical conditions who have faced significant difficulties in finding adequate and affordable insurance.

2.44 The FCA has found that consumers with pre-existing medical conditions (PEMCs), such as cancer, diabetes or mental health conditions, can have problems navigating the insurance market and finding travel insurance that provides cover appropriate to their needs. The FCA estimates that 11.2% of consumers are offered insurance with an exclusion for their PEMC, and 0.3% of consumers are declined insurance due to their PEMC.[12] It estimates where cover is offered, premiums can vary by as much as £600 per year for consumers with PEMCs.[13] As a result, consumers can end up travelling without insurance cover, cancelling trips, or paying significantly more for policies than they need to.

2.45 In February this year, the FCA published a policy statement including rules designed to improve the consumer journey by making it easier for consumers with PEMCs to find providers and products appropriate to their needs. [14] Firms must signpost consumers to a directory of specialist travel insurers in the following circumstances:

- When consumers are declined cover as a result 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
- The FCA have worked with MaPS to create a public directory that meets FCA requirements. This will help consumers with PEMCs navigate the market and find insurance appropriate to their needs.

2.46 Following the FCA's intervention, it is estimated that these consumers could collectively save between £6.8 million and £7.5 million per year.[15]

2.47 The Government and industry have also made progress improving access to insurance for older consumers who have historically struggled to find suitable insurance at an affordable price. In November 2019, the Government concluded a review of the Agreement on Age and Insurance, an agreement between Government and the insurance industry (the Association of British Insurers and the British Insurance Brokers Association), which aims to improve access to motor and travel insurance for older consumers. The agreement stipulates that insurers will refer consumers who cannot find insurance because of their age either to other insurers who can meet their needs or to an appropriate signposting service.

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12 'Consultation Paper: Signposting to travel insurance for consumers with medical conditions', Financial Conduct Authority', July 2019.

13 'Consultation Paper: Signposting to travel insurance for consumers with medical conditions', Financial Conduct Authority', July 2019.

14 'Policy Statement: Signposting to travel insurance for consumers with medical conditions', Financial Conduct Authority, February 2020.

15 'Consultation Paper: Signposting to travel insurance for consumers with medical conditions', Financial Conduct Authority', July 2019.

2.48 The Age Agreement has been successful so far, with over 700,000 enquiries having been made on BIBA's Find Insurance signposting service alone, with many more consumers referred on a firm to firm basis by ABI members.[16] The Government intends to review the Agreement in a further three years.

## Mortgages

2.49 It is important that the mortgage market remains open to competition. In line with this, the Government has been working to help those struggling to who cannot switch to a new deal, in some cases as a result of the tightening of regulations since the 2008 financial crisis to put an end to unaffordable lending.

2.50 In October 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. Lenders can choose to provide alternative mortgage options for consumers who are up to date with their mortgage payments and do not wish to borrow more money. Where an inactive lender (a lender that manages a mortgage book but does not offer new mortgage products) or an administrator for an unregulated entity (a firm that owns mortgage books but is not authorised for mortgage lending) has customers in this position, they must develop a communication strategy for informing borrowers in this position (who may be mortgage prisoners) of their options – including that there may be options offered by other lenders.

2.51 The FCA estimate that up to 14,000 borrowers would be eligible to switch under this change, making it a significant step in helping those borrowers struggling to switch access potentially cheaper mortgages. Some options are now available on the market for eligible borrowers, and lenders continue to develop these so further options are expected to be available by the end of this year.

## Fintech

2.52 In recent years, financial technology, or "fintech", has become a key part of the financial inclusion agenda. The fintech firms who are pioneering new innovations in financial services, are playing an increasingly important role in providing new ways of approaching old challenges by improving access to the latest innovative financial products and services to support consumers. Fintech can also deliver lower prices, increased choice, and a better service for customers, and the Government is keen to ensure that all communities across the UK are able to benefit.

2.53 Since 2010, the Government has worked hard to create an environment where fintech firms can flourish. By promoting competition and new entrants into financial services markets, a number of new players have been able to provide better digital banking offerings. Features of these products and services include spending and gambling blocks; more accessible financial

16 https://insurance.biba.org.uk/find-insurance

advice so consumers can make better use of their savings; and better ways to understand an individual's credit history so they can access suitable credit products.

2.54 The UK's world-leading approach to fintech has included the roll out of Open Banking, which provides a secure way for consumers to share their current account data, opening up a wide range of new and innovative products that better meet their needs. This includes better tracking of payments to stop customers becoming overdrawn, and smart debt repayment plans that can account for fluctuations in income. Over two million consumers are now using Open Banking, and a report last year estimated that consumers could gain up to £12 billion from Open Banking-enabled services, worth up to £230 per year for individuals.[17]

2.55 The Government is keen to harness the potential of fintech, as illustrated through the Rent Recognition Challenge in 2018, 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 securing a mortgage or other loan. The three winners of the challenge, CreditLadder, Bud and RentalStep, are now all using technology to verify and record tenants' rental payments. Since launching their rent recognition service, CreditLadder has recorded more than £250 million in users' rental payments. More recently, as described above, the Government has sought to harness fintech capability to support low-cost lenders through the Affordable Credit Challenge Fund.

2.56 The Government also welcomes the development of a digital sandbox pilot and data sprint, led by the FCA in collaboration with the City of London Corporation, which launched this year. This project will support the development of innovative solutions to tackle challenges following from the COVID-19 crisis. The digital sandbox will support industry by providing ready access to data sets, testing infrastructure and a collaboration platform, supporting the creation of new products and technology solutions. Some of the first set of use cases will focus on supporting the financial resilience of vulnerable consumers and preventing fraud and scams. The sandbox, and accompanying data sprint, will be well placed to broaden understanding of the medium-term challenges that consumers will be facing and further develop the use of financial technology as a financial inclusion product.

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

## Fintech Strategic Review

At the Spring Budget this year, the Chancellor invited Ron Kalifa OBE to lead a major review of the UK fintech sector, convening a taskforce of industry experts to identify recommendations for Government, regulators and industry. The Review will consider how the UK can continue to encourage competition, maintain an ecosystem that supports growing firms, and promote the integration of new technologies across financial services to the benefit of the consumer. The review will seek to make recommendations including on advancing a key objective of how best to create the conditions for continued widespread adoption of fintech solutions to benefit businesses and individuals.

# Chapter 3

# Improving Financial Capability and Resilience

## Financial Capability

3.1 The Government strongly believes in supporting individuals to improve their financial capability and resilience to ensure that they have the confidence to manage their money well and build up a safety net in the form of insurance or savings to deal with financial shocks throughout their lives, such as a loss of income or unforeseen expenses.

3.2 It is equally important for Government to provide support for those who do not have the benefit of such a safety net and who, for a variety of reasons, fall into financial difficulty and problem debt. Key steps that Government is taking here is to ensure the provision of free-to-access debt advice and to create a breathing space scheme to help individuals engage with their debts and give them the best possible chance to get back on a healthier financial footing.

3.3 Closely linked to financial inclusion, "financial capability" means the ability to manage money well. In practical terms, this means ensuring consumers are able to effectively and appropriately use products and services made available by the financial services industry.

3.4 Over the past year the Government has continued to focus on ensuring that people throughout the UK can access the support they need to have the confidence and skills to successfully engage with their finances throughout their lives, whether that be through free financial guidance or regulated advice. In particular, the Government have worked closely with the newly established MaPS to provide a high-quality and free financial guidance offering.

## The Money and Pensions Service (MaPs) and the UK Strategy for Financial Wellbeing

3.5 The Government aims to ensure that everyone across the UK is able to access the information they need to make the right financial decisions throughout their lives; from young people being provided with practical financial skills, to support for those who need later life financial planning and all of the life events in between.

3.6 MaPS was launched in January 2019, to simplify the existing public financial guidance landscape and to offer more holistic support to consumers across the UK, with a responsibility to provide free-to-access money and pensions guidance and debt advice.

3.7 In January this year, MaPS published a National Financial Wellbeing Strategy, which sets out five "agendas for change" to improve the UK's financial wellbeing over the next ten years.[1] This includes goals to increase the number of children and young people receiving financial education; encourage saving; reduce the use of credit to pay for essentials, and enhance access to affordable credit; increase the number of people receiving debt advice; and support people to plan for later life.

3.8 MaPS has set up a series of "Challenge Groups" comprised of leaders from the private, voluntary and public sectors, who have been tasked with drawing up impactful and innovative recommendations to achieve the 2030 National Goals set out in the UK Strategy for Financial Wellbeing. Their proposals will feed into delivery plans for each nation of the UK that are due to be published by MaPS in spring 2021.

## Financial Resilience

3.9 As well as having the confidence and ability to manage money well, it is also important that consumers have sufficient financial resilience to be able to manage short-term shocks to income or expenditure to help avoid these events causing them to fall into financial difficulty or problem debt. Having suitable insurance which provides cover for accidental or unexpected costs, or a solid foundation of savings, provide an important cushion for individuals and can prevent a short-term disruption turning into a longer-term problem.

### Help to Save

3.10 For all individuals, a rainy-day savings pot is vital, yet low earners are likely to find it more challenging to build up readily accessible savings, making them more vulnerable to sudden demands on their income, and more likely to fall into costly problem debt.

3.11 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, to put money aside for a rainy day. The Help to Save scheme was launched in September 2018 and is intended to support working people on low incomes and in receipt of certain benefits to build their financial resilience while also encouraging them to develop a regular, long-term savings habit.

3.12 Help to Save 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. By July 2020, over 22,000 people had opened accounts, saving over £85m in deposits. [2] In order to

1 'The UK Strategy for Financial Wellbeing: 2020-2030', Money and Pensions Service, January 2020.

2 https://www.gov.uk/government/statistics/help-to-save-statistics

ensure that the scheme benefits as many eligible people as possible, the Government will continue to encourage eligible individuals to open and save into Help to Save accounts over the coming year.

3.13 Help to Save's success will depend on how effectively it encourages a long-term savings habit among those who open accounts, beyond the life of the scheme, which is open for applications until September 2023. Therefore, it is important that there are continuing incentives for Help to Save customers to build on their savings once their accounts mature after four years, and that appropriate information and guidance is offered on the range of retail options available.

3.14 Customers will be encouraged to continue saving via other savings accounts once the Help to Save account matures. The intention is that all communications in the run up to maturity direct customers to a range of publicly available savings providers, including credit unions and building societies as well as high street banking providers. However, in cases where customers do not provide instructions on transfer at maturity, the Government is preparing legislation to enable Help to Save accounts to be transferred into a savings account with the National Savings Bank until the customer re-engages with their funds.

3.15 As more people have applied for Universal Credit during the COVID-19 outbreak, more people may therefore have become eligible to open a Help to Save account. These individuals will be able to continue saving into those 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 and the Junior ISA

3.16 It is important that young people are also encouraged to save and budget their money from an early age. The Government has therefore been encouraging eligible children and their parents to trace their Child Trust Fund (CTF) accounts from a scheme established in 2005, which provided eligible children born between 1 September 2002 and 2 January 2011 with a financial asset upon reaching adulthood. As the first accounts start to mature in September 2020, when the first children reach 18, the Government and its stakeholders are working together to encourage all CTF account holders to engage with their accounts and promote a continuing savings habit through financial education. To enable eligible children or their parents to locate their CTF, the online tracing service has been simplified for ease of access.

3.17 The successor to CTF, the Junior ISA (JISA), has grown steadily since its introduction in November 2011; around 954,000 Junior ISA accounts were subscribed to in 2018-19 up from 907,000 in 2017-18.[3] This will help to

[3] 'Individual Savings Account (ISA) Statistics', HM Revenue and Customs, June 2020.

provide the next generation with a solid financial foundation and resilience for the future.

# Helping People Out of Problem Debt

## Debt Advice Provision

3.18 Promoting financial inclusion and capability is crucial to protect consumers from falling into financial difficulty, but the Government also has a role to ensure vulnerable consumers are supported to manage their debts and return to a more sustainable financial footing. Alongside preventative action, the Government continues to work closely with the Money and Pensions Service as well as the wider free-to-client debt advice sector to provide access to high-quality debt advice that leads to lasting, positive outcomes for those in problem debt.

## Breathing Space and the Statutory Debt Repayment Plan

3.19 The Government wants to incentivise more people to access professional debt advice and to access it sooner, helping them to reach sustainable debt solutions. It also wants to provide debtors who engage with this advice with the headspace to find a debt solution by pausing creditor enforcement action, interest and charges.

3.20 The Government is working to implement Breathing Space, which will give people in problem debt access to a 60-day period in which interest and charges on their debts are frozen and enforcement action from creditors is paused. This includes debts owed to central and local government.

3.21 To ensure that breathing space works for vulnerable members of society, those receiving mental health crisis treatment will have access to the protections of the scheme but through different entry requirements. This reflects the fact that while this group could benefit from the protections in the standard scheme, they may face challenges in meeting the requirement to engage with debt advice in order to meet the eligibility criteria. This group will be able to enter a mental health crisis debt moratorium without engaging with debt advice. The policy protections will apply for the duration of their crisis treatment and then for a further 30 days. As mental health problems often recur, there will be no limit on the number of times that people receiving mental health crisis treatment may enter a moratorium via this mechanism, whereas debtors in the 60-day breathing space moratorium will only be able to access this once in each 12-month period.

3.22 The Government has continued to make positive progress with the development of breathing space this year and the scheme regulations have been approved by Parliament. This will allow the debt advice sector and creditors to prepare for the launch of the scheme for May 2021.

3.23 The second part of the scheme is the Statutory Debt Repayment Plan, a statutory agreement that will enable a person in problem debt to repay their debts to a manageable timeline with legal protections from the creditor for the duration of the plan. As set out in the June 2019 consultation response, the Government intends to implement the SDRP over a longer timeframe.[4]

3.24 The Government looks forward to working with a variety of stakeholders in the coming year to implement breathing space and the SDRP and providing further support to people in problem debt.

4 'Breathing Space Scheme: Response to Policy Proposal', HM Treasury, June 2019.