HM Government

Government response to the final report of the Lords Select Committee on Financial Exclusion

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Government response to the final report of the Lords Select Committee on Financial Exclusion

Presented to Parliament by
the Economic Secretary to the Treasury
by Command of Her Majesty

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Chapter 1
Introduction

1.1 The House of Lords appointed a Select Committee on 25 May 2016 to 'consider financial exclusion and access to mainstream financial services'. The Committee published a call for evidence in July 2016 and held 23 evidence sessions between July and December 2016.

1.2 The Committee published its final report, 'Tackling Financial Exclusion: A Country that works for everyone', on 25 March 2017. The report made 22 recommendations and focused on government leadership, financial services regulation, financial education and capability, access to financial services, credit and borrowing, and welfare reform.

1.3 The government is committed to working with industry, regulators, and charities to tackle financial exclusion and is grateful to the Committee for their detailed report and recommendations. The government has considered the Committee's recommendations carefully and addresses each recommendation in this response.

Chapter 2

Background

2.1 As noted in the Lords report, terms 'financial inclusion' and 'financial exclusion' began to be used in the early 1990s when they were applied by geographers concerned about bank branch closures and physical restrictions to consumers accessing banking services.[1] Since then, however, the terms 'financial inclusion' and 'financial exclusion' have been used to mean a variety of different things. On the one hand, these terms have continued to be used in relation to bank branch closures as well as the availability and affordability of useful products and services. On the other, the terms are now used to encompass a broad range of social issues, including financial capability and literacy, consumers' resilience to financial shocks, the cost of household bills and the operation of the welfare system.[2]

2.2 In its report, the Lords Ad Hoc Select Committee adopted an expansive approach to financial exclusion, addressing policy questions that range from the availability and affordability of useful financial services products to financial capability, household bills and welfare. As such, the Committee made recommendations to a number of different government departments and regulators, including HM Treasury and the Financial Conduct Authority (FCA) and the Departments for Work and Pensions (DWP), Education (DFE), Business, Energy and Industrial Strategy (BEIS) and Communities and Local Government (DCLG). The government recognises the work that has taken place in departments on the issues addressed in the Lords report and welcomes the Committee's recognition of the policy initiatives that have been delivered.[3] The government would also like to thank the Committee for drawing attention to problems consumers can face when accessing financial services. It is important that the consumers are able to engage with the financial services sector and the government welcomes the Committee's work to highlight the importance of banking services, affordable credit and the many other issues discussed in its report.

2.3 Given DWP's specific responsibilities for financial inclusion issues, including operational responsibility for the new Single Financial Guidance Body, this area has been given new prominence within the DWP ministerial team. At the same time, it is important that this change is seen in the context of HM Treasury's ongoing Government-wide policy responsibility for financial inclusion and exclusion, including for the manifesto commitment on 'Breathing Space', and

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[1] Lords Ad Hoc Select Committee on Financial Exclusion, 'Tackling Financial Exclusion: A Country that works for everyone' [hereafter 'Tackling Financial Exclusion'], 2017, p. 12.

[2] Toynbee Hall, 'Financial Inclusion and Financial Capability: What's in a Name?', 2011, pp. 1-6.

[3] 'Tackling Financial Exclusion', p. 23.

that the Minister for Pensions and Financial Inclusion and HM Treasury ministers will collaborate within this framework.

2.4 In thinking about these issues, the government believes it is important to define what is meant by the terms financial inclusion and financial capability. The government recognises that there is some overlap between these two terms, but thinks the distinction is useful for the purposes of this document and for broader policy leadership:

- **'Financial inclusion' means that individuals, regardless of their background or income, have access to useful and affordable financial products and services.** This definition is in line with the World Bank's definition of financial inclusion and contrasts with 'financial exclusion' where financial services and products are not available or affordable.[4] This definition is **supply-focused** and captures banking, insurance, pensions and savings products, credit, transactions and payment systems, and the use of financial technology.

- The Economic Secretary to the Treasury provides government leadership in financial inclusion and exclusion, as HM Treasury is the department responsible for the financial services industry and is the sponsor department for the industry regulator, the Financial Conduct Authority (FCA). HM Treasury works closely with the FCA and other government departments to ensure any work in this area is coordinated across government.

- **'Financial capability' means that people have the ability to manage their money well, and therefore captures people's ability to use, and maximise their use of, products 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.

- 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 DWP (which provides services to improve the capability of welfare claimants and will be the lead department responsible for the planned Single Financial Guidance Body), DFE (responsible for financial education in schools), DCLG (responsible for oversight of guidance and advice services provided by local authorities).

2.5 Regardless of definition, the government agrees with the emphasis the Committee's report places on the importance of leadership over the issues addressed in its report. However, the government disagrees with the Committee's conclusion that there has been insufficient governmental leadership since the Financial Inclusion Taskforce was disbanded. The government has taken steps to ensure that effective regulation is in place, to ensure that people have access to financial services, to help people build

[4] The World Bank defines financial inclusion as follows: 'Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way'. http://www.worldbank.org/en/topic/financialinclusion/overview

financial resilience and to ensure consumers have the information they need to make sound financial decisions.

Chapter 3

Financial inclusion

3.1 As mentioned above, 'financial inclusion' means that individuals, regardless of their background or income, have access to useful and affordable financial products and services. The government thinks that it is important to have in place a strong regulatory regime to ensure that markets are working well and that financial services products are available and priced appropriately. This is why the government legislated in 2012 to establish the FCA and why the government placed a requirement on the FCA to consider 'access' to financial services within its competition objective.

3.2 Under these objectives, the FCA have taken several steps to promote financial inclusion in recent years. This work includes studies and reviews of the cash savings and high cost-credit markets, as well as regulatory action such as a cap on payday loans.[1] The FCA has also worked with industry to highlight and address the problem of financial exclusion. In February 2015, the FCA published a paper on the way vulnerable consumers interact with financial services and, in January 2016, published a further paper on access to financial services.[2] In the area of financial technology, the FCA has hosted 'TechSprints' to bring together teams from the technology industry and across financial services to develop ideas or proof of concepts. The first of these focused on identifying potential solutions to improve financial inclusion and access to financial services.

3.3 Although important, the government is clear that a strong regulatory infrastructure alone is not sufficient to promote financial inclusion as defined above. Ongoing effort is required to ensure that government, the regulators and industry work together to ensure that products and infrastructures are in place and that emerging market failures restricting access are tackled. The government has a strong record in this respect and, working with the FCA, has taken a number of steps to enable improve **access to and the affordability of banking, savings products, insurance products**, **affordable credit** and **transactions and payment systems.** In addition, the government is committed to ensuring that the UK is an attractive place for **financial technology** firms to innovate and to create affordable products for consumers who might otherwise be financially excluded.

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[1] FCA, 'Cash savings market study report', MS14/2.3, 2015, available at https://www.fca.org.uk/publication/market-studies/cash-savings-market-study-final-findings.pdf; FCA, Call for Input: High-cost credit, including review of the high-cost short-term credit price cap', 2016, available at https://www.fca.org.uk/publication/call-for-input/call-input-high-cost-short-term-credit.pdf

[2] FCA, 'Consumer Vulnerability', Occasional Paper No.8, 2015, available at https://www.fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf; FCA, 'Access to Financial Services in the UK', Occasional Paper No. 17, 2016, available at https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf.

Banking

3.4 Access to a transactional bank account is key to enabling people to manage their money on a day-to-day basis effectively, securely and confidently – a hallmark of a financially inclusive society. This is why, in December 2014, the coalition government announced a new voluntary agreement with the nine largest personal current account providers in the UK to improve basic bank accounts - a product that had by that point already been in existence in the UK for over a decade. As a result of this agreement, from the start of 2016 the nine participating institutions have offered fee-free basic bank accounts which do not charge for failed payments and are available to those who are ineligible for a full service account and who are either: unbanked; banked elsewhere but seeking to switch provider; or who are in financial difficulty and require an additional account. The 2014 agreement also included a commitment by participating institutions to provide data to HM Treasury on basic bank accounts and personal current accounts, and a commitment by HM Treasury to publish information on basic bank account market share. This market share data was published by HM Treasury for the first time in December 2016 and will be published annually in the future.

3.5 The 2014 agreement was made in the knowledge that the requirements in the EU's Payment Accounts Directive (PAD) would apply to the UK from 18 September 2016. Under the Payment Accounts Regulations 2015 (PARs) - the regulations that implemented PAD in the UK - consumers legally resident in the EU who are either unbanked, or do not qualify for a bank's standard current account, have a right to open and use a basic bank account. At Budget 2016, the government designated the same nine participating institutions under the PARs as had been party to the 2014 agreement. As such, these nine institutions have been legally required to offer basic bank accounts, as defined in that legislation, to eligible customers since last autumn. At the same time, the government made clear in HM Treasury's December publication on basic bank accounts where government's broader expectations, for example on the visibility and accessibility of basic accounts, continued to apply.

3.6 Alongside basic bank accounts, the government recognises that bank branch closures can exclude consumers who find it difficult to use banking facilities online or over the telephone. The coalition government therefore worked closely with industry to reach an agreement to minimise the impact of bank branch closures, which was formalised under the industry-wide 'Access to Banking Protocol' in March 2015. Under the terms of the Protocol banks are committed to working with local communities to establish the impact of branch closures, find suitable provision to suit individual communities, and put satisfactory alternative banking services in place before a branch is closed. The BBA appointed Professor Russel Griggs to carry out an independent 'one year on' review of the Protocol, which was published in November 2016. It made a number of recommendations to improve how the Protocol operates, which the industry is in the process of implementing. This includes the recent replacement of the Protocol with the new Access to Banking Standard, which came into effect from 1 May 2017. The Standard commits banks to ensure customers are better informed about branch closures and the reasons for them closing, along with the options they have locally to continue to access banking services, including specialist assistance for customers who need more help.

3.7 The government has long recognised the importance of the Post Office branch network to those who require access to physical banking facilities. At Budget 2015 the government set out its expectation that the banking industry would agree to work with the Post Office to deliver a standard approach to counter services for bank customers with personal current accounts and business accounts in Post Office branches. Following commercial negotiations, in January 2017, the Post Office announced that it had reached a new agreement with the banks through which an estimated 99% of personal and 75% of business customers will be able to carry out their day to day banking at a Post Office. The new arrangement allows individual and small business customers to withdraw money, deposit cash and cheques and check balances at more than 11,500 Post Office branches in the UK ensures that essential banking facilities remain available in as many communities as possible.

Affordable credit

3.8 As well as banking services, access to affordable credit is an important pillar of financial inclusion and one that requires a functioning consumer credit market and a well-run regulatory regime. This is why, in April 2014, supervision of the consumer credit market transferred from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA). The FCA has a broad enforcement toolkit including the power to levy unlimited fines and this reform is therefore helping to deliver a well-functioning and sustainable consumer credit market which is able to meet consumers' needs and adequately protect borrowers.

3.9 Following the transfer of regulation to the FCA, the government legislated to require the FCA to introduce a cap on the cost of payday loans to protect consumers in that market from excessive costs. The cap came into force in January 2015 and, in November 2016, the FCA launched a Call for Input, which asked for evidence on the effect of the cap and initiated a broader review of the high-cost credit market, including overdraft products. The FCA published a feedback statement in July 2017, showing that the cap on payday loans has been successful. Consumers now pay less, repay on time more often and are less likely to need help from debt charities. Because of this, the payday cap will be maintained at the current level. In the wider high-cost credit market, the FCA identified specific concerns in Rent-to-own, Home-collected credit, and Catalogue credit. The FCA also identified issues in arranged and unarranged overdrafts. Having investigated these issues, the FCA will consult on any necessary intervention in spring 2018.

3.10 Credit unions are also important in ensuring that more people have access to affordable and responsible credit. The Government has supported this sector in a number of ways, including:

- by initiating the Credit Union Expansion Project aimed at helping the sector modernise and offer new services.
- the government has contributed £600,000 to an initiative developed by the Archbishop of Canterbury and Young Enterprise, to start savings clubs in primary schools and educate young children in the benefits of saving.

Lifesavers works with local credit unions to help run savings clubs in schools.

- in 2014, the coalition government increased the maximum rate of interest that credit unions can charge from 2% to 3%. This has helped credit unions become more stable and allowed them to offer reliable, affordable credit to consumers who may have had to resort to more expensive means.
- the government announced at Autumn Statement 2016 that, from 2018, a scheme which incentivises credit union membership in communities at risk of being targeted by loan sharks, will be expanded. This uses funds recovered under the Proceeds of Crime Act from convicted loan sharks.

3.11 The FCA has also carried out a review of the credit card market through its Credit Card Market Study. The FCA published the final findings in July 2016.[3] This concluded that while the market works well for most consumers, there were concerns about the scale and persistence of potentially problematic debt. As a result, the FCA is putting in place a package of remedies to address the concerns identified and ensure that credit card firms do more to help customers clear debt. This includes requiring firms to take escalating steps designed to encourage consumers to repay debt more quickly and avoid getting into persistent debt in the first place. The FCA is also requiring firms to offer forbearance to customers who are not able to repay their debt within a reasonable period. Further voluntary measures have also been agreed such as an industry voluntary agreement to give customers more control over credit limit increases. This will see the industry offer new and existing customers greater control over increases to their credit card spending limits.

3.12 The FCA has also carried out a review into how firms assess creditworthiness and affordability, including how consumers may be protected from taking on unmanageable debt. The FCA has consulted[4] on a number of changes to their rules and guidance on assessing creditworthiness in consumer credit. The FCA proposes to explicitly require consumer credit firms to make a reasonable assessment of whether customers can repay affordably without significantly affecting their wider financial situation. The FCA will publish a policy statement with final rules and guidance in the first half of 2018.

3.13 The government is also legislating to ban surcharging on credit cards and all retail payment instruments from January 2018, which will help ensure that there is transparency for consumers when using credit cards.

Savings

3.14 The government is committed to supporting people at all income levels and all stages of life to save, recognising the important role that savings can play in building financial resilience, promoting aspiration and supporting households' standards of living.

[3] FCA, 'Credit card market study', MS14/6.3, July 2016, available at https://www.fca.org.uk/publication/market-studies/ms14-6-3-credit-card-market-study-final-findings-report.pdf

[4] https://www.fca.org.uk/publication/consultation/cp17-27.pdf

3.15 The government has introduced a range of reforms to promote saving and ensure that the right incentives and products are in place to meet savers' needs - these include:

- the new Help to Save scheme will support working families on low incomes to build up a rainy day fund by offering a 50% bonus on up to £50 of monthly saving. As well as incentivising people on low incomes to save, Help to Save will promote financial inclusion by encouraging people to engage with formal savings products. Accounts will be available by April 2018.
- major reforms in recent years have made the ISA system more generous and flexible, while the introduction of the Personal Savings Allowance means 98% of adults in the UK have no savings tax to pay.
- the new NS&I Investment Bond went on sale in April 2017. This 3-year bond is available to everyone aged 16 and over and offers a market-leading rate of 2.2% on up to £3000 of savings. It will be on sale for 12 months in total, supporting savers who have been affected by low interest rates.
- the government has also introduced the Help to Buy and Lifetime ISAs to help people save for a house, and to help younger people get into the habit of saving and save flexibly for the long-term.
- under the Help to Buy: ISA first-time buyers are able to save up to £200 a month towards a home and receive a 25 percent bonus from government. The bonus is available on home purchases of up to £450,000 in London and up to £250,000 outside of London.
- under the Lifetime ISA, adults under the age of 40 are able to open and save up to £4,000 each year into a Lifetime ISA and receive a 25 per cent bonus from the government. Savings, including the bonus can be withdrawn from age 60, to put towards a first home, or if the saver is terminally ill.

3.16 In addition, the FCA is also undertaking a programme of work to improve the way the savings market works for consumers. In January 2015, the FCA published its Cash Savings Market Study, which found that competition in the cash savings market was not working well for many consumers.[5] In response, the FCA has introduced new rules and guidance to improve firms' methods of disclosing information to customers on savings accounts and their interest rates. The rules took effect from December 2016 and are designed to make it easier for customers to see what the interest rate is on their account and to place stricter provisions on firms to ensure customers are informed about cuts to their rates.

Insurance

3.17 Insurance can protect individuals from financial shocks, such as being burgled, crashing their car or something going wrong on holiday. It can therefore aid financial resilience by reducing the risk of consumers going into debt when something goes wrong. The government is therefore keen that consumers

5 https://www.fca.org.uk/publication/market-studies/cash-savings-market-study-final-findings.pdf

have access to suitable insurance products. Government and regulators' actions to date have focused on ensuring consumers have the right information available to help them shop around for the best products, and removing excessive costs from the system, such as through whiplash reform.

3.18 The government has not seen evidence to suggest that there is widespread exclusion from insurance markets. However, factors such as age, postcode, occupation and health can all have an impact on the availability, pricing and terms of policies. An insurer will make a decision about the terms on which they will offer cover following an assessment of the risks posed by an individual. This is usually informed by the insurer's claims experience and other industry-wide statistics.

3.19 With regards to age, consultations and research undertaken by the government, older people's representatives and the insurance industry have found that while motor and travel insurance is available to people of all ages, older people may find it difficult to find the products they require. In January 2016, the government agreed to continue a non-statutory agreement with the Association of British Insurers (ABI) and the British Insurance Brokers' Association (BIBA) to ensure that where an insurer cannot offer cover due to upper age limits on their policies, it will refer the customer to another insurer who can provide cover, or an appropriate signposting service. This agreement came into force in 2012 to improve transparency and access to insurance for older customers.

3.20 With regards to economic background, there are a range of reasons why general insurance may represent poor value for money for lower income households. For example, households with few high value goods may realise poor value in contents insurance which often carries relatively high excess levels. Some stakeholders have commented that pricing models, where premiums are often based monthly or annually, may not be well suited to those budgeting on weekly/monthly basis.

3.21 Regarding these pricing practices by a limited number of insurers,[6] the FCA are looking at how firms' pricing approaches and rating factors work in practice, as well as the drivers and the types of systems and data firms use to decide the final price to consumers. Following this work, they will consider whether, and what, further steps need to be taken in this market.

3.22 With regards to health, the FCA launched a call for evidence in June 2017, regarding the provision of travel insurance for cancer sufferers[7]. They have sought views of the challenges firms face in providing travel insurance for consumers who have, or have had cancer, and the reasoning for the

[6] In September 2016 the FCA published a Feedback Statement on their Call for Inputs on Big Data in retail general insurance. They proposed specific discovery work to look at pricing practices in a limited number of retail general insurance firms. This will ensure they can gain a better understanding of how these developments are affecting the market. The FCA will carry this out in 2017/18. They will look at how firms' pricing approaches and rating factors work in practice, as well as the drivers and the types of systems and data firms use to decide the final price to consumers. Following this work, the FCA will consider whether, and what, further steps need to be taken in this market

[7] On 20 June the FCA published a Call for Input seeking views on the challenges firms face in providing travel insurance for consumers who have, or have had, cancer. This follows the FCA's 2016 Occasional Paper on Access to Financial Services in the UK and forms part of the FCA's broader work on Access to Financial Services. For more information, see https://www.fca.org.uk/publications/calls-input/access-travel-insurance-cancer

differentiations in quoted premium prices. This is the first stage in the FCA's strategy to understand the issues facing vulnerable consumers accessing different financial markets, and the findings will also broadly apply to other pre-existing medical conditions. The FCA are due to report back in early 2018.

3.23 Where government has intervened directly in the market, it has been in response to specific market failures. Flood Re, for example, is an innovative policy solution designed specifically to tackle the prospect of homeowners being excluded from the home insurance market. The scheme ensures that homeowners at the highest risk of flood damage can access affordable flood insurance regardless of where they live, by formalising an implicit cross subsidy that has always existed between high and low flood risk properties. Householders continue to acquire their insurance in the usual way and, when they need to make a claim, continue to do so directly through their insurer. 60 insurers have signed up to Flood Re, representing 90% of the home insurance market. And since its introduction, four out of five householders with previous flood claims saw a more than 50% reduction in the price of available quotes.

Transactions and payments

3.24 Efficient, accessible and secure payment systems and services are essential to financial inclusion. In 2015 the government established the Payments Systems Regulator (PSR) to drive competition and innovation, and ensure that payment systems work well for those who use them. Since its launch, the PSR has taken a number of actions to improve access to payment systems for payment service providers. This increased access will lead to better outcomes for consumers through increased competition and decreased costs for users.

3.25 The PSR has also established a stakeholder Forum which looks at areas where the payments industry needs to collaborate to drive change. The Forum's User Needs working group has identified initiatives for the industry to push forward which could particularly benefit those who are traditionally financially excluded by giving users more control and flexibility over when and how they pay and enabling them to better manage unpredictable income streams. The PSR will continue to drive the Forum's progress on this front throughout 2017.

3.26 The PSR and the government are also working closely on the provision of cash in the UK. Cash remains extremely important to the day-to-day lives of many consumers in the UK – in particular to those with limited or irregular income. The government is engaging with the LINK ATM network and its members, including banks and Independent ATM deployers, to ensure that widespread free access to cash is maintained. The PSR is in regular contact with LINK to assess the potential effect of any developments on the provision of free-to-use ATMs in the UK and possible impacts on ATM users.

3.27 Cheques also remain an important form of payment in the UK, in particular to groups that could potentially become financially excluded due to the increasing primacy of digital forms of payment. In 2015 the government introduced legislation that allows banks to clear cheques using a digital image. The Image Clearing System for cheques launched with a phased roll-out on 30 October 2017. The Image Clearing System will enable banks to process cheques in a more efficient way, but will also ensure that customers continue to have the option to write and deposit cheques as they always have done. It will also enable banks to offer services such as paying in a cheque by digital image, which will allow customers with limited access to a physical institution to receive payment more easily.

Financial technology

3.28 Financial technology is a key part of the government's plan to ensure the UK remains an attractive place to conduct business. It also offers opportunity for firms to develop innovative products and increase access to financial services. The government is currently working closely with industry to implement the EU's second Payment Services Directive (PSD2) and to develop an Open Banking standard which will allow FinTech firms to use bank data to provide a range of value-added services to consumers by early January 2018. Both of these measures have the potential to create real opportunities for those who are financially excluded to access new services and products. These products could include more affordable lending solutions, as well as products to help consumers to track and manage their money and make payments.

3.29 The government also welcomes the FCA's efforts to encourage financial technology firms to create new products and services, including financial technologies that will enhance financial inclusion and financial capability. In particular, the FCA's Innovation Hub and Regulatory Sandbox are designed to help firms work within the UK's regulatory framework and to test new products. For example, through its regulatory sandbox, the FCA has helped firms test savings apps and to test services intended to align consumers' experience in bank branches with online and telephony services.[8] One technology provider has also partnered with DWP to determine the feasibility of making emergency payments using means other than cash or the Faster Payments Scheme. The payments platform will use block chain to allow DWP to credit value to a mobile device to transfer the value directly to a third party.

8 https://www.fca.org.uk/firms/innovate-innovation-hub/regulatory-sandbox

Chapter 4
Financial capability

4.1 'Financial capability' means that people have the ability to manage their money well, and therefore captures people's ability to use, and maximise their use of, products made available by the financial services industry. Government policy focuses on ensuring that consumers have the information they need to make financial decisions and have the confidence and skills they need to successfully engage with their finances.

4.2 In the UK, leadership in this area is provided both by government and by the Money Advice Service, which was set up by the Financial Services and Markets Act 2010 and was given statutory objectives to enhance the understanding and knowledge of members of the public of financial matters and the ability of members of the public to manage their own financial affairs. MAS provides the secretariat for the Financial Capability Board, a cross-sector group responsible for monitoring and aiding the implementation of MAS' 10 year Financial Capability Strategy.[1] The Financial Capability Board aims to understand financial capability in depth, to develop workable solutions based on evidence and to divide the work between various organisations to target different demographic groups.

Guidance and advice

4.3 In line with the approach to financial capability described above, the government is committed to ensuring that consumers are able to access the information, guidance and advice they need to make informed decisions about their finances. The government therefore sponsors the Money Advice Service, The Pensions Advisory Service (TPAS) and Pension Wise to deliver guidance and information on pensions, debt and broader money matters.

- MAS was set up as the Consumer Financial Education Body in 2010 to enhance people's understanding and knowledge of financial matters. The body was rebranded as MAS in 2011 and was given a statutory function to deliver debt advice in 2012. MAS now provides a comprehensive consumer-facing website, delivers helpline and webchat services for consumers, and works with and commissions partners to deliver financial capability programmes for adults and young people. In 2015-2016, MAS delivered 380,600 debt advice sessions through partners.

- TPAS was initially founded in 1983 as a charitable organisation called the Occupational Pensions Advisory Service. The organisation changed its name to the Pensions Advisory Service in 2005, and subsequently became a non-

[1] https://www.fincap.org.uk/about_the_board

statutory Executive NDPB sponsored by DWP in 2006. TPAS's core service is to provide information and guidance on matters relating to private pensions. It has a consumer facing website, provides helpline, email and webchat services for consumers seeking assistance with their private pension queries. In 2015-2016, TPAS handled 103,000 customer calls, and hosted 2.7 million sessions on its website.

- Pension Wise is a free and impartial government service that was launched in April 2015 to ensure that consumers were able to make the most of the new pension freedoms which came into effect at the same time. It provides guidance to people aged 50 years and over with defined contribution pension pots to help them understand their options for accessing their pensions savings. The requirement for government to deliver this guidance was legislated for in the Pensions Act 2015. Pension Wise guidance is delivered through online information and through structured appointments which are delivered by TPAS (via telephone) and Citizens Advice (face to face). In 2015-16 there were 1.7 million sessions on the Pension Wise website and 61,000 telephone and face-to-face appointments.

4.4 The government welcomes the work of these services and is committed to ensuring that free-to client, impartial guidance remains available to members of the public. In July 2017, the government therefore introduced legislation into Parliament to create a new financial guidance body. The new body will replace the Money Advice Service, The Pensions Advisory Service (TPAS) and Pension Wise and is designed to offer a simpler source of guidance, reducing duplication across the government's guidance services. The new body will also be required to support and co-ordinate efforts to improve financial capability by working with the industry, the devolved authorities and the public and voluntary sectors.

4.5 At the same time, the government recognises that regulated financial advice can help consumers to 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 how financial advice could work better for consumers. On 14 March 2016, FAMR published its final report, setting out a package of 28 recommendations to support the development of a market that provides consumers with affordable and accessible financial advice, at all stages of their lives.[2] In April 2017, FAMR published a progress report that concluded that all 28 recommendations have either been completed are on track.[3] For example, in early 2017 the government laid a statutory instrument to change the definition of financial advice for regulated firms. This change will come into effect from 3 January 2018 and means that regulated firms will be giving regulated advice only where they provide a personal recommendation. FAMR found that this new definition will give firms the confidence to give more help to their customers without fear of inadvertently crossing the boundary into regulated advice.

[2] FCA, HMT, 'Financial Advice Market Review: Final Report', 2016, available at https://www.fca.org.uk/publication/corporate/famr-final-report.pdf.

[3] FCA, HMT, 'Financial Advice Market Review: Progress Report', 2017, available at https://www.fca.org.uk/publication/corporate/famr-progress-report.pdf

Financial education

4.6 The government recognises that financial education is an important way to help young people prepare for the financial challenges they may face after they leave school. This is why all schools are required to teach a balanced and broadly based curriculum that promotes the spiritual, moral, cultural, mental and physical development of pupils, and prepares them for the opportunities, responsibilities and experiences of later life.

4.7 For instance, the new national curriculum, taught from September 2014, focuses on the essential knowledge so that teachers can design a wider school curriculum that best meets the needs of their pupils. The national curriculum made financial literacy statutory the first time, as part of the curriculum for citizenship education for 11 to 16 year olds. At the same time, it is important that schools have freedom to teach subjects or topics beyond the prescribed curriculum to ensure that children receive a rounded education. The slimmer national curriculum gives teachers far greater flexibility to innovate in how they teach, and to develop new approaches that will engage children in their education more effectively.

4.8 As part of its broader financial capability strategy, MAS also works with schools and parents to provide financial education programmes designed to improve the ability of young people to understand and manage money.

- the 'What Works Fund' is a £7 million evaluation fund set up to understand more about the most effective methods of improving financial capability, both for young people and other groups. Project delivery will take place throughout 2017 and early 2018 and a significant number of the projects funded will be working with children, young people, or families.
- MAS is also leading a joint pilot in Wales, which tests whether integrating financial education into existing parenting programmes equips parents with the skills they need to develop financially capable children. MAS expect to get final results from the evaluation of the programme by June 2018.
- MAS and the Education Endowment Foundation are co-funding a financial education pilot in schools. 'Maths in Context', delivered by Young Enterprise, has reached 12,000 students from September 2017 and tests whether teaching Maths GCSE using real world financial contexts improves students' educational attainment, and improves their financial capability. Final results from this randomised control trial are due in 2020.

Financial capability of welfare claimants

4.9 Finally, the government is committed to supporting welfare claimants to gain the skills and confidence they need to manage their money. This is why DWP introduced Personal Budgeting Support (PBS) to help claimants during the transition to Universal Credit. The provision provides a conversation with all claimants at their initial work search interview to gauge their potential support needs – this could include money advice with a mix of online, telephone and face to face support. Face to face services are currently offered through the local authority via Universal Support delivered locally.

4.10 In addition, DWP has been working in collaboration with the Money Advice Service to design and develop an online tool called Money Manager. This tool is targeted at claimants with light touch or moderate budgeting needs and offers an additional service to the existing budgeting support Universal Credit claimants can access. It has been designed to help Universal Credit claimants manage their money and provides free, impartial budgeting information and guidance for claimants, based on their personal circumstances. For example, Money Manager provides guidance on how to manage a monthly income and open/use a bank account; money-saving hints and tips; and signposting to other services. Claimants who have already used the tool have said that they found it helpful and user-friendly.

Next steps

4.11 The government would like to thank the Committee for exploring the issues associated with financial inclusion and capability and will continue to work closely with industry, the voluntary sector and the FCA to ensure that affordable and available financial services are products are available to members of the public, regardless of their background and income.

4.12 The government's responses to the Select Committee's individual recommendations are detailed below.

Chapter 5

Government response to committee recommendations

1. Leadership from government and proactive regulation

Recommendation 1

We recommend that the Government should appoint a clearly designated Minister for Financial Inclusion. The Minister should have lead responsibility for promoting financial inclusion and should be supported with appropriate resources to co-ordinate effectively work to address financial exclusion.

Recommendation 2

We recommend that the Government should set out a clear strategy for improving financial inclusion in the UK. The Government should lead and co-ordinate on the implementation and monitoring of this strategy. This should be one aspect of a wider Government strategy to address comprehensively the issue of financial exclusion.

Recommendation 3

We recommend that the Government should also provide an annual report of the progress made towards financial exclusion across the UK, with work on this led by the Minister for Financial Inclusion. The report should be presented to Parliament as a Command Paper. We recommend that the first such report should be presented to Parliament within 18 months of the publication of this Select Committee report.

5.1 The government is grateful to the Lords' Select Committee on Financial Exclusion for its work to highlight the problems consumers can face when accessing financial services. The government takes its role in addressing these issues seriously and is keen to highlight that significant progress has been made in recent years; the government has conducted a substantial body of work to increase the availability and affordability of financial services products and services to individuals, regardless of their background and income.

However, we recognise that there is more to be done and will continue to work across government, with industry, the regulators and third sector partners to address the important issues raised in the Select Committee's report.

5.2 Given DWP's specific responsibilities for financial inclusion issues, including operational responsibility for the new Single Financial Guidance Body, this area has been given new prominence within the DWP ministerial team. At the same time, it is important that this change is seen in the context of HM Treasury's ongoing Government-wide policy responsibility for financial inclusion and exclusion, including for the manifesto commitment on 'Breathing Space', and that the Minister for Pensions and Financial Inclusion and HM Treasury ministers will collaborate within this framework.

5.3 A key part of the government's approach to tackling issues of financial inclusion requires relevant departments to work collaboratively. In order to ensure that matters of financial inclusion are considered in the round, **the government has decided to set up a new Financial Inclusion Policy Forum which will enable ministers to take strategic, cross-government approach on action to improve financial inclusion.** The Forum will be co-chaired by the Economic Secretary and the Minister for Pensions and Financial Inclusion. Ministers from other relevant government departments (such as the Department for Education, Department for Business, Energy and Industrial Strategy and the Department for Culture, Media and Sport) will be invited to attend where there are matters of particular departmental interest. The Forum will also have representatives from the financial services regulators, industry and consumer groups (including from the Financial Inclusion Commission) in order to maintain an open and constructive dialogue. The Forum will meet formally on a biannual basis.

Recommendation 4

We recommend that the Government should expand the remit of the FCA to include a statutory duty to promote financial inclusion as one of its key objectives. Government leadership of the financial inclusion agenda must be supported by proactive regulation. At present, the work of the FCA in this field is limited by the objectives defined in its statutory remit.

5.4 The role of the FCA is clearly of vital importance in addressing financial inclusion. The FCA has one strategic objective – to ensure that the relevant markets function well – and three operational objectives – to secure appropriate protection for consumers, to protect and enhance the integrity of the UK financial system, and to promote effective competition in consumers' interests. The government believes that these objectives provide significant opportunity for the FCA to proactively support government leadership of the financial inclusion agenda, and, therefore, that an additional objective is unnecessary. The FCA has already taken several steps to promote financial inclusion using its current objectives, as set out below.

5.5 First, to pursue its strategic objective of ensuring that relevant markets function well, as well as its operational objective to protect and enhance the integrity of the UK financial system, the FCA often work to fix markets through convening powers – bringing together firms to resolve an issue without the use of formal regulatory tools. A key example of this are 'TechSprints', which are held over two days and bring together teams from the technology industry and across financial services to develop ideas or proof of concepts. The first of these events focused on identifying potential solutions to improve financial inclusion and access to financial services.

5.6 Second, during the passage of the Financial Services Act in 2012, the government made clear that the FCA must have regard to the experience and expertise of different consumers when advancing its **consumer protection objective**. This gives the FCA the mandate to design a regime that takes into account the needs of the most vulnerable or marginalised, who may need extra help or protection. In their Mission document published in April, the FCA stated that they "give more protection to consumers who are likely to have lower levels of financial capability, compared to those with more capability". Additionally, the FCA have published two Occasional Papers to stimulate interest in this space – the first (in January 2015) focused on vulnerability, and the second (in May 2016) focused on access and inclusion throughout retail financial services.

5.7 Finally, the FCA's **competition objective** states that, in considering the effectiveness of competition, it may have regard to 'the ease with which consumers who may wish to use [financial] services, including consumers in areas affected by social or economic deprivation, can access them'. This provides an additional channel through which the FCA can address issues of financial inclusion. Beyond this, the FCA also has a public sector equality duty derived from the Equality Act 2010, which requires them to publish 'equality objectives' and data relating to the FCA's performance in the area. One of these objectives focuses on consumer access and insight, where the FCA commit to considering the accessibility of their systems and services and the impact of their policies and processes on different groups of the UK population.

Recommendation 5

We recommend that the Financial Services and Markets Act should be amended, in order to introduce a requirement for the FCA to make rules setting out a reasonable duty of care for financial services providers to exercise towards their customers. Such a duty will promote responsible behaviour on the part of business and support sound financial decision-making by customers.

5.8 There are many different views on the merits of introducing a duty of care obligation, and its advantages and disadvantages. The FCA, in its Mission document published in April and in its response to the Committee's report sent to Baroness Tyler of Enfield in June, committed to publishing a discussion paper which will explore further the issue of a duty of care.[1] The government welcomes this debate, and would encourage firms, consumers and any other interested stakeholders to respond to the public consultation on the discussion paper when it is published by the FCA.

2. Financial education, advice and capacity building

Recommendation 6

We recommend that financial education should be added to the primary school curriculum. This measure alone, however, will not be sufficient to enhance the level of financial education provision in schools; experience since the 2014 addition of financial education to the statutory secondary school curriculum in England suggests that additional measures are necessary.

5.9 Schools have an important role to play in providing young people with knowledge and understanding to prepare them to play a full part in society as responsible citizens. Education on financial matters helps to ensure that young people are well prepared to manage their money well, make sound financial decisions and know where to seek further information when needed.

5.10 Mathematics provides young people with the knowledge and financial skills to make important decisions about mortgages, loan repayments, the importance of personal budgeting, money management and financial risks.

5.11 We have introduced a rigorous new mathematics curriculum and new qualifications to match the expectations set in the highest performing education systems in the world such as Shanghai and Singapore. In 2015, a larger and more challenging mathematics GCSE was introduced. It requires more teaching time and has a greater focus on ensuring that every student masters the fundamentals of mathematics, including calculation, ratio and proportion.

5.12 Mathematics has been the most popular A level subject since 2014, overtaking English. Since 2010, there has been a 25.6% increase in the proportion of entries to mathematics A level qualifications overall. This demonstrates that the government's investment in supporting maths education is having an impact.

5.13 In 2014, for the first time, financial literacy was made statutory within the national curriculum as it is now taught as part of the citizenship curriculum for 11 to 16 year olds. Pupils are taught the functions and uses of money, the importance of personal budgeting, money management and the need to understand financial risk. The national curriculum for mathematics has also been strengthened to give pupils from 5 to 16 the necessary maths they need to make important financial decisions.

5.14 A number of schools also include the teaching of financial education in their Personal, Social, Health and Economic Education (PSHE) provision. Although

[1] FCA, 'Our Mission 2017: How we regulate financial services', April 2017, available at https://www.fca.org.uk/publication/corporate/our-mission-2017.pdf

PSHE is currently a non-statutory subject, schools are encouraged to include it in their school curriculum and they can teach financial education as part of their PSHE provision if they wish, drawing on available resources such as the PSHE Association's non-statutory programme of study. The Department for Education is currently considering the case for making PSHE mandatory, alongside work to make Relationships Education in primary and Relationships and Sex Education in secondary compulsory in all schools. We will provide details of the engagement process that will inform this work shortly.

5.15 There are a significant number of organisations successfully delivering financial education in many schools, as well as providing training and resources for teachers. Organisations such as the Association for Citizenship Teaching, MyBnk and PFEG – the Personal Finance Education Group - already have significant reach into schools and, by aligning their work closely with the existing programme of study, have been able to improve understanding of this topic.

5.16 The government has no plans to review the national curriculum or to add more subjects for primary schools; however, we know that many primary schools already make provision for Citizenship education. To support primary schools, the DfE published non-statutory programmes of study for Citizenship in February 2015, which provide that at key stage 1 pupils should be taught about the use of money as part of everyday life. At key stage 2, schools should help pupils to develop confidence and responsibility, including teaching them to look after their money and realise that future needs are met through saving. In addition, the revised maths curriculum for primary schools places a much stronger emphasis on the essential arithmetic knowledge that underpins calculations with money and percentages and calculators will be removed from Key Stage 2 tests to improve written and mental arithmetic.

5.17 Although the Government appreciates the reasons why groups and individuals would wish for the Department of Education to more directly prescribe lesson content, we believe that schools should have the freedom to decide how they wish to teach the topic of financial education to meet the needs of all their pupils. Teachers are encouraged to develop their approach using their own teaching expertise and subject knowledge, drawing on sources of specialist advice.

5.18 This approach has led to improvements in performance across the curriculum and in relation to the other parts of the United Kingdom, the latest analysis from the Programme for International Student Assessment (PISA)[2] carried out by the Organisation for Economic Co-operation and Development (OECD) showed that students in England and Northern Ireland scored 493 points in mathematics, on average, and students in Scotland scored 491 points – all comparable to the OECD average. Students in Wales scored 478 points, below the OECD average.

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2 http://www.oecd.org/pisa/PISA-2015-United-Kingdom.pdf

Recommendation 7

We recommend that the Ofsted Common Inspection Framework should be updated to more explicitly address the extent to which schools provide young people with financial knowledge and skills. Such a measure will help to ensure that schools attach an appropriate degree of priority to financial education and learning.

5.19 Although, as noted in the report, Ofsted does not place a focus on individual subjects within inspections, the curriculum is an important consideration in the assessment of a school's leadership and management. Inspectors judge the extent to which leaders, managers and governors successfully plan and manage programmes, the curriculum and careers advice so that all pupils get a good start and are well prepared for the next stage in their education, training or employment. Inspectors also look for evidence that, where relevant, English, mathematics and other skills necessary for pupils to function as economically active members of British society are promoted.

5.20 The curriculum is one of HM Chief Inspector's priority areas for this year and is the focus of her first major thematic review. The review, which covers early years, primary and secondary schools, and colleges, is looking at what makes a good curriculum. The review will inform thinking about any changes that might be required to inspections in the future.

3. Financial exclusion and vulnerable groups

Recommendation 8

We recommend that the Government and regulators should work together to develop an approach to promote further innovations in the provision of online and mobile banking services to older people. The central objective of this initiative should be to develop new platforms and apps that can simplify access, security and interface in an age-appropriate way, while maintaining the high level of integrity and security required to reassure and encourage take-up among the older age group.

5.21 The government recognises the importance of enabling and broadening access to financial services among older people. Issues regarding access and vulnerability are at the core of the FCA's Mission and Business Plan - with the FCA due to undertake a number of projects to understand better the concerns of vulnerable groups, including ageing consumers, and the barriers to accessing these services.

5.22 The government welcomes the FCA's two pieces of in-depth research, carried out in 2015 and 2016, which has supported the development of current initiatives to address access issues.[3] The government expects the successful

[3] FCA, 'Consumer Vulnerability', Occasional Paper No.8, 2015; FCA, 'Access to Financial Services in the UK', Occasional Paper No. 17, 2016.

launches of the TechSprint events - bringing together financial services and technology firms - to bring positive developments in innovative products to improve access.

5.23 In September 2017, the FCA published an Occasional Paper outlining findings of its Ageing Population Project[4]. The paper reviews the policy implications of an ageing population and the resulting impact on financial services. The FCA highlight risks to older consumers, who are more likely to be vulnerable than other groups. To try and minimise harm, they have suggested three areas for financial services firms to give greater consideration to as part of how they treat older consumers: product and service design; customer support; and continuously reviewing and adapting strategies to keep pace with demographic changes. The government welcomes the findings of this paper, and believes it can support further innovations in the provision of financial services to older people.

Recommendation 9

We recommend that the government should work with the financial services industry and the FCA to develop and introduce a wider range of 'control options' for those customers who may experience mental health problems. Such options would allow people to opt in voluntarily to a series of controls which limit the potential for financial harm

5.24 The government recognises the detrimental impact that financial difficulties can have on the recovery and outcomes of people with mental health problems. Through the Improving Access to Psychological Therapies (IAPT) Programme, the government is investing in expanding access to psychological therapies which can address mental health problems such as anxiety and depression – common symptoms of people experiencing financial difficulties.

5.25 In January, the Prime Minister set out a range of measures to improve mental health services. The government aims to work with various stakeholders in the credit and banking sectors, debt advice organisations and the primary care sector to highlight the impact of financial services issues on the recovery and outcomes of people with mental health problems. One of the first actions being completed is a review of the practice of GPs charging mental health patients, who are in financial difficulty, to complete evidence forms for creditors.

5.26 The FCA have also increased their focus on people with mental health problems through their wider work on vulnerable consumers. In partnership with the Money and Mental Health Policy Institute, the FCA held a 'TechSprint' on the theme of mental health on 14 and 15 March 2017. Teams from across industry – including over 100 developers and mental health and technology experts – were challenged to develop technology tools and concepts to solve the link between mental health and financial difficulty.

[4] FCA, "Ageing Population and Financial Services', Occasional Paper No.31, 2017.

5.27 Many of the ideas developed at the 'TechSprint' were 'control options' focused on encouraging people to continue to manage their own finances, whilst putting in place safeguards to help them when they need it most. One idea was for those suffering from mental health problems to designate a buddy or guardian who could be asked by a bank to check unusual activity or verify a purchase. Other ideas looked at budgeting solutions, where users could more easily look at and understand what they spend on and when. The government welcomes the continued industry engagement that the FCA are facilitating in the mental health space.

Recommendation 10

We recommend that the Government, working with the FCA and the British Bankers' Association should carry out a review of reasonable adjustment practices for disabled customers. The review should identify areas of good and bad practice, as well as areas where current provision needs to be improved. The initial review should be published within 18 months of the publication of this Select Committee report. Subsequently, and within the lifetime of this Parliament, a timetable identifying target dates for the delivery of improvements should be set out, monitored and implemented.

5.28 The government supports the work of the FCA in working to understand how the firms it regulates address the needs of vulnerable customers. As a first step towards developing its evidence base, the FCA has published its Financial Lives Survey on 18 October. This is the first of an annual large scale survey (13,000 adults) which is designed to show how the financial circumstances of consumers, and their use of financial products, change over their lifetimes. The FCA also published its 'Consumer Approach' document on 6 November 2017. This sets out the FCA's vision of a well-functioning market for consumers and its strategy for achieving this, which includes regulating for vulnerable and excluded consumers.

4. Access to financial services

Recommendation 11

We recommend that the Government should require banks to promote their basic bank accounts appropriately and effectively, both in store and in advertising. In evaluating the ongoing rollout and uptake of basic bank accounts, the Government should address the concerns expressed to us that not all banks are issuing an equivalent proportion of these accounts, and that the cost burden of offering the accounts is not shared appropriately across the sector.

5.29 The government agrees that banks and building societies should promote their basic bank accounts appropriately and effectively, both in-branch and on-line. In March 2016, the then Economic Secretary wrote to the institutions that had been designated under the Payment Accounts Regulations 2015 (PARs) to clarify the government's broader expectations, including that basic bank accounts should be visible to potential customers alongside other personal current accounts. A copy of this letter was published as part of the Treasury's publication of basic bank account data in December 2016, available to view at: https://www.gov.uk/government/publications/basic-bank-accounts-january-to-june-2016.

5.30 The Treasury monitors firms' basic bank account offerings and will continue to engage with industry to ensure that this expectation is met. In addition, the Payment Accounts Regulations 2015 place a duty on the Money Advice Service to 'endeavour to raise awareness among consumers' about the availability, pricing, access arrangements and right of complaint with regards to basic bank accounts.

5.31 In support of those obligations, the Department for Work and Pensions has been working in collaboration with the Money Advice Service to develop online support on money matters ('Money Manager') which provides information on a range of financial products, including support on how to open and access a bank account. The Department for Work and Pensions is also working with the Treasury and the banking industry to produce information about Universal Credit for bank branch staff with the aim of supporting Universal Credit claimants to access the support they need in opening a transactional bank account.

5.32 The government believes it is right that consumers should be able to choose the basic bank account provider that most suits their needs. In order to improve transparency, the Treasury publishes data on firms' basic account market shares annually. The first publication took place in December 2016 and included a set of key data on the stock of firms' basic accounts. The next publication is due at the end of this year and will cover the period July 2016 to June 2017. The government will maintain the criteria set out in the PARs for the designation of banks that are required to offer basic bank accounts. These criteria include a firm's geographical coverage, its distribution of consumers within the UK and its share of the UK's payment account market.

Recommendation 12

We recommend that the annual report which we have proposed in recommendation 3 should contain updates on the rollout of electronic identification for bank accounts—particularly in regard to the success of bringing previously unbanked people into the banking system. The annual report should also provide an update on the level of acceptance by banks of Universal Credit and other non-standard but legally sufficient identity documentation.

5.33 At Autumn Statement 2016 the government announced that it had agreed with the Joint Money Laundering Steering Group (JMLSG) that they would update their guidance on electronic ID verification to support the use of technology to access financial services. The JMLSG consulted between March and May 2017 on its proposed revised version of the guidance notes, which has now been published following the introduction of the new Money Laundering Regulations on 26 June 2017.

5.34 The government had previously agreed with basic bank account providers that Universal Credit award letters could be used as a form of identity verification. In light of the ongoing national rollout of the full (digital) Universal Credit service, the Department for Work and Pensions is currently working with the banking sector to enhance the new Universal Credit online payment statement so it can also be used to support opening a bank account.

Recommendation 13

We recommend that the Government work proactively with the Post Office and banks to fund and launch an extensive public information campaign on the banking services that are available through Post Office branches. The Government—as sole shareholder in Post Office Ltd—should also ensure that the Post Office provides adequate training for staff at branches within retail outlets, so that they can carry out banking services for customers with confidence and competence.

5.35 The government agrees that, while awareness of banking services available at all Post Offices is increasing, more can be done to promote public awareness to ensure that the full benefits of the landmark agreement reached between the banks and the Post Office in January 2017 are fully realised. Early stage discussions between the Post Office and the banking industry have already taken place to discuss how they can work most effectively together to take this recommendation forward.

5.36 To facilitate confident and competent service provision to banking customers, all newly appointed Postmasters, Agents and Directly Managed Post Office branch staff already complete banking transaction training as part of their on-boarding programme and have access to refresher training as appropriate. Across all 11,600 branches that provide banking services, the training covers all aspects of skills and processes required effectively to perform banking transactions at post offices.

5.37 The new banking framework supplements this training offer by replacing extensive manual processes with simple automated ones. This enables a greater consistency of processing for counter staff, as well as providing customers from a wider range of banks a greater consistency of service. The Post Office regularly conducts over 500,000 daily banking transactions at very high levels of customer service and is committed to the ongoing training and process efficiency that will ensure this continues to be the case as volumes increase with greater public awareness.

Recommendation 14

We recommend that the Government should ensure that non-digital access to social security benefits, and other services, remains possible. Access via free telephone lines, and through face-to-face meetings where appropriate, should remain available indefinitely.

5.38 The expression “digital by default” was intended as a transformational challenge to government and has had the intended impact in many areas with quick and easy access to online services in many departments. However, the Department for Work and Pensions (DWP) has always acknowledged that a “digital only” approach will not work for a number of our claimants.

5.39 The Department believes that we should encourage users to digital channels where appropriate and particularly where that provides them with a better experience as well as improving operational efficiency. A number of DWP’s benefits do now have a digital service offer, benefitting many claimants, but the department has consistently recognised that this will not be appropriate for all whom we support. That is why the department offers a range of application channels across its benefits including face to face, paper applications and telephone. DWP has no plans to end these alternative channels.

5.40 Our most comprehensive digital service is the Universal Credit service for all claimant types which is currently being rolled out across the country. In that service, the ability for those who need it to make and maintain a claim via the telephone or via a face to face home visit has recently been enhanced and more work will be done on this before the further expansion of the service.

5. Financial exclusion, credit and borrowing

Recommendation 15

We recommend that regulations to limit and manage the negative impact of unarranged overdraft charges should be introduced. The potential for such regulations should be assessed as part of the ongoing FCA review into high-cost credit.

Recommendation 16

We recommend that the Government provide all necessary assistance, including legislation where needed, to further combat financial exclusion caused or exacerbated by high-cost credit. We believe that the FCA review of the wider high-cost credit sector should consider seriously the potential value of further regulatory action. Regulations should be put in place in other parts of the high-cost credit sector, particularly the rent-to-own sector; we hope that the FCA review will give full consideration to this possibility.

5.41 The FCA committed to review the payday price cap in the first half of 2017. The FCA extended that review to high-cost credit more widely, including overdrafts. In its July 2017 Feedback Statement, the FCA announced that the payday cap would be maintained at its current level. The FCA also stated that it would consider fundamental reform of unarranged overdrafts. The review will now look in more detail at the wider high-cost credit market from a consumer protection as well as a competition perspective, using The FCA’s full range of powers. This will enable the FCA to consider whether further policy interventions are needed, and whether these should be more consistent across the high-cost credit market than they are at present.

5.42 The government will continue to engage closely with the FCA to understand the issues in this market, and to ensure that it has the right set of tools to address problems in the market and take appropriate action.

Recommendation 17

We recommend that the Government should expand the scope of products that credit unions can choose to provide to their members and, where appropriate, should amend the rules under which credit unions operate in order to enable them to take up these opportunities.

5.43 The government is committed to building an economy that works for everyone and credit unions play a key role in this by offering affordable, responsible credit to underserved communities.

5.44 In response to the government's 2014 Call for Evidence on the future of credit unions, the government committed to consider potential legislative changes in the previous Parliament that would help the sector grow and thrive. The government remains committed to supporting the sector and will continue to work with interested stakeholders to achieve this.

5.45 However, it is important to consider any changes carefully to avoid unintended consequences, such as bringing smaller credit unions into regulation that might not be proportionate.

5.46 Alongside this, the government is also keen for the sector to look for further opportunities to grow within the existing regulatory framework by exploring opportunities for collaboration within the sector.

Recommendation 18

We recommend that the Government funding provided to the sector should take the form of repayable, long-term investment capital rather than grant funding for ongoing expenses—following the pattern of the successful Financial Inclusion Growth Fund. We also recommend that the Government should work with representatives of the banking and credit union sectors to develop proposals to increase the lending, at reasonable rates, of investment capital to credit unions.

5.47 The government recognises the importance of long-term investment capital for all businesses, including credit unions, in helping them to maximise their potential.

5.48 The government therefore supports any measures that help credit unions attract more long-term investment, helping them to boost their capital base and subsequently issue more loans.

5.49 As was made clear in the response to the government's Call for Evidence on the future of credit unions in 2014, the government does not intend to provide revenue support to credit unions. This approach has been tried in the past and risks offering support for unsustainable business models which will then struggle to survive, once the support is ended. The government will only consider grant funding in relation to specific outcomes.

5.50 The government is supportive of increasing the level of long-term investment capital into credit unions and welcomes the role played by some private sector companies in providing this.

6. Welfare reform and financial exclusion

Recommendation 19

We recommend that the Government abolish the seven-day waiting period at the start of a Universal Credit claim; the waiting period contributes to sometimes lengthy delays in claimants receiving their first payment. These delays put claimants at significant risk of falling into arrears.

5.51 The Government understands the Committee's concerns about the seven day waiting period in Universal Credit. We recognise that it can be difficult for people who serve waiting days because there is an extra week to wait until their first payment. We are working hard to ensure that payment is made on time and the latest published Departmental statistics for week commencing 19 June show that some 76% of cases were paid in full at the end of the first assessment period.

5.52 The Government accepts it has a duty to provide available support for those who may find themselves in financial difficulty during the period they are waiting for payment so a package of support has been developed to help them.

5.53 This includes personal budgeting support and access to specialist help on money matters for all new Universal Credit claimants. For claimants who are in financial need and can't manage until their first payment, an advance of benefit can be quickly accessed during the waiting period and paid to those who qualify. Alternative payment arrangements (APA) can also be considered where appropriate for people with significant budgeting difficulties or high levels of rent arrears.

5.54 To ensure we provide a vital safety net for vulnerable people and people who are unlikely to have earnings or resources to fall back on, DWP has put in place exemptions for a number of groups from serving waiting days. In particular this includes people who are terminally ill, victims of domestic violence, care leavers, 16-17 year olds without parental support, and prison-leavers as well as people moving onto Universal Credit from legacy benefits and those who have been in receipt of Universal Credit within the previous six months.

5.55 We feel these exemptions together with the personal budgeting support, availability of advances of benefit and alternative payment arrangements should ensure that waiting days do not place people into hardship and for these reasons are not persuaded of the strength of the case to remove them.

Recommendation 20

We recommend that the Government should allow for greater flexibility in the frequency of Universal Credit payments in England and Wales so that, where monthly payments would contribute to a claimant's financial exclusion, payments can be made twice-monthly, as will be possible in Scotland and Northern Ireland. This could be on the basis of a DWP decision-maker decision or on the basis of a Trusted Partner scheme with local authorities or social landlords.

5.56 The Government does recognise that the move to a single monthly household payment is a significant change, especially for vulnerable claimants. That is why the flexibility already exists in England, Scotland and Wales to put in place alternative payment arrangements, including more frequent payments such as twice a month, for claimants who struggle to manage monthly payments.

5.57 It's worth noting that, alongside the actual alternative payment arrangements, there are a number of other kinds of help and support as part of the Personal Budgeting Support Strategy. This is delivered in conjunction with local authorities and third sector providers through Universal Support. In particular, DWP has worked closely with the Money Advice Service who are experts in the debt and budgeting sector. The products and services include guidance and support on money matters, which are available face to face or by phone, and the new online 'Money Manager' tool which is intended for people with less severe budgeting issues and who wish to check their own situation in private. 'Financial Products' is a package which aims to ensure that claimants have access to suitable transactional accounts (such as bank, building society or credit union accounts), or other financial products and DWP has also altered administrative processes around payments for the most vulnerable and those in urgent need.

5.58 Furthermore, DWP is considering how best to expand the current Universal Support scheme to cover a wide range of complex barriers that ultimately lead to worklessness, including addiction, problem debt, homelessness, lack of basic skills and a history of offending. Expanded Universal Support aims to address these barriers by encouraging a system of joined-up services at a local level, addressing individual or household issues in an holistic manner and thereby supporting and enabling people to move closer to the labour market or in to sustainable employment.

5.59 When administering APAs the Universal Credit Agent acting on behalf of the Secretary of State makes the decision taking account of numerous factors and always in the best interests of the claimant. APAs are considered for those claimants who will find it difficult to manage the single monthly payment and as a result there is a risk of financial harm to the claimant or their family. It is an integral part of the policy that Work Coaches maintain an on-going conversation with claimants about their financial capability and will refer them for personal budgeting support with the goal of preventing the need for an

APA or removing it after a period of adjustment, working towards greater financial independence where possible.

5.60 As suggested in the recommendation, DWP has in place arrangements whereby partner organisations such as social landlords can notify us when a claimant is vulnerable and needs an alternative payment arrangement. The Trusted Partner scheme plays a key role in identifying the claimants who need support and helping them in managing their finances and moving to monthly payments over time where possible. Following a successful pilot, DWP will now be rolling out this scheme together with the landlord portal, in tandem with the rollout of the Universal Credit Full Service. DWP will start with the largest landlord groups, in order to ensure the highest possible number of tenants are able to benefit from the schemes, as early as possible.

5.61 DWP feels that, not only is the existing provision for implementing more frequent payments sufficient to provide the necessary support for vulnerable claimants, it is actually a more effective at protecting vulnerable claimants than the alternative as recommended by the report. The devolved Governments in Northern Ireland and Scotland are taking a fundamentally different approach. By implementing more frequent payments by default, or making the decision exclusively the claimants' choice, they are separating the implementation process from the Universal Credit agent or coach whose role is, in part, to get to know the claimant and their circumstances and support them in an appropriately tailored manner. In other words, removing the work coach and other DWP staff from the end-to-end decision making process for implementing, reviewing and then potentially removing APAs.

5.62 DWP believes this is not the right approach; if it removes this close link to work coaches in the process it will damage the ultimate goal of helping claimants take responsibility, manage their financial affairs and move back into work.

Recommendation 21

We recommend that tenants in receipt of Universal Credit in England and Wales should be allowed to decide for themselves whether their housing costs should be paid to them or direct to their landlord.

5.63 Government recognises the concerns of the committee and their witnesses on this issue. It is vital that claimants are able to pay their housing costs on time. That is why DWP introduced managed payments of rent to landlords, in order to support the minority of claimants who need help managing their monthly payment and paying their rent.

5.64 With regard to the issue of rent arrears accruing at the start of the claim, DWP is sympathetic to the concern around this complex issue and we want to assure the Committee that we have done extensive work in this area which is bearing fruit. DWP has taken a number of steps not just to ensure that it properly understands the causes of arrears, as there are a number of factors at play, but also to identify where improvements can be made and to support claimants from falling into arrears:

- DWP is improving its processes for verifying housing costs so that, wherever possible, housing costs are paid at the end of the first assessment period
- DWP has centralised and streamlined how it manages emails from Social Rented Sector Landlords to speed up the verification process
- DWP has also introduced a new feature that allows claimants quickly to accept data supplied by their landlord where this does not match the information they supplied when claiming
- DWP continues to improve the capability of its work coaches so they can identify and resolve housing issues as they arise in jobcentres

5.65 It should be noted that, contrary to the Committee's report, a claimant does not have to be in rent arrears in order to put a managed payment in place. They can be considered at any point during the UC claim, the decision will be made taking into account a range of factors and will be made in the claimant's best interests.

5.66 Furthermore, in response to stakeholders who had concerns about the complexity of the APA process, DWP would point out that it has made improvements here. For example: it has speeded up the process for Social Rented Sector landlords so that they can now apply for a Managed Payment to Landlord at the same time as we verify rent and we have updated the guidance we give our work coaches to help them identify cases where this could be appropriate. It is also piloting a landlord portal for the social rented sector which automates much of the managed payment request and verification process thereby supporting timely and accurate payment of housing costs to claimants. DWP will now be rolling out access to the portal to more landlords together with the Trusted Partner scheme and in tandem with the Universal Credit Full Service.

5.67 However, as stated in our response to recommendation 20, DWP thinks it is key that claimants are closely supported in the end to end alternative payment arrangement process with the goal of removing the APA when the time is right. For this reason, DWP offers every claimant who has an APA the opportunity to attend Personal Budgeting Support sessions so that they move closer to financial independence and paying their rent themselves.

5.68 For the more vulnerable claimants, DWP has built in the safety net of alternative payment arrangements and on-going conversations with their work coach to give them the support they need, we recognise that it may not always be possible to return to direct payments quickly, and they may require additional support over an extended period of time.

Recommendation 22

We recommend that the Government conduct a detailed, comprehensive cumulative impact study of how changes in social security policy resulting from the Welfare Reform Act 2012 might have adversely affected financial wellbeing and inclusion. This research should consider the extent to which these changes have contributed to debt and arrears and to any greater reliance on high-cost lending.

5.69 There has already been a large amount of analysis completed, and more will be carried out.

5.70 Indeed, since the Welfare Reform Act 2012 was introduced, a number of analytical assessments have been completed. There was the original impact assessment that accompanied the Act and since then the Government has made an assessment of the cumulative impacts of welfare reforms (and tax changes) at each budget. These cumulative impact assessments (published by HMT) set out the distributional impacts to households of tax and benefit changes. The most recent was published in March, and can be found here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597473/impact_on_households_SB2017_web.pdf

5.71 Government is also keen to monitor financial exclusion and problem debt. DWP has therefore recently published a paper "Improving Lives: Helping Workless Families" which can be found here: https://www.gov.uk/government/publications/improving-lives-helping-workless-families

5.72 The Department will continue to conduct extensive research, evaluation and analysis of individual reforms which will be published in line with professional protocols.

5.73 In addition, the 2012 Act should not be looked at in isolation; there have been a number of other welfare reforms introduced as well as changes to employment, tax and the changes brought in by the 2016 Welfare Reform Act. As such, DWP does not think it would be informative to produce further analysis on particular sub-sets of this overall population of measures.

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