Dormant accounts financial inclusion programme - Statement of Intent

In January the government announced its intent to use £55m in funding from dormant bank and building society accounts to improve financial inclusion – financial products and services that work better for those on low incomes. This statement sets out the process, centred on the users of these products and services, which will shape how that money is used and the outcomes it aims to achieve.

Why financial inclusion?

We all experience ups and downs in our life, but some of us face crippling financial hardship which makes the difficult times so much harder to bear. When you struggle financially it becomes increasingly challenging to support your family, to maintain your mental health and wellbeing, and it stops you from reaching your full potential. Many people slide into problem debt and struggle to get by.

Making good use of appropriate financial products and services – savings, borrowing and insurance - can help build the financial resilience needed to withstand the down times and dramatically improve lives.

How we build that resilience and manage our finances depends as much on our knowledge and capacity to make the most of the money we have, as on our ability to access appropriate advice, products and services. We have to address financial capability and financial inclusion together if we are to make a difference.

This means the use of funds from dormant bank and building society accounts must complement the work of the Money Advice Service - and subsequently the Single Financial Guidance Body that is currently being established by the Government to improve levels of financial capability in the UK.

We know from consumers that took part in the Financial Conduct Authority's recent Financial Lives Survey in 2017 that access to such products can be limited, particularly when needed during certain life stages and for certain groups of people.

For example:

- **High cost credit and rent to own.** 6% of all UK adults used high cost credit (where the APR is equal to or above 100%) in the previous 12 months. This includes payday loans, home collected loans, hire purchase and other similar products. Use of high cost loans is highest among 25 - 44 year olds (9% of the population) and younger single parents are three times as likely to be using high-cost credit than the UK average. Access to affordable credit is crucial to help people manage their finances and deal with unexpected events.

- **Savings buffer.** 13% of UK adults have no cash savings, 24% have less than £1,000 as a savings buffer and 19% hold between £1,000 and £5,000. Younger adults are most likely to have few or no savings, with 57% of 18-24 year olds holding less than £1,000. This severely restricts their capacity to manage transitions, such as moving to rented accommodation for the first time, or external shocks, such as ill-health or redundancy.

- **Adequate insurance.** While 48% of 25 - 34 year olds rent their homes, only 19% have home contents insurance. Some of them are paying more for individual insurance contracts to cover phones, white goods, furniture, perhaps through rent-to-own contracts, rather than covering all of their contents for less, in one insurance policy.

The Financial Inclusion programme

The Financial Inclusion programme will commit a total of £55m between 2018-2022 to increase the use of fair, affordable and appropriate financial products and services that boost savings, increase protection against shocks, smooth incomes and increase access to and use of fair, affordable and appropriate credit.

This is an opportunity to:

- **Build on existing work and findings** including from the Financial Inclusion Commission, the Financial Conduct Authority high-cost credit review, the Inclusive Economy Partnership, the UK Financial Capability Strategy and the Big Lottery Fund's Improving Financial Confidence programme.

- **Support products and services that respond directly to the needs of the people they seek to serve.** This follows on from joint work undertaken by the Big Lottery Fund (BLF) and the Department for Digital, Culture, Media and Sport (DCMS) to date, which has included workshops and interviews with people experiencing financial difficulty. We will engage with people to better understand their experience and involve them in testing possible uses of the funding.

- **Accelerate and boost access to and use of these products and services among priority households.** We will prioritise solutions that are sustainable and can operate at scale, providing the greatest coverage.

- **Increase investment in current and emerging product and service provider**s. We will explore the use of both revenue and capital funding to build the capacity and reach of these providers so they can serve more people on low incomes.

- **Create a cross-sector collaboration** between public, private and the voluntary sector organisations. BLF, DCMS, HM Treasury, the Department for Work and Pensions and the Financial Conduct Authority will work with the Money Advice Service and organisations such as UK Finance, the Association for British Insurers, Responsible Finance, the Association of British Credit Unions Ltd, the Financial Inclusion Policy Forum and the End High Cost Credit Alliance to understand where dormant accounts funding can have the biggest impact.

Programme overview

Over the next four months a user-centred design process will be used to determine the focus of the programme. This design phase will be framed around the following areas of enquiry:

Understanding the use of financial products and services by low income households

1. What and where are the barriers to accessing and using fair, affordable and appropriate products and services?

2. When and how do existing financial products and services fail to serve the needs of households on low incomes?

Exploring what makes a difference

3. What would make a difference to the use of appropriate products and services by households on low incomes?

4. When and how can we scale or replicate effective products and services?

5. What combination of factors is needed to improve accessibility and stimulate increased use of products for households on low incomes?

Determining how to maximise the impact of £55m

6. How can we make best use of this £55m funding, including increasing the amount by raising more money, to address these challenges and to ensure sustained impact?

The programme will be developed with active involvement of stakeholders, placing the voice of households that are vulnerable to financial difficulties at the centre. A collaborative programme of interviews, customer voice events, roundtables and design workshops will explore how the funding can be used. Details of these events will be published on www.biglotteryfund.org.uk

The process will be led by a joint project team from BLF and DCMS, with close involvement from HM Treasury, the Department for Work and Pensions, the Financial Conduct Authority and the Money Advice Service. A smaller group of experts will be appointed by BLF and DCMS who will advise the project team.

Ministers are expected to issue formal policy directions to the Big Lottery Fund about the detailed focus of the programme and what it should achieve in summer 2018.

Full details of how organisations can participate in this programme will be published on www.biglotteryfund.org.uk