HM Treasury

Financial Inclusion Report 2021-22

December 2022

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Foreword

Access to financial services gives families up and down the UK the ability to plan their lives, make important decisions about their futures, buy homes, save for retirement, and insure the things most valuable to them. Education, proportionate regulation and financial capability all make a difference. The current economic climate means that financial inclusion and capability are more important than ever to support government priorities around financial wellbeing.

This government took decisive action in the Autumn Statement to help households with the rising cost of living. This support is worth £26 billion in 2023 – 24, in addition to benefits uprating, which is worth £11 billion to working age households and disabled people. This means that over 8 million households across the UK, many of whom face the biggest challenge making their incomes stretch, will be supported via additional Cost of Living Payments.

To protect families' living standards in a time of inflation, we also need to empower people to make the most of their money. As City Minister, I am determined that the financial services sector plays its part by ensuring that households have the right money management skills and access to appropriate products and services.

Over the past year, continued progress has been made, including by the introduction of the Financial Services and Markets Bill which I am currently taking through Parliament and has many measures to support financial inclusion. In particular, the Bill protects access to cash, with the government legislating to give the Financial Conduct Authority (FCA) powers to seek the reasonable provision of withdrawal and deposit facilities. This aims to ensure that the use of cash by millions is safeguarded, which is especially important for those who are vulnerable, or less able to access digital services.

But I want us to go further. I believe that the UK financial services sector is the best in the world. It is right that everyone across the UK, regardless of background or income, can benefit from the advantages that brings, whether it be our world-leading digital payments system or the innovative efforts of UK fintechs. I am committed to working in partnership with regulators, industry and consumer organisations to deliver better outcomes for all.

Andrew Griffith MP - Economic Secretary & City Minister

Executive Summary

Ensuring access to useful and affordable financial services

This year the government has continued to take steps to widen access to useful and affordable financial services for all, regardless of background or income. Consumers' ability to access appropriate financial products is vital for their financial wellbeing and economic productivity. Our work with stakeholders across industry, the third sector, and regulators, has made important progress on these priorities.

Supporting access to cash and banking services

The latest data shows that we are continuing to make progress in expanding access to essential banking services. As of June 2021, there were over 7.2 million basic bank accounts open. A basic bank account is a specific account for those who have been unable to open a personal current account and has most of the features of a standard personal current account. Over 2020/21, more than 44,000 customers opened a basic bank account and over 69,000 basic bank accounts were upgraded to standard personal current accounts, highlighting how basic bank accounts are a crucial step to enable people to move onto further banking services. The government this year also engaged with basic bank account providers to help Ukrainian nationals operate with financial independence in the UK.

Beyond basic bank accounts, the government is fully supportive of the ongoing work of industry and the regulators to support appropriate access to banking services, recognising the continued shift to digital banking and online payments. An example of this is industry's commitment to introduce shared banking hubs so individuals can access face to face banking services, as well as updated guidance from the FCA strengthening protections for consumers that rely on branch services.

To support the millions of people who still rely on cash for managing their money, the government is introducing a new legislative framework to protect access to cash through the Financial Services and Markets Bill, which is currently being scrutinised by Parliament.

Increasing access to appropriate and affordable credit

The government supports the important role that credit unions play in enhancing the financial wellbeing of their local communities, which is why the government is bringing forward amendments through the Financial Services and Markets Bill to allow credit unions to offer a wider range of products and services to their members. The government has also allocated £100 million of funding from dormant assets towards financial inclusion. This will allow Fair4All Finance, the organisation set up to distribute funding from dormant assets on financial inclusion, to explore ways in which the affordable credit sector can be scaled to facilitate the provision of loans to consumers in vulnerable circumstances.

The government also recognises that consumer lending must be responsible. There has recently been significant growth in the use of unregulated interest-free deferred payment products, known typically as Buy Now Pay Later products. In 2020, it was estimated that annual Buy Now Pay Later transactions totalled £6.4bn, representing a 60-70% increase compared to 2019[1]. While the government welcomes innovation and recognises that these products can be a useful tool to help people manage their money, the government has listened to the concerns that have been raised about consumer detriment and intends to consult on a legislative approach which regulates Buy Now Pay Later without unintended consequences or stifling innovation.

Increasing uptake and availability of insurance

This year the government has continued to take steps to increase the uptake and availability of insurance products to help individuals absorb financial shocks. For example, the government is continuing its commitment with the British Insurance Brokers' Association (BIBA) and the Association of British Insurers (ABI) to improve access to motor and travel insurance for older people through the Age Agreement. The government's Flood Re scheme also continues to help UK households at high risk of flooding to access affordable insurance and, in 2021/22, provided cover for over 256,000 household policies. More than 450,000 properties have benefitted since the scheme's launch.

Unlocking benefits of technology

Fintech firms provide a number of benefits to consumers, including those who may be financially excluded, by providing them with greater choice and enabling them to access financial services in new ways. The government continues to support UK fintech and open banking to maintain the UK's leadership in this area, and to unlock benefits for excluded consumers; for example, through new payments options and by helping individuals manage their budgets and better understand their finances.

Supporting vulnerable customers

In July 2022, the FCA published its final rules on its Consumer Duty. The Consumer Duty is designed to significantly enhance consumer

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[1] Buy Now, Pay Later in the UK - Consumers' Delight, Regulators' Challenge, Bain, October 2021

protection in financial services and deliver benefits for vulnerable customers at risk of financial exclusion.

Financial Capability

Changes in the cost of living demonstrates the importance of the government's work to ensure individuals can manage their money well.

Promoting financial education

In 2019, the government established the Money and Pensions Service (MaPS), to simplify the existing public financial guidance landscape. MaPS has made progress on the coordination of delivery plans for the UK Strategy for Financial Wellbeing, which aim to deliver outcomes on the strategy's five goals by 2030. This includes increasing the number of children who are receiving a meaningful financial education. The government is working alongside MaPS to improve financial education within schools, so that young people are equipped to make important financial decisions later in life. MaPS has also continued with its Talk Money Week campaign, which reached 12 million people in its fifth year, helping to encourage more people to use its MoneyHelper financial guidance tools.

Supporting better communication of financial information

In addition to building individuals' skills and confidence, the government is working with partners to make financial communications easier to understand. HM Treasury have been working closely with Plain Numbers, an organisation that seeks to help regulated firms to better support their customers in understanding important communications.

Financial Resilience

The government continues to work in partnership with industry to support individuals to build financial resilience to deal with unexpected circumstances.

Boosting savings

The government recognises it has been difficult for some UK households to save over the past year. However, for those who are able to, establishing a savings habit is an important tool to build financial resilience. Help to Save is a government scheme to support low-income households with their savings and, as of March 2022, deposits across all 359,000 accounts in the scheme exceeded £257 million. The government is seeking to continue to improve the uptake of this scheme to benefit more households. Beyond Help to Save, the government also makes available a wide range of tax-free savings accounts to all age groups, such as the 12.2 million ISAs and 943,000 Junior ISAs that individuals subscribed to in 2020/21.

Providing appropriate advice and support for people in problem debt

The government is committed to helping people in financial difficulty receive appropriate guidance and advice and continues to maintain record levels of funding for the provision of debt advice through MaPS.

In the autumn of 2022, MaPS concluded its debt advice commissioning exercise. MaPS currently funds debt advice for around 240,000 people via telephone, digital, business debt and Debt Relief Order services. MaPS expect to see a significant increase in capacity through these newly commissioned services so that, by year three, they will be able to support more than 650,000 people annually. In addition, the new contracts from this exercise are expected, alongside ongoing support for community-based provision, to provide a more comprehensive and professional service.

The government's Breathing Space Scheme also continues to provide important protections to those facing problem debt, with over 100,000 having benefited from the scheme as of October 2022.

Chapter 1

Ensuring Access to Financial Products and Services

Over the past year, the government has made further progress on financial inclusion, including introducing a new legislative framework to protect access to cash, supporting access to banking for Ukrainian nationals and bringing forward amendments to allow credit unions to offer a wider range of products and services to their members.

However, pressures in the UK economy brought about by Putin's war in Ukraine and the resulting impact on the cost of living have created new and more complex challenges for financial inclusion. The government has worked closely with regulators and stakeholders from public, private and third sector organisations to ensure that it upholds its long-term aim to ensure that people, regardless of their background or income, have access to useful and affordable products and services.

Basic Bank Accounts

The government is committed to improving access to financial services and recognises that access to a transactional bank account is key to enabling people to effectively manage their money. This is why the nine largest personal current account providers in the UK are legally required to offer fee-free basic bank accounts to customers who are "unbanked", so people can manage their money on a day-to-day basis effectively, securely, and confidently.

Each of the nine designated providers are required to report their basic bank account data to HM Treasury and this is published annually. The latest report showed that as of June 2021, there were over 7.2 million basic bank accounts open in the UK. Between July 2020 and June 2021, over 44,000 new basic bank accounts were opened, and providers have onboarded over 1.5 million new accounts over the past three years.

During the same period, over 69,000 basic bank account customers were upgraded to standard personal current accounts, highlighting how basic bank accounts are a valuable stepping-stone that enable individuals to access further banking services. As new features become available to customers – such as contactless and digital payments like Apple and Google Pay – it is vital that everyone is able to benefit from these innovations by having access to a bank account.

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

Providing the relevant identity documents can be an obstacle to accessing an account for some people, as banks and building societies must verify the customer's identity when opening a new basic bank account. How banks verify their customers' identities is not stipulated in law or by the regulator, and they are instead assisted in making such policies through industry-produced guidance notes. The guidance encourages firms to consider a wide range of other forms of identification and to act reasonably where, for example, customers simply do not have common forms of identification. It is important that consumers are aware of the identification required by firms and that firms are encouraged to continue to make use of the flexibility in the guidance. The government continues to work with firms to ensure provision is in place for particular underserved groups, such as Ukrainian nationals arriving in the UK (see Box 1.A).

Box 1.A Basic Bank Accounts for Ukrainian nationals

Earlier this year, the government worked closely with the firms who provide basic bank accounts to identify and address barriers to ensure Ukrainian nationals arriving in the UK without conventional UK ID were able to open bank accounts. Having a bank account is key to supporting these people to start their lives in the UK and as of August 2022 almost 35,000 basic bank accounts have been opened by Ukrainian nationals. This has allowed Ukrainian nationals to operate with financial independence in the UK by receiving salary payments and accessing key services.

Post Office Card Accounts (POCA)

The Department for Work and Pensions' (DWP) contract with the Post Office for Post Office Card Account (POCA) came to an end in November 2022. All customers who previously received payment into a POCA have been informed that the service is ending and DWP has encouraged and supported those who are able to open a bank account to do so. HM Treasury and DWP have worked closely with the financial services industry to ensure a smooth transition for POCA customers to mainstream banking services and, in doing so, have promoted financial inclusion and, in some instances, enabled some customers to have access to a bank account for the first time in their lives.

The small number of customers who remain unable to access traditional banking methods have been migrated onto DWP's Payment Exception Service; this is a voucher system which allows customers to redeem their payments and benefits at a variety of outlets throughout the country.

Banking

The way consumers interact with their banks is changing. The continuing trend away from using traditional bank branches and increasing use of a wider set of banking channels, such as online and mobile banking, means more consumers and businesses than ever are enjoying the convenience, security, and speed of digital banking; 86% of all UK adults used at least one form of remote banking during 2021[2].

Banking customers have never had more choice than now in how they fit their banking into their everyday lives.

However, there are of course some people who may still prefer, or even require, face to face banking services. This is particularly the case for those who are vulnerable or digitally excluded. Whilst branch closures are commercial decisions for firms themselves, the government fully supports action by industry that mitigates the impact of closures. For example, some firms deploy staff at branches earmarked for closure to support regular customers to set up online banking, while others provide services through community outreach in local town halls and libraries.

In order to ensure that banks are assessing the needs of customers and considering the availability and provision of alternative services, the FCA published guidance in September 2020 setting out its expectation of firms when they are closing branches or free-to-use ATMs. Firms are expected to carefully consider the impact of a planned closure on their customers' everyday banking and cash access needs, consider possible alternative access arrangements, and communicate any changes to their customers. This ensures that closure decisions are implemented in a way that treats customers fairly. Firms are also expected to be particularly mindful of customers with characteristics of vulnerability and encouraged to consider whether individual support or communications may be necessary to ensure they continue to be able to access the banking services they need. In October 2022, the FCA updated its guidance, clarifying what is expected of firms and strengthening protections for consumers that rely on branch services.

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A key alternative way to access face to face banking services when a local branch closes is via the Post Office where 99% of personal and 95% of small business customers can withdraw and deposit cash, check their balance, and deposit cheques at over 11,500 branches across the UK. This ensures essential banking facilities remain available in as many communities as possible.

Over the past year, industry has also committed to introduce shared bank hubs in 27 locations across the United Kingdom, in addition to the two initial pilot sites in Rochford, Essex and Cambuslang, Lanarkshire. These hubs provide basic banking services including counter services, as well as dedicated space where community bankers from major banks can meet customers of that bank. The first two post-pilot hubs opened in Brixham (Devon) on 2 December and Cottingham (East Riding of Yorkshire) on 7 December 2022.

Access to Cash

The rapid adoption of digital payments that has been taking place across our economy and society over the past decade brings many opportunities for the UK. Digital payments can offer individuals and businesses convenient, tailored, and flexible ways of making and managing payments safely and securely. They also have the potential to facilitate enhanced competition in payments services and support innovation to further improve access to financial services.

However, cash continues to be used by millions of people across the UK, including many of those in vulnerable groups. As of 2021, cash accounted for 15% of payments by transaction volume (or 6 billion transactions[3]).

The provision of cash access at a UK-wide level remains extensive. On a quarterly basis, the FCA, working with the Payment Systems Regulator (PSR), publishes analysis of the locations of cash access points across the UK, alongside other relevant information such as temporary closures, opening hours, and accessibility. According to this analysis, as of December 2021, over 95% of the population were within 2 kilometres of a free cash access point[4].

To ensure that people can continue to access their cash, the government is bringing in new laws to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long term.

As part of the Financial Services Act 2021, the government made legislative changes to support the widespread offering of cashback without a purchase by shops and other businesses. Cashback without a purchase has the potential to be a valuable facility to cash users, and to

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play an important role in the UK's cash infrastructure. Industry has now rolled out these services to thousands of local shops.

The government is currently taking the Financial Services and Markets Bill through Parliament, which intends to introduce a new legislative framework to protect access to cash. The Bill will establish the FCA as the lead regulator for access to cash and provide it with appropriate powers to seek to ensure reasonable provision of withdrawal and deposit facilities. As part of its responsibilities, the FCA will be granted powers to address any local deficiencies in the provision of access to cash facilities that it has identified and considers to be significant. This will allow for consideration of local circumstances in all parts of the UK.

Following the government's commitment to legislate, firms are working together through the Cash Action Group to develop new initiatives to provide shared services. This includes the process for LINK (which operates the UK's largest ATM network) to assess a community's needs in the event of a closure of a core cash service or request from a local community. In circumstances where LINK considers that a community requires additional cash services, industry will ensure a suitable shared solution is put in place.

The Financial Services and Markets Bill will grant powers to the Treasury for determining which banks, building societies and cash coordination arrangements will be subject to the FCA's oversight for the purpose of access to cash. Further information about the government's access to cash legislation can be found on the Parliament website: https://bills.parliament.uk/bills/3326.

CBDC

This is a pivotal time for the future of money and payments, with rapid innovation bringing fresh opportunities and considerations for public policy. To ensure the UK remains competitive and at the forefront of innovation in payments, the UK is actively exploring the potential role of a central bank digital currency (CBDC).

HM Treasury and the Bank of England will shortly be consulting jointly on the case for a UK CBDC. The consultation will include consideration of the potential inclusion implications and objectives of any UK CBDC.

Affordable Credit

Changes to credit union legislation

The government is supportive of the important role that credit unions play in enhancing the financial wellbeing of their local communities. Credit unions provide savings products and affordable loans to their members, including to those who may otherwise have to resort to high-cost lenders.

To help further the growth, competitiveness and sustainability prospects of credit unions in Great Britain, the government is bringing forward amendments to the Credit Unions Act 1979 through the Financial Services and Markets Bill, to allow credit unions to offer a wider range of products and services to their members. This includes hire purchase agreements, conditional sale agreements, and insurance distribution services. The wider availability of these products should support both existing and new members in accessing valuable products and services through their credit union and contributes to the government's wider ambition of expanding the provision of affordable credit.

The government is future proofing this legislation to make it easier to permit credit unions to offer additional products and services in the years to come. This will help credit unions adapt to changing market trends and new member demands. Taken together, these changes are intended to support the long-term sustainability of the credit union sector and ensure it will continue to offer affordable credit to those who need it for years to come.

No-Interest Loan Scheme Pilot

At the Spring Budget 2021, HM Treasury announced £3.8 million of funding to pilot a No-Interest Loan Scheme (NILS). The loans will help consumers in vulnerable circumstances who struggle to access affordable forms of credit. The pilot, the first of its scale across the UK, is being delivered by Fair4All Finance. It will test the optimal design and impact a permanent nationwide NILS could have on addressing the needs of consumers in financially vulnerable circumstances and consider whether it can be delivered in a sustainable way.

JPMorgan Chase have also announced a £1.2 million philanthropic investment to supplement government funding and expand the pilot to a sixth location. This additional funding is expected to expand the scheme by a further 3,000 affordable loans and will also fund financial capability coaching for loan recipients with the intention of supporting their future financial resilience.

Good progress is being made, and dozens of loans have now been issued at the proof-of-concept site in South Manchester and are providing real world impacts for recipients. This includes enabling consumers to cover the costs of new white goods to keep a family running, provide funerals for loved ones, and consolidate their debts to make them more manageable.

Fair4All Finance are now finalising contracts with the lenders chosen to take part in the wider pilot. Full-scale rollout should begin by early 2023, with tens of thousands of no-interest loans expected over the course of the pilot.

Regulation of Buy-Now-Pay-Later

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

However, concerns were raised in The Woolard Review, published in February 2021, about potential consumer detriment that could crystallise as this market continues to grow. As a result, the government announced its intention to bring BNPL into regulation in a proportionate way. The government published a consultation on its proposed approach to regulation in October 2021 and published a response to that consultation in June 2022. The government intends to publish a consultation on the draft legislation to bring BNPL into regulation soon, following which it aims to lay legislation in mid-2023.

Dormant Assets

To date, the government has allocated over £100 million in dormant assets funding to Fair4All Finance to support their work on financial inclusion. This has included an affordable credit scale up programme, which provides a package of tailored support to sustainably scale affordable credit providers, including credit unions.

Insurance

Insurance is a fundamental part of building financial resilience, whether it is for an individual or a business. Protection against financial shocks has never been more important, and the government is pleased to see more than £18 million paid out every day in life insurance, critical illness and protection claims last year.[5] Ensuring everyone has equal and affordable access to insurance products remains a key part of the government's financial inclusion priorities, demonstrated by the government's continuing programme of work.

Insurance for consumers with pre-existing medical conditions (PEMCs)

Since April 2021, the FCA has required all firms offering retail travel insurance to signpost consumers to a directory of specialist travel insurers if they are denied cover due to a pre-existing medical condition (PEMC). This comes after the FCA reported that some consumers with PEMCs experience challenges navigating the market and finding affordable appropriate cover, which could result in cover excluding their PEMCs, declined cover, or excessive premiums.

In April 2021 the FCA also introduced guidance that requires firms selling travel insurance policies that exclude PEMCs to tell consumers whether and how these exclusions can be removed and reminds firms to assess the risk from medical conditions and use reliable and relevant

[5] 'ABI's cross-industry campaign Securing Futures launches at Westminster', ABI, November 2022

information when pricing premiums. The FCA will be conducting a post implementation review of the signposting rules from April to October 2023.

Access to motor and travel insurance for older consumers (Age Agreement)

The Age Agreement was created between the government, British Insurance Brokers' Association (BIBA) and the Association of British Insurers (ABI) to improve access to motor and travel insurance for older people. Under the agreement, a customer is automatically referred to an alternative insurer or signposting service if they are unable to receive cover because their age is above the provider's upper age limits. This agreement is periodically reviewed, most recently in 2019, and is next due to be reviewed in 2023. This agreement has generated more than 860,000 enquiries since it was launched in 2012.

Addressing the 'loyalty penalty' in home and motor insurance markets

From 1 January 2022, FCA rules require insurers to offer a renewal price that is no greater than the equivalent new business price the firm would offer to a new customer, purchasing via the same sales channel. Firms are also required to provide consumers with a range of accessible and easy options to stop their policy from auto-renewing, such as being able to cancel policies through the same channel where it was originally purchased. These measures are intended to improve the way the general insurance market functions and to reduce harm for consumers affected by increased renewal premiums year-on-year.

Flood insurance signposting

Flood Re is a joint government and industry flood reinsurance scheme designed to help UK households at high risk of flooding to access affordable insurance. In 2021/22, Flood Re provided cover for over 256,000 household policies. More than 450,000 properties have benefitted since the scheme's launch.

This year, the government made changes to the Flood Re scheme to improve its efficiency and effectiveness and promote uptake of Property Flood Resilience measures. These changes came into force on 1st April 2022. One of these changes allows Flood Re to pay claims from insurers which include an amount for resilient repair (Build Back Better) up to a value of £10,000 over and above the cost for like-for-like reinstatement of actual flood damage. Build Back Better will help flooded households become more resilient to flooding, enable homeowners to return more quickly after any future flooding, and will help reduce the cost of insurance.

Following the November 2019 flooding, the government commissioned an independent review of flood insurance in Doncaster. The review sought to examine the level of insurance cover held by those affected in Doncaster, the barriers they may have faced in obtaining cover and whether there were any systemic issues in the provision of flood insurance. In response, the Department for Environment, Food and Rural Affairs, working closely with HM Treasury and other departments, are taking forward a programme of work to progress the review's recommendations. As part of these efforts, the government is engaging extensively with the insurance industry to improve accessibility and availability of flood insurance for those most vulnerable to flooding or who have had flood risk excluded from their policy.

In February 2022, the British Insurance Brokers Association (BIBA), the Association of British Insurers (ABI) and Flood Re launched a new Code of Practice for the industry and a specialist directory of insurance brokers and insurers who can offer flood insurance for household building and contents cover. This is helping consumers understand their insurance options, including which household policies include cover for flooding, and supporting consumers in accessing the cover they need. The Code of Practice ensures firms will signpost a consumer to the directory if they have been offered a household policy which is subject to a flood exclusion or if flood risk is a principal reason household cover has been denied. Since its launch, over 1600 enquiries have been made of the 21 approved providers listed on the directory.

Access to contents insurance for low-income renters

The Doncaster Flood Review also highlighted the issue of access to contents insurance for low-income renters. In response, HM Treasury announced the formation of a working group at the April 2021 Financial Inclusion Policy Forum to explore the reasons for low uptake of contents insurance. The working group presented their findings at the December 2021 Financial Inclusion Policy Forum, providing recommendations that could improve uptake of contents insurance. The government is working with members of the group on how best to take these recommendations forward, including legislative amendments to allow credit unions to distribute insurance products amongst their members.

Fintech

The UK is a world-leading fintech hub, attracting more investment than any country other than the USA, and this success is reflected in a high rate of consumer adoption: 86% of UK consumers use at least one fintech service or product. Fintech firms offer benefits to consumers, including the financially marginalised, by providing them with greater choice and enabling them to access financial services in new ways, which can be more accessible and more specifically tailored to their needs. Some are also offering new services in financial education and are at the cutting edge of efforts to make it easier for consumers to engage with financial products. International research has shown that there is a positive correlation between fintech services and increased levels of financial inclusion, especially in relation to lower socioeconomic groups.[6]

Government support for UK fintech

The government is taking forward measures to support the UK fintech industry, in line with the recommendations from the Kalifa Review of UK Fintech, which highlighted the opportunity to improve consumer outcomes in the UK.

Notably, at the 2021 Spending Review, the government confirmed it will provide £5 million of seed funding for the creation of a new industry-led Centre for Finance, Innovation, and Technology (CFIT) to tackle barriers to growth and accelerate the UK fintech sector. CFIT priorities will be in line with those identified in the Kalifa Review, including encouraging the mainstream adoption of fintech solutions, creating the right conditions for firms to scale, and fostering collaboration between growing regional fintech hubs. The CFIT Steering Committee – chaired by Sir Ron Kalifa – has produced top-to-bottom proposals for CFIT, including its priorities, objectives, and operational requirements. A leadership team has now been recruited through an independent process and the government will set out further details on CFIT and how their work will be taken forward in due course.

Open Banking

Open Banking enables consumers to consent to share their current account data safely and securely with third party providers, allowing fintech firms to offer them a range of innovative services. This has been a UK success story: 6 million consumers, and over half of UK SMEs, now use Open Banking products and services to manage their money better and make payments. This technology offers particular benefits to the financially excluded by making it easier to set and stick to budgets, build savings, identify cheaper and more effective utility providers, and access credit.

The government, along with regulators, has announced a shared commitment to maintaining the UK's leadership in the field and sustaining this momentum. As part of a shared approach, the UK government and regulators will develop proposals for a long-term regulatory framework for Open Banking.

Helping Vulnerable Consumers

FCA Guidance on the Fair Treatment of Vulnerable Consumers

The FCA published guidance for firms on the fair treatment of vulnerable customers in February 2021. This includes customers who may have low resilience to cope with financial shocks and/or low capability, such as poor literacy or numeracy skills Following publication

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[6] Tok, Yoke Wang; Heng, Dyna. Fintech: Financial Inclusion or Exclusion? IMF Working Paper no. WP/2022/080.

the FCA has been looking at how firms have embedded this guidance, and published further information in June 2022 on what it has seen so far. It noted good examples of individual firms taking positive action to understand the needs of customers in vulnerable circumstances and meet those needs – but also identified areas where it expects to see improvement and additional focus from firms:

- Firms should be regularly producing and reviewing management information on the outcomes they are delivering for customers in vulnerable circumstances.
- Firms should be considering the needs of customers in vulnerable circumstances when developing products and services, and across the entire customer journey. This includes when making changes to existing products or developing new ones.
- Firms should ensure their strategy for the fair treatment of customers in vulnerable circumstances is championed by senior leaders, and cuts across all areas of business.

The FCA have been clear that they will take further action where firms fail to meet their obligations to treat customers fairly, including those in vulnerable circumstances.

FCA Consumer Duty

On 27 July 2022, the FCA published its final rules on its Consumer Duty, a new set of rules designed to enhance consumer protection in financial services significantly. The Consumer Duty will come into force on 31 July 2023 for all new and existing financial services products, and 31 July 2024 for closed products.

The Consumer Duty is a package of measures, requiring firms that serve retail customers to act to deliver good outcomes by defining in a measurable way what good outcomes, fair value, and foreseeable harm means for their products, services and customers. It seeks to ensure that consumers are able to make informed, effective decisions in order to pursue their financial objectives. The Duty requires firms to think about the diverse needs of their customers – including those with characteristics of vulnerability – at every stage of the customer journey., from product design, through to customer support.

The FCA expects all customers to benefit from changes under the Duty, but particularly customers in vulnerable circumstances. Consumers should benefit from products and services that offer fair value and are designed to meet customers' needs, and firms that are increasingly focused on delivering good outcomes and preventing harm.

Chapter 2

Building Financial Capability and Resilience

Financial Capability

UK Strategy for Financial Wellbeing

The government established the Money and Pensions Service (MaPS) in 2019 to simplify the existing public financial guidance landscape and offer more holistic support to consumers for every stage of their financial lives. In 2020, MaPS launched the UK's first Strategy for Financial Wellbeing with five ambitious national goals the country should strive to achieve by 2030. These goals are to increase the number of children and young people receiving financial education; to encourage regular saving; to reduce the use of credit to pay for essentials; to increase the number of people accessing debt advice; and for people to understand enough to plan for later life.

Over the course of 2020 and 2021, leaders from the private, voluntary, and public sectors informed the development of four delivery plans, one for each nation of the UK, which were published in spring 2022. The initiatives set out in the delivery plans are led by a range of different organisations, such as devolved administrations, charities, the financial services sector and UK government departments. MaPS is coordinating those delivery plans and reporting on their progress to four national stakeholder forums.

Financial Education for Children and Young People

It is essential that young people are well-equipped to make financial decisions. Financial education forms a compulsory part of the national curriculum for mathematics (at key stages 1-4) and citizenship (at key stages 3 and 4), which together cover personal budgeting, saving for the future, managing credit and debt, and calculating interest. As with all aspects of the curriculum, schools have flexibility over how they deliver these subjects, so they can develop an integrated approach that is sensitive to the needs and background of their pupils. The Department for Education and MaPS will jointly deliver a series of webinars for teachers and school leaders during the academic year 2022/23, aimed at promoting and supporting high quality financial education.

Talk Money Week 2022

To help promote financial wellbeing to consumers and key stakeholders, MaPS also coordinates Talk Money Week, a UK-wide annual awareness campaign which encourages people to open up about their finances. Now in its fifth year, Talk Money Week 2022 focused on the theme of 'credit' to help demystify jargon and build understanding of credit products, consumer options, and other forms of support which might be suitable. Hundreds of organisations took part in the event, hosting conferences, webinars, wellbeing sessions, and sharing content online. In addition, MaPS secured high-profile media coverage and reached more than 12 million people on social media, helping drive more people to its MoneyHelper financial guidance and tools.

Improving how government engages with the public on financial issues.

DWP has continued to identify ways in which work coaches and other customer-facing staff can support those in receipt of benefits who are experiencing financial difficulties. As part of this, DWP has continued to work closely with MaPS to identify and refer those in need to regulated debt advice. Also working with MaPS, DWP is considering how best to upskill staff to provide them with the confidence and behaviours they need to effectively signpost customers to impartial financial guidance.

HM Treasury also has an advisory partnership with the organisation Plain Numbers to support efforts to improve the way that numbers are communicated to customers across the public and private sector. Further details of their innovative approach, and the government's partnership with them, is provided in Box 2.A.

Box 2.A Plain Numbers

Plain Numbers work with leading organisations to improve the way that numbers are communicated to customers. Poor numeracy affects around half of the working age population in the UK, which has a significant impact on people's ability to understand financial communications. Research shows that it is possible to double the number of customers who understand a piece of communication by applying the Plain Numbers Approach. This is an evidence based and practical methodology which can be applied to consumer facing communications to ensure they are clear and fair. This means that more people can make informed choices about their finances, which is central to ensuring that consumers achieve good outcomes.

With the support of HM Treasury as an advisory partner, Plain Numbers are now supporting implementation of the Plain Numbers Approach across market-leading firms in industries such as insurance, pensions, credit, utilities and wider financial services. These partners are working to ensure that the letters, emails, webpages, quotes, bills and other communications they produce can be understood by more consumers – including those who struggle with numbers. In the coming year, millions of consumers will start to see the benefits of this approach in the communications they receive.

Financial Resilience

Help to Save

While the rising cost of living has made it more challenging for households across the UK to increase their savings, it has also illustrated the value of access to rainy-day savings, to help weather economic and financial shocks. This is particularly the case for lower earners who may fall into debt when facing unexpected costs.

Help to Save, launched in September 2018, aims to support low-income working households in receipt of certain benefits to build their financial resilience, while kickstarting a regular, long-term savings habit. The scheme offers a generous 50% government bonus on up to £50 of monthly savings over a four-year period. Between April 2021 and March 2022, over 75,000 individuals opened a Help to Save account, taking the total number of accounts opened since the scheme was launched to over 359,000. As of March 2022, deposits across all accounts exceeded £257 million.

The government continues to seek to improve uptake of the scheme, ensuring that it benefits as many eligible individuals as possible. To that end, the government is collaborating with MaPS to increase awareness and signpost eligible individuals to the scheme. The government is also seeking to promote the scheme directly, such as through contact with large employers, and intends to trial direct messaging to eligible individuals to increase awareness.

Over the past year, the first Help to Save accounts opened in 2018 have completed their four-year term and account holders have begun to receive their final bonus. At account maturity, the government is encouraging these individuals to build on their experience with Help to Save, with account holders signposted to MaPS to review options for future saving.

ISAs, Junior ISAs and Child Trust Funds

Beyond Help to Save, the government is pleased that the wide range of tax-free savings accounts continue to be used extensively by individuals of all ages and income levels. In 2020-2021, the latest tax year for which data is available, individuals saved and invested in over 12.2 million Individual Savings Account (ISAs) and over 900,000 Junior ISAs. These accounts are intended to encourage individuals to save, and where appropriate, invest, and remain popular across the UK.

Despite the popularity of these accounts, the government recognises that some Child Trust Fund (CTF) account holders have lost contact with their savings. The government remains committed to reuniting all young adults with their CTF and recognises the importance of ensuring that they can benefit from these funds as they reach adulthood. To that end, HMRC continue to promote awareness of CTFs, working collaboratively with CTF managers and MaPS. HMRC's online tracing mechanism for CTFs remains useful, receiving over 6,000 queries per week on average and HMRC continues to investigate ways to simplify the process for account holders and their parents.

Helping Consumers with Problem Debt

Debt advice provision

The government is committed to helping people in financial difficulty receive appropriate guidance and advice and continues to maintain record levels of funding for MaPS for the provision of debt advice. It also works alongside partners across the UK to make debt advice easier and quicker to access, and to improve standards and quality across the sector.

In the autumn, MaPS concluded its commissioning exercise and announced the outcome of its procurement. MaPS' new longer-term contract agreements will provide greater certainty to the commissioned advice organisations and for debt advisers. This will enable better forward planning, greater debt adviser retention, as well as larger investment in services to achieve better outcomes for clients. The new contracts, along with the community-based debt advice provision, is expected to create a significant increase in capacity as well as provide a more comprehensive and holistic service.

Breathing Space

The government launched the Breathing Space Scheme on 4 May 2021. A breathing space moratorium gives eligible people in problem debt who receive professional debt advice access to a 60-day period in which fees, charges and certain interest, are frozen and enforcement action is paused. There is also a mental health crisis moratorium, available to people receiving mental health crisis treatment, and in which the breathing space protections extend for as long as that treatment lasts, plus 30 days.

As of October 2022, over 100,000 people in problem debt have benefited from the scheme's protections. Early feedback from debt advice providers shows that Breathing Space is having a significant positive impact. For example, StepChange's clients are two to three times more likely to take up a debt solution than those outside of Breathing Space.

Client testimonies from MaPS who have accessed the scheme through Rethink Mental Illness demonstrate that mental health crisis breathing space is very highly valued. Many clients have referred to the scheme as “a lifeline”, with one individual testimony stating that it saved their life.

The government’s recent consultation on the Statutory Debt Repayment Plan (SDRP) also proposed minor improvements to Breathing Space. The government is considering these proposals, and will provide a further update in due course.

Statutory Debt Repayment Plan (SDRP)

The government has recently published its response to the recent SDRP consultation. The government will base further decisions on the future of the SDRP on the outcomes of the government’s review of the personal insolvency framework, led by the Insolvency Service. This important, wide-ranging review began with a call for evidence in July 2022. The review asks whether the existing statutory processes for debt relief are fit for purpose and, if not, what reforms are needed.

At this stage of the review, no decision on reform has been made. However, the government is mindful that any significant reforms to the personal insolvency framework may affect both the need for, and design of, a new debt solution based on full repayment of debts. The government’s intent is to ensure that the overall framework for helping people in debt is coherent and well-considered.

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This document can be downloaded from www.gov.uk

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