"Financial inclusion can help the millions struggling to pay their bills and save for the future..."

BANKING FOR ALL

Charlie Cadywould

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The views expressed in this report represent those of the author and not necessarily those of Lloyds Banking Group. Any omissions and errors are solely the author's own.

Charlie Cadywould
September 2016

Foreword

At Lloyds Banking Group we are committed, through our Helping Britain Prosper Plan, to be at the forefront of the financial inclusion agenda and there is a huge amount of enthusiasm to help customers make the most of their money.

We are aware that 1.5 million adults in the UK do not have a bank account. And those families who are not using banking services fully can find themselves having to pay a 'poverty premium' of up to £1,300 per year for their essential goods and services. Many of our customers who have a basic bank account fall into the category of being 'underbanked' and by this we mean they have a bank account but they don't use all of the products and services available to them.

We have a dedicated team in Lloyds Banking Group that works across a wide number of areas to fully understand the critical issues that affect the lives of people who are on low incomes or at risk of financial exclusion. They are instrumental in working together with our product teams to create solutions to tackle those issues.

There are a number of ways we are already addressing financial inclusion. These include training over 2,000 of the people who help individuals in their local communities manage their personal finances, extending our basic bank account provision, ensuring our digital inclusion strategy also has financial inclusion at its core, developing specific training for our branch colleagues to help them recognise vulnerable customers, and providing a wide ranging package of support for the UK credit union sector.

However, we recognise that there is still a lot more to do for people at risk of financial exclusion and the only way to truly tackle this problem is to ensure there is a

more joined up approach from banks, the third sector, and central and local government to raise awareness of and refer to each other's services.

We were therefore proud to partner with Demos on this important piece of work, and hope you enjoy reading the findings and recommendations. We are certainly keen to progress some of the recommendations in the report with government, the Financial Conduct Authority (FCA) and the British Bankers' Association (BBA), and hope others in the industry are too.

Robin Bulloch
Managing Director, Lloyds Bank Retail

Executive summary

Despite the efforts of successive governments over the last decade, millions of people across the country have limited access to financial services. Financial exclusion in the UK ranges from the extreme end – the 1.5 million adults who do not have a bank account and those whose credit history cuts them off from affordable sources of credit – to those who lack practical money management skills and financial knowledge, and are thus unable to track their income and outgoings, or build up a savings buffer to cope with financial shocks.

The unbanked and underbanked are hit by increased costs from a number of different sources, including additional costs on energy bills and missing out on the best deals on goods and services that can only be purchased online and through direct debit payments. They typically face higher borrowing costs, and find it harder to make investments such as buying a house. Money problems resulting from financial exclusion can also have a significant effect on wellbeing and health.

In its March 2015 report, the independent Financial Inclusion Commission stated its vision for 2020, in which:

- every adult is connected to the banking system, through having access to – and the ability to make full use of – a transactional account of his or her own
- every adult has access when necessary and appropriate to affordable credit from responsible lenders
- every adult is encouraged and enabled to save, even in small or irregular amounts, to show the importance of a common savings culture, to build up resilience against financial shocks and as an additional resource for retirement

- every adult has access to the right insurance cover for his or her needs, at a fair price
- every adult has access to objective and understandable advice on credit, debt, savings and pensions, delivered via the channel most suited to that individual
- every adult and child receives the financial education he or she needs, starting in primary school and carrying on throughout life and into retirement
- government, regulators, the financial services industry and civil society work together to deliver this vision, before the general election in 2020, under the leadership of a minister for financial health.[1]

In its May 2016 report on access to financial services in the UK, the FCA outlined a number of reasons for financial exclusion. These include:

- lack of understanding or engagement with financial services
- lack of internet access or digital skills in the context of the trend towards more online delivery of services
- lack of identity documents required by banks in setting up an account to prevent fraud
- lack of a permanent address, particularly affecting members of the armed forces and private renters
- poor access to insurance for older people, ex-offenders and those with disabilities or serious illnesses
- automated credit checks failing to take account of an individual's situation or extenuating circumstances.[2]

This report aims to develop a path to achieving the Financial Inclusion Commission's vision, and address some of the key themes identified by the FCA as barriers to financial services, such as the move to digital services, and helping hard-to-reach and deprived demographic groups through effective joint working between third-sector organisations. We also explore themes not directly addressed by the FCA paper, such as financial education and capability, and the role of alternative financial services providers such as credit

unions. In our recommendations, we set out how government and the private and third sectors can work together to tackle financial exclusion most effectively in the coming years, focusing particularly on early interventions arising from the examination of these new themes.

As part of the research for this report, between February and May 2016 Demos convened four expert roundtable discussions bringing together politicians, civil servants and representatives from commercial banking, credit unions and charitable organisations including housing associations, financial education providers, debt advice charities, food banks and many others to explore ways in which financial exclusion might be tackled in a more coherent, coordinated way. The report includes substantial excerpts from these discussions, which have been anonymised in accordance with the Chatham House Rule.

This report

Chapter 1 sets out recent policies and initiatives in this area, as well as policy changes on the horizon that will have an impact on financial inclusion. Some of these, such as the Lifetime ISA and Help to Save scheme, are designed to help households to build up a savings buffer and thus reduce demand for high-cost short-term borrowing. Others, such as changes to benefits, could exacerbate households' financial difficulties if the right interventions are not put in place in time.

Chapter 2 considers the role of the third sector in tackling financial exclusion. Non-profit organisations have a particular role to play in helping financially excluded people who would otherwise be hard to reach, through local knowledge and their reputation as trustworthy and impartial sources of advice. However, certain regulations are hampering the third sector's efforts, whether directly or through a 'chilling effect' as a result of insufficient information and communication. There is significant scope for joint working both within the third sector and between charities and banks, to be made more effective.

Chapter 3 looks at the credit union model, which can offer services to those whom the commercial banking sector will not, who might otherwise take out high-cost, short-term loans that can lead to a spiral of debt. Credit unions have an important role to play in promoting savings behaviour, but the sector still faces significant challenges in awareness raising, capacity building and ensuring their long-term sustainability.

Chapter 4 examines financial education and capability interventions. The evidence base on the effectiveness of financial education in schools is currently limited, although there are many interventions delivered by charities, credit unions and others that are proven to work. We find in particular that interventions which develop practical skills at key 'life points', such as early years, young adulthood and new parenthood, are particularly effective. However, there remains a strong taboo around discussing money, which hampers efforts to improve financial capability.

Chapter 5 looks at the role that new technology could play in making it easier for people to take control of their finances, improve their financial capability, and ultimately broaden access to financial services. A significant proportion of the population is in danger of being left behind from the benefits of technology as a result of low digital and financial capability.

In chapter 6, we offer 15 recommendations for policy and practice to government, banks, other grant funders and third-sector organisations to help tackle financial exclusion, based on the themes examined in chapters 1 to 5. These are divided into five themes: partnership working, products and nudges, education and capability, targeting activities, and digital activity.

Recommendations

Partnership working

Recommendation 1: Local charities, credit unions, bank branches and local authorities should work together to raise awareness of and refer to each other's services.

Recommendation 2: Banks should share anonymised data with credit unions to explore ways to target and communicate effectively with those most likely to use high-cost credit, who would be eligible for credit union services.

Recommendation 3: The FCA should ensure regulation does not impinge unduly on informal extensions of bill payments, and that third sector organisations are sufficiently informed about any changes to avoid any 'chilling effect' on housing associations and other organisations seeking to help their tenants and customers.

Products and nudges

Recommendation 4: The Government should allow Lifetime ISA customers to borrow from their savings without incurring a charge if the borrowed funds are fully repaid.

Recommendation 5: In the short term, the Government should encourage employers to offer to provide employee contributions to savings accounts through payroll, and use the opportunities provided through credit unions as well as the Lifetime ISA and Help to Save.

Recommendation 6: In the long term, the Government should introduce an auto-enrolment requirement on employers for savings.

Recommendation 7: Banks should offer services – including nudges and ring-fencing – that help customers to separate their savings without incurring a loss of earnings on interest.

Recommendation 8: Banks should offer finance tutorials to customers as a way of achieving better lending rates, and design and pilot money-awareness courses to those who go into unarranged overdrafts or fall behind on loan repayments. As with driving-awareness courses, where drivers can attend to avoid getting points on their licence, banks should offer to waive penalty fees if customers attend.

Recommendation 9: The Government should work with banks to establish a system of incentives to ensure banks have a financial interest in developing and offering effective interventions and reducing the proportion of their customers sliding into problematic debt.

Education and capability

Recommendation 10: Future funding streams for financial inclusion should focus on early intervention through the development of financial capability. In particular, evidence-based interventions that focus on developing practical skills (such as those delivered by credit unions) should be prioritised.

Recommendation 11: The policy community around financial inclusion should work closely with the 'character' policy community to research, develop, advocate for and fund early years and primary school interventions that develop character traits – such as self-control – that are proven to be associated with positive financial behaviour later on in life.

Targeting activities

Recommendation 12: Funding for financial capability should focus on key 'life points' including one-to-one money management support for care leavers, partnerships with maternity services to promote referrals of new parents, and dedicated money management training for new parents

Recommendation 13: In line with Action for Children's request, the Government should ensure financial capability is included in the regime of support that surrounds the Youth Obligation. A similar offer should be included for all recipients of Universal Credit, with a particular focus on the incoming changes.

Digital activity

Recommendation 14: The Money Advice Service and Doteveryone should work together to ensure the digital capability and financial capability agendas complement one another to maximise the potential benefits

Recommendation 15: Debt and money advice charities should explore ways to harness peer-to-peer forums, by acting as moderators and contributing advisers where appropriate.

1 Introduction

Successive governments have attempted to broaden access to financial services and promote financial capability and resilience in the UK in a variety of ways: supporting money advice and debt advice, supporting financial education and credit unions, incentivising savings, and regulating and deregulating in different areas.

Despite the efforts of successive governments, levels of financial exclusion remain high. At the most extreme level, there are 1.5 million adults in the UK who do not have a bank account.[3]

This report

Between February and May 2016, Demos convened four expert roundtable discussions bringing together politicians, civil servants and representatives from commercial banking, credit unions and charitable organisations including housing associations, financial education providers, debt advice charities, food banks and many others to explore ways in which financial exclusion might be tackled in a more coherent, coordinated way.

Each roundtable approached the issue from a different perspective, looking at the role of:

- the third sector
- credit unions
- financial education
- new technology.

This report attempts to answer the question: how can government and the private and third sectors work together to tackle financial exclusion most effectively in the coming years? In answering this question, we set out in this chapter what the most recent and current governments have done to tackle financial exclusion, and what they have achieved thus far. Following this context-setting chapter, insights from the four roundtables are presented, structured with a chapter (2 to 5) on each theme. Chapter 6 offers conclusions, recommendations for government, financial services providers and the third sector, and sketches out opportunities for further research.

Recent attempts to tackle financial exclusion

The Coalition Government set out plans to promote financial inclusion in its March 2012 social justice strategy.[4] It aimed to expand the credit union sector as a means of increasing access to affordable credit, with an extra £38 million provided in June of the same year.[5] The Government has also increased regulation on the payday loan industry, which is seen as a key source of problem debt, which can lead to financial exclusion. Regulation of consumer credit has moved from the Office of Fair Trading to the FCA, with specific regulations for the high-cost, short-term lending market, including mandatory affordability checks on borrowers, and the power to ban advertising deemed misleading.[6]

In addition, the Money Advice Service was set up in April 2010, initially under its statutory name, the Consumer Financial Education Body. Funded through a levy from the financial services firms the FCA regulates, its objectives are to enhance the understanding and knowledge of members of the public on financial matters (including the UK financial system) and the ability of members of the public to manage their own financial affairs.

Initially focusing on financial capability and promoting financial planning, in April 2012 the MAS took on responsibility for funding and improving the provision of debt advice too, funding the likes of Citizens Advice, Toynbee Hall and Talking Money.[7]

Most recently, the Government has introduced a number of schemes to incentivise individual savings. The Lifetime ISA, due to be introduced in April 2017, allows those aged between 18 and 40 to open an account and save up to £4,000 per year and receive a government bonus of up to £1,000 per year up to their 50th birthday. Savings can be used to save for a first home, or taken out tax-free after their 60th birthday.[8] Similarly, the Help to Save scheme (2018), which will be available to those earning up to £30,000 per year, will see customers eligible to save up to £50 per month and receive a bonus of 50 per cent (a maximum of £600) – after two years.[9]

In its March 2015 report, the independent Financial Inclusion Commission stated its vision for 2020, in which:

- every adult is connected to the banking system, through having access to – and the ability to make full use of – a transactional account of his or her own
- every adult has access when necessary and appropriate to affordable credit from responsible lenders
- every adult is encouraged and enabled to save, even in small or irregular amounts, to show the importance of a common savings culture, to build up resilience against financial shocks and as an additional resource for retirement
- every adult has access to the right insurance cover for his or her needs, at a fair price
- every adult has access to objective and understandable advice on credit, debt, savings and pensions, delivered via the channel most suited to that individual
- every adult and child receives the financial education he or she needs, starting in primary school and carrying on throughout life and into retirement
- government, regulators, the financial services industry and civil society work together to deliver this vision, before the general election in 2020, under the leadership of a minister for financial health.[10]

For the purposes of this report, financial inclusion is defined according to these goals.

However, the barriers to greater financial inclusion are numerous. Of the 1.5 million people currently without a bank account, only around half want one, often because they have had bad previous experiences with banking.[11] Language problems, lack of geographical access, lack of documentation and a lack of understanding of how banking works are also major hurdles.[12]

The Money Advice Service also estimates that over 8 million adults – over 16 per cent of the population – have problematic debt, with younger adults, larger families and single parents at highest risk.[13] When we look particularly at access to the broader range of financial services, such as loans and overdrafts, existing debts or a poor credit history are key barriers. As a result, much of this report focuses on how to help people avoid getting into problematic debt, and how people can be helped to manage difficult financial situations.

Finally, the FCA's May 2016 report on access to financial services outlines a number of reasons for financial exclusion. These include:

- lack of understanding or engagement with financial services
- lack of internet access or digital skills in the context of the trend towards more online delivery of services
- lack of identity documents required by banks in setting up an account to prevent fraud
- lack of a permanent address, particularly affecting members of the armed forces and private renters
- poor access to insurance for older people, ex-offenders, and those with disabilities or serious illnesses
- automated credit checks failing to take account of an individual's situation or extenuating circumstances.[14]

While the FCA does not currently have a specific objective or duty relating to financial inclusion, it can operate in this space in meeting its existing objectives to protect consumers, enhance market integrity, and promote effective competition, as well as its responsibility to promote equality of opportunity as a public sector body.[15]

In this report, we aim to build on the findings of the FCA's research and the Financial Inclusion Commission's vision, developing practical solutions to financial exclusion.

Why does it matter?

The unbanked and underbanked alike are hit by increased costs from a number of different sources. The Financial Inclusion Commission cites Save the Children's 'poverty premium' of £1,300 as one attempt to quantify it.[16]

For example, extra costs on energy bills can account for a premium of up around £250 per year.[17] Unbanked households and those with a history of problem debt are more likely to have to use prepayment meters and not have the option of direct debit payments, rendering unit costs far higher – an average of £80 more per year.[18] Prepayment meters and the accompanying higher unit costs increase the likelihood of financially excluded households falling behind on their bills, and make it harder for them to manage their consumption.

Similarly, many other good deals for consumers are limited to those who can pay on a credit or debit card, or using direct debit. Mobile phone contracts typically offer a better deal than pay as you go. A home internet connection, which relies on regular monthly remote payments, allows consumers to shop around for the best deals more easily (including by using price comparison websites), and access lower prices for goods from companies without a high street presence and lower operating costs.

The unbanked and underbanked typically face higher borrowing costs too. If people are unable to access credit in the form of a bank or credit union loan or an overdraft, they are more likely to fall into the hands of high-cost forms of credit, such as payday lenders, and increase their chances of accumulating problematic levels of debt.

Those who get into problematic debt find it harder to access a mortgage in the future, thus spending more on rent for longer before getting on the housing ladder. Similarly,

people who are unable to access credit for a car might be more geographically limited in the kinds of jobs they can apply for, making it harder to get out of debt in the long term.

Money problems can also have a significant effect on wellbeing and mental health. The debt charity StepChange recently surveyed its clients and found that 74 per cent said debt had affected their sleep patterns, 43 per cent said they were unable to concentrate at work, and 57 per cent of indebted parents said it had put their relationship under strain.[19] The Royal College of Psychiatrists estimates that one in two adults with debt has a mental health problem.[20] Similarly, a recent survey of 18–24-year-olds commissioned by the Money Advice Trust found that more than a fifth (21 per cent) cannot sleep sometimes because of money worries.[21]

Furthermore, in March 2014, Demos published *The Borrowers*, which cited evidence of there being a relationship between debt and poor physical and mental health, relationship difficulties and employment difficulties.[22] These were then included in a new 'harm index' of various types of personal debt, made up of debt characteristics (eg legal consequences, collection methods) and the impact on the debtor (eg mental wellbeing, risk of multiple debt). On this scale, illegal loans were found to be by far the most damaging, followed by payday loans, council tax, rent arrears and utility bills.[23]

All of these additional harms and costs are bad for individuals, families, and wider local and national economies, and place an additional burden on public finances. Tackling these issues should be in everyone's interests.

Looking ahead

While the Financial Inclusion Commission's vision for 2020 is ambitious, effort will need to be made simply to avoid financial exclusion getting worse over the coming years. Historically low interest rates, which seem likely to remain in place in the medium term, reduce the incentive to save, and thus make it less likely that households will build up a 'buffer' to absorb financial shocks and manage their demand for credit. The

instability in financial markets, and the potential for an economic slowdown and job losses following the vote to leave the European Union in June 2016, could also make it harder for households to build up a savings buffer and increase the likelihood of financial shocks in the form of redundancies, prolonged periods out of work, or children being financially dependent for longer than expected.

Moreover, the long anticipated switch to Universal Credit could have a negative impact on those who are financially excluded. Universal Credit combines six different benefits into a single lump payment to a bank account, so those eligible have to get a bank account to receive their benefits. This is being viewed in some quarters as a useful nudge to help people access financial services and the security and cost savings they can bring, but unless it is accompanied by an appropriate information campaign, and additional support for the most vulnerable, the change could leave people behind.

Moreover, Universal Credit will be paid monthly, in arrears, rather than weekly. Housing support will – at least barring exceptional circumstances[24] – be paid directly to the recipient, where currently Housing Benefit is often paid directly to landlords. Thus, in future many more people on low incomes will have to organise their money more carefully than previously. Where the system has been rolled out, a significant proportion of social housing tenants (up to 90 per cent in one study) have found themselves behind on their rent payments.[25] On the other hand, monthly payments may help people to overcome the 'poverty premium' by giving them the opportunity to make bulk purchases and pay monthly bills by direct debit. The Financial Inclusion Commission estimates that 2.5 million people will need help managing their money in the move to Universal Credit.[26]

Universal Credit is perhaps the most widely discussed change in relation to financial inclusion, but there are a number of other planned policies that could have an effect. From April 2017, under the new Youth Obligation, 18–21-year-olds on Universal Credit will be required

to participate in an 'intensive regime of support', and after six months of unemployment will face a mandatory work placement if they have not gained an apprenticeship or traineeship. Action for Children has recommended that the Government should develop a financial capability element to be included in this regime of support, as a key opportunity to help young people at risk of financial exclusion.[27]

Similarly, with the abolition of means-tested maintenance grants outlined in the 2015 Summer Budget, more students from low-income backgrounds will leave university with large amounts of debt to pay off.[28] Having received large loans much is at stake for students with regard to their spending. Reckless decisions made at the age of 18 or 19 could stay with them for a long time.

Finally, and a little further into the future, child trust funds for children born between 2002 and 2011 will be accessible when the child turns 18, starting from 2020. Parents were sent a starting payment voucher of £50 or £250, with some parents on low incomes entitled to extra payments from the Government, devolved assemblies and local authorities. Parents could also contribute regular sums.[29] When these mature, some young adults will find themselves in control of a large pot of money for the first time, and with it decisions on how to spend or invest it.

These developments highlight the need for financial inclusion efforts to be redoubled, and to ensure that these changes are rolled out in ways that help people to develop their financial capabilities and promote prudent financial behaviour.

2 The third sector

The role of the third sector

This chapter explores the third sector's role in tackling financial exclusion, based on the discussion which took place among a group of senior representatives from a variety of third sector organisations.

Overall, the role of the third sector can be divided up into a few broad, overlapping categories when facilitating financial inclusion. There was a debate among roundtable participants over which was the proper role of the third sector, and where resources should be focused most heavily.

First, there are a number of third-sector organisations involved in providing money and debt advice, including StepChange, Toynbee Hall, the Money Advice Trust (which runs National Debtline) and Citizens Advice. These providers, along with all providers of debt advice and debt management plans, are registered by the FCA, and must adhere to certain minimum standards set out in its Handbook of Rules and Guidance.[30]

Second, there are a number of charitable organisations that provide financial education services, whether delivered in schools, community centres or workplaces. Organisations in this space include MyBnk, which delivers financial education in schools and youth organisations,[31] and Young Enterprise, which runs the LiveSavers scheme, setting up savers clubs in schools.[32] The Money Charity runs workshops for adults in community groups and workplaces.[33] These are explored further in chapter 4.

Third, there are organisations that provide direct financial support in the form of grants or loans. In most cases these are ring-fenced for members of a specific group the charity exists to help. For example, the Royal British Legion offers small hardship grants to cover the cost of essentials such as

household appliances, food, clothing, mobility vehicles and home adaptations for those with a disability.[34] Elizabeth Finn Care offers direct financial support to people in hardship who have worked in certain professions, including finance, agriculture, science and law.[35] The national charity Turn2us signposts people towards various grants and loans that are available, and provides some grants itself.[36]

Fourth, many organisations, particularly those operating at a national level, also try to engage government and other stakeholders to address financial exclusion, and warn policy makers when new measures might make the situation worse. For example, Toynbee Hall research has demonstrated how financial inclusion could help to mitigate the impact of welfare reform.[37] The Joseph Rowntree Foundation, too, has campaigned against certain aspects of Universal Credit that they claimed would make it harder for people to claim benefits, such as a requirement to claim online.[38] The Prison Reform Trust and Unlock have previously called on banks to do more to help ex-prisoners to open accounts and apply for credit.[39]

Fifth, there are a number of third-sector organisations that do not have a specific mission to promote financial inclusion, but because of the areas they focus on come into contact with a large number of financially excluded individuals. These include housing associations, food banks and church-based groups. These organisations may be able to provide certain financial inclusion services – without straying into money or debt advice – but most importantly are uniquely placed to direct financially excluded people or those at risk of financial exclusion to appropriate advice, support and financial products, who otherwise might not be picked up by organisations providing those services.

Finally, there are around 350 not-for-profit credit unions operating in Great Britain, with total assets of £1.3 billion.[40] There are also a number of other third-sector organisations involved with the direct provision of financial services. For example, All Saints Church in Sittingbourne, Kent, has opened a 'community bank' with a partner credit union to promote access to financial services in their parish.

Community development financial institutions have also diversified into service provision for individuals, including personal credit.[41] These institutions are explored further in the next chapter.

Expert insights

The reach and strengths of the third sector

Roundtable participants discussed this wide range of third-sector activities in the financial inclusion space, but there was a consensus on one particular area where it was felt that third-sector organisations are well-placed to do even more: help financially excluded people who would otherwise be hard to reach.

There are a number of reasons for this. First, many of those who receive support from local not-for-profit organisations also suffer from, or are at risk of, financial exclusion, for example, food bank visitors, housing association tenants, refugees, youth club attendees and offenders on probation. Places of worship, too, are well placed in this regard: the Church Credit Champions Network helps local churches to help their communities with issues of money, debt and credit.[42] Coming into contact with those who need help is the first step.

Second, local charities know their service users and local communities well, and are often well integrated with the local infrastructure that helps those in need, including local public services. One roundtable participant noted,

There's something… unique about the third sector which is the ability to be holistic… If we want the third sector to be as effective and as transformative as it can possibly be, we need to build on its attributes that it can get down to the very local level, it sees people in a holistic sense, and that it's able to work across those different spaces to kind of leverage up the very local knowledge about [for example] which credit unions are really performing.

These attributes enable local third-sector organisations to make and receive informed referrals, and signpost people to appropriate services. In the case of financial exclusion these services might include money advice, financial education providers, credit union services, welfare advice or assistance from the local authority, or even commercial bank services. Many of these organisations have their own marketing strategies, but tapping into groups that would otherwise be hard to reach requires local knowledge, networks and referrals, all of which local not-for-profits are well placed to deliver.

Third, many third-sector organisations have a reputation as trustworthy and neutral sources of advice. Arguably, banks have a responsibility to remedy this and restore trust in the sector, but many people are reluctant to trust the claims of any organisation that has a financial interest in their personal financial decisions. This lack of trust, combined with a lack of financial understanding and capability, means people may not listen to their bank when they advise on which debts to prioritise, or when they explain that their overdraft facilities offer far better rates than a payday loan. The same could be said for price comparison websites, which have been criticised in recent years for their lack of impartiality.[43] One participant argued that third-sector organisations offer 'a place where people can go where they don't worry about whether the person giving advice is doing it for money… where actually people can go without fear of judgement'.

Constraints and gaps

Participants reported that regulation was at times a hindrance to the third sector's efforts. Debt counselling is regulated by the FCA, and it was reported that non-specialist charities have been struggling with the associated guidelines, which constrain their ability to help those who come to them.

Many housing associations, for instance, have financial inclusion teams that provide free information and guidance to their residents to help them manage their rent, but feel severely constrained in what they can say:

If an individual comes up to us and says 'should I pay my mortgage, should I pay my credit cards?' we can't actually say yes.

There is a clear 'chilling effect' here, with staff in organisations believing that the law is more restrictive than it really is. In fact, for advice to be regulated it must relate to a specific investment and be given to the person in their capacity as an investor or potential investor (or as an agent for an investor or potential investor) and relate to the merits of them buying, selling, subscribing for or underwriting the investment. For example, guiding someone through a decision tree where they make their own decision would not normally be considered giving 'advice' for regulatory purposes.[44]

In its Financial Advice Market Review, the FCA found two areas that stakeholders had highlighted as difficult in its call for input:

- navigating the boundary between providing helpful guidance based on a customer's circumstance (such as a financial 'health check' prompting customers to think about their financial needs and priorities) and straying into an implicit personal recommendation
- navigating and managing the risks of the different regulatory requirements that apply depending on whether a firm is providing factual information on particular investments, or moving beyond that into advising on the merits and risks associated with buying or selling particular investments (non-personalised regulated advice).[45]

The report stated:

As a result of these concerns, a number of stakeholders have said that they have designed their current guidance to stop 'a safe distance' short of where they perceive the regulated advice boundary to be… In choosing to manage the risk by stepping back from the regulated advice boundary, firms are providing less support to consumers than they would like and ideally be able to.[46]

There is also a concern about the regulation of consumer credit. Housing associations were concerned that arrangements agreed with tenants to pay off rent arrears may constitute a 'credit agreement' and thus be subject to consumer credit regulations. One participant commented:

We will no longer be able to effectively de facto grant any form of credit to our customers without permission from the FCA: it will become a regulated activity… I can't venture into any arrangement with anybody to pay me beyond a sort of 12-month period of ordinary credit terms without having full regulation, or permissions from the FCA.

While some housing associations have gained these permissions, another housing association representative noted:

Various housing associations have had some issues recently where they've fallen foul of these permissions… I think it will cause people to shy away from trying to help people off their own balance sheets to manage their finances, it will push us into a more commercial position I think… where we potentially could have helped people and worked with them.

One particular gap in the current architecture of the third sector in this space is financial education and capability. While there is a consensus that it is important as an early intervention against problem debt and other causes of financial exclusion, it was felt that the Government was more focused on money and debt advice for those already in difficulty, rather than tackling problems at source: 'Everybody thinks that financial capability and education are essential but nobody wants to pay for it.'

The Money Advice Service's Financial Capability Strategy is a particularly important pillar of the wider financial inclusion strategy in this context.[47]

Joint working

Joint working is crucial, both between charities, and between public, private and third sectors. Regarding the former, charities that don't have a specific financial inclusion mission, but do regularly come into contact with financially excluded individuals, could benefit from more assistance from financial inclusion charities, particularly in providing an 'off-the-shelf' offer to help. For example, it would be beneficial if food bank volunteers were able to offer financial guidance to those using the food bank.

On partnership across sectors, the financial services industry funds StepChange, the debt charity, and experts felt that this funding model could also be applied to the financial education space, which could help plug the identified gap in financial education, and assist the Money Advice Service to deliver on its aspiration for all children and young people to be receiving high-quality financial education by 2025:

Wouldn't it be nice if we could find some StepChanges in the financial education space, or in the capabilities space, where it wasn't reliant on grant subsidy?

The Money Advice Service currently spends just over half of its budget (£40.7 million out of £78.7 million) on funding external bodies to deliver debt advice, while funding for financial education has been more limited since it took on responsibility for the coordination of financial education in schools in 2015. Examples include a £700,000 financial education fund delivered in partnership with the Education Endowment Foundation, as well as funding for individual programmes through the Financial Capability Strategy, which includes up to £7 million of funding over ten years.[48]

In addition, just as local charities are well placed to signpost their service users to appropriate services, it is important that local public services as well as private companies follow suit. Banks must help customers in difficulty to get the impartial support they need by signposting and referring them to the appropriate help

and advice. Similarly, those working in local public services, including the JobCentre Plus advisers and council staff dealing with welfare and housing issues, should signpost and refer people to local money advice services and credit unions where appropriate.

Key findings

- Third-sector organisations can play an important role helping financially excluded people who would otherwise be hard to reach, whether through local knowledge or their reputation as trustworthy and impartial sources of advice.
- Certain regulations are hampering the third sector's efforts, whether directly or as a 'chilling effect', as a result of insufficient information and communication.
- Joint working, within the third sector and between charities and banks, could be improved.

3 Credit unions

The sector today

This chapter explores how credit unions have tackled financial exclusion and what further opportunities there may be for growth. We begin by providing an overview of the sector.

First given a formal legal structure under the Credit Unions Act 1979, credit unions are mutual financial institutions providing loans and savings accounts to their members. They are owned and controlled by members, and have a 'common bond' that determines the principles on which someone can join. Usually this is either geographical, associational or occupational.[49] The core purpose of credit unions was outlined in the act as follows:

- the promotion of thrift among members through the accumulation of savings
- the creation of sources of credit for the benefit of members at a fair rate of interest
- the use of members' savings for their mutual benefit
- the training and education of members in the wise use of money and the management of their financial affairs.[50]

The British credit union sector is younger than in many countries, with few existing before the 1970s. Originally founded as a means of providing finance to underserved communities, they began by offering simple savings accounts and loans, but have since evolved into other financial products, including mortgages and current accounts.[51]

In 2015, British credit unions boasted over a million members, with total loans worth £727 million and total assets worth over £1.3 billion.[52]

Figure 1 **The growth of British credit unions, by number of members, shares, loans and assets, 1980–2015**[53]

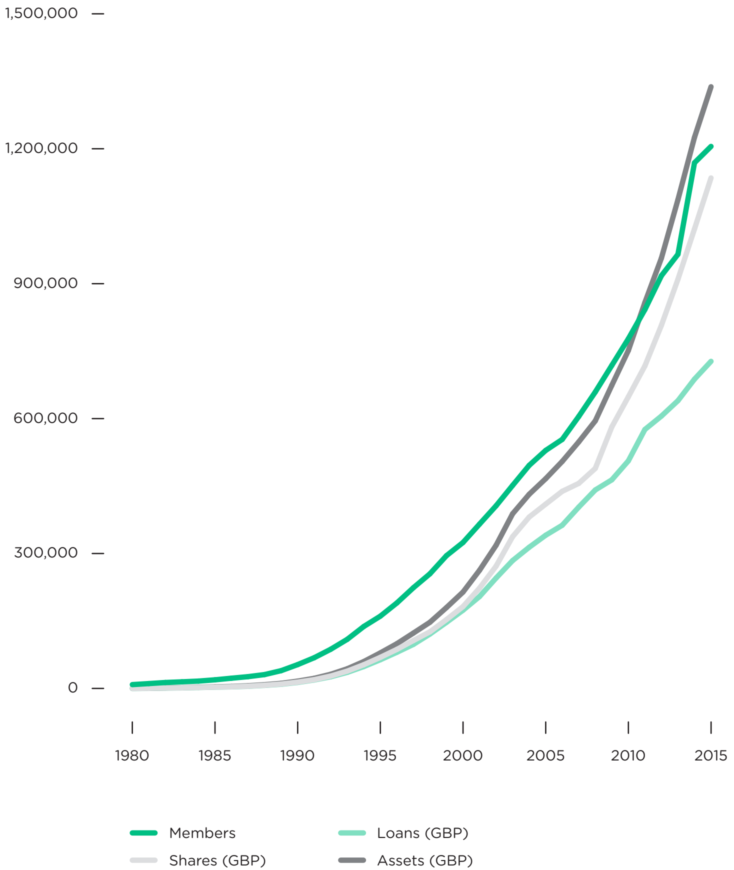
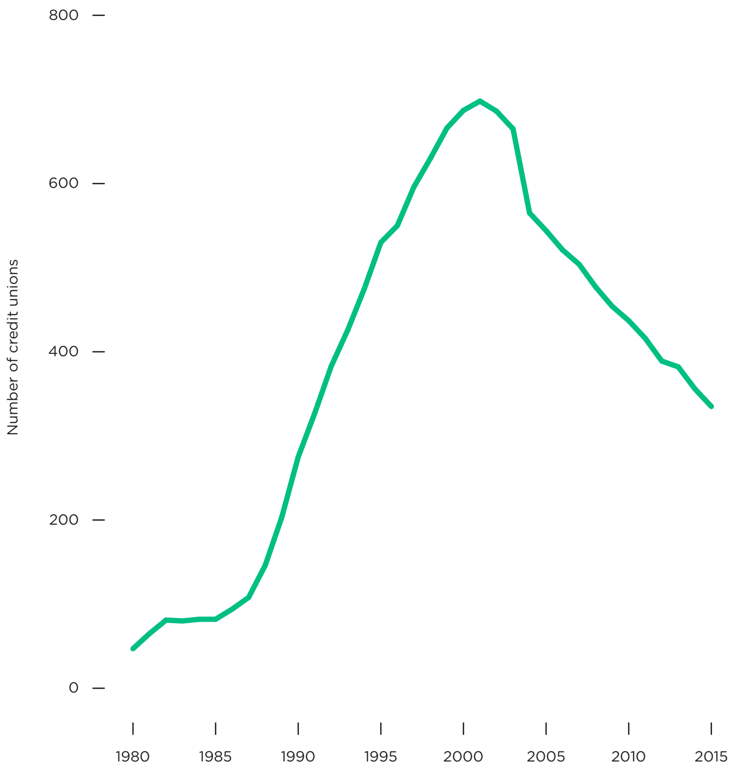


Figure 2 **The number of British credit unions, 1980–2015**



Credit union membership and assets have doubled and trebled respectively in the last decade. However, over the same period the number of credit unions is actually estimated to have fallen from 568 in 2005 to 362 in 2014, demonstrating consolidation in the market leading to fewer, larger providers (see figures 1 and 2).[54]

Successive governments have taken measures to promote credit unions. In the early 2000s, the Government relaxed the conditions for the common bond, removed the membership limit of 5,000, extended the maximum loan periods, and allowed credit unions to borrow from other credit unions and banking institutions.[55]

Credit unions were moved into two categories: version 1 credit unions are smaller, and have lower minimum capital requirements, but face greater restrictions on their activities. Version 2 credit unions are larger and have higher capital requirements, but can offer additional services such as mortgage lending and larger loans over longer periods.[56] This binary distinction was abolished in February 2016, although the principle of those with greater capital having additional freedoms is preserved.[57]

The Department for Work and Pensions' Credit Union Expansion Project provides £38 million to the ABCUL to help the sector grow and modernise, with a particular focus on helping people on low incomes. This follows a £137 million Growth Fund for credit unions from the previous government, which aimed to help them to lend to deprived and excluded communities.[58] An evaluation of the Growth Fund conducted by Bristol University indicates that 317,800 Growth Fund loans were made between 2006/7 and 2010/11; it was estimated that total interest savings accruing to borrowers was between £119.8 million and £135.5 million.[59]

In April 2014, the monthly interest rate that credit unions could charge for loans was raised from 2 per cent to 3 per cent.[60] This helped credit unions to lend sustainably (mitigating the effect of the withdrawal of subsidy following the expiry of the Growth Fund) to more excluded customers who sought smaller, more short-term loans.

The Government's statements surrounding these measures make clear that the intended goal is not primarily to encourage credit unions to compete with mainstream banking, but to give them the flexibility needed to tackle financial exclusion through providing banking products to those who otherwise cannot access them, as well as debt advice and affordable loans.[61]

Credit unions are not the only alternative providers of financial services. Community development finance institutions, also known as responsible finance providers, unlike credit unions, don't have members, do not take deposits, and cater for businesses as well as individuals. They are often developed in partnership with others, such as housing providers. In 2014, Responsible Finance providers lent £72 million to businesses, £78 million to social enterprises and £19 million to 42,000 individuals. Responsible Finance, the representative body for the industry, estimates that this lending saved 17,000 people from high-cost lenders and £4 million in lower interest payments.

Unlike credit unions, there is no cap on the level of interest that community development finance institutions can charge on loans. In practice, their interest rates are higher than those credit unions offer, but still far below those of payday lenders.

Expert insights

Participants at our roundtable, including a number of representatives from the credit union and community finance sector, discussed the key benefits and challenges for the sector.

Advantages of credit unions, and opportunities for expansion

A number of benefits were discussed in relation to the wider not-for-profit sector too (as outlined in chapter 2 above), such as the fact that credit unions know their customers well, whether through the common bond or the relationship with employers, and that they can play a signposting role for those they are unable to help directly, particularly those in a crisis who would benefit most from free debt advice.

Perhaps the key benefit (and unique selling point within the sector) of the credit union and community finance sector is that they are not profit-maximising. Therefore, they can offer services to people who the commercial banking sector will not provide for, who might otherwise take out high-cost, short-term loans that can lead to a spiral of debt. However, this key strength is linked to a key challenge for the sector: the need to be sustainable and, as one expert put it, to get away from the 'dependency on a grant' culture.

A second key benefit of credit unions is that they help to promote savings. Many credit unions require new members to save before they can access credit, or to make a contribution to savings while repaying a loan. This helps households to develop a 'buffer' to shocks to their finances, and helps to reduce demand for the short-term debt that can sometimes lead to problematic debt and ultimately financial exclusion. One participant said:

I sometimes describe the [credit union] loans as a 'trick' to get people saving because people say 'I will start saving when I've cleared off my overdraft… when I've paid off my student debt, when I'm retiring' so people don't start saving. Whereas, if we start saying well, instead of taking your next car loan, you use the money from the credit union, then you start saving because there's a compulsory savings element, with pretty much all credit unions.

Experts noted at our roundtables that in countries that do have a large credit union sector, this growth has taken place through employers, rather than marketing. Participants agreed that promoting payroll savings schemes in partnership with employers was an important route to expanding the sector. The Department for Work and Pensions is taking the lead in this area, with the launch of a new credit union savings scheme for its 85,000 staff members.[62] There is also a new credit union, RetailCure, being set up for employees in the retail sector.[63]

Challenges facing the sector

However, awareness raising is a huge challenge for credit unions, and to some extent the commercial banking sector too. Banks have found that 10–40 per cent of their customers who used payday loans would have been eligible for a bank loan or credit.[64] Similarly, a 2013 report by the Department for Business, Innovation & Skills found that 24 per cent of online payday loan customers could have used a mainstream credit source. Given the lower eligibility requirements for credit unions, it is likely that this figure would be even higher if they were taken into account.[65]

Ensuring that more of these customers consider credit unions before turning to payday loans companies would help to reduce levels of problematic debt. Branding and consistency are key, in order to provide potential members with a clear understanding of what credit unions are and what they offer.

However, awareness of the existence of credit unions is not enough on its own; a proper public understanding of the role of credit unions is important too. Credit unions need to be able to attract a broader section of society to their services. Instead, they are often seen as a potential wholesale replacement for the payday loans industry, or a remedy for those who already have problematic levels of debt. This means that people often go to, or are referred to, credit union services when it is already too late, as they are already at too high a risk of defaulting for credit unions to lend to them responsibly.

Second, credit unions need to build their capacity. Credit unions range from tiny organisations fulfilling very basic savings and loan functions requiring face-to-face transactions during limited operating hours, to those with huge memberships that offer a range of services close to those of a bank. Offering a similar level of convenience to a bank – including current accounts, current accounts with online banking, direct debit payments and debit cards – is a considerable difficulty for credit unions, as they operate on a smaller scale, and have far more limited means to generate income. Collaboration and resource sharing can help to unlock capacity that individual credit unions alone cannot achieve.

As part of the Credit Union Expansion project, ABCUL is developing a new shared software platform for members. To deliver this and other sharing of back-office functions and costs such as payroll and stationery, ABCUL has set up a subsidiary, Cornerstone Mutual Services, to develop and manage the services.[66] There is also an Automated Lending Decision tool, which is used by at least 68 credit unions, helping them to grow their loan books, reduce bad debt, become more efficient and enable members to build a credit profile.[67]

Finally, there are challenges over ensuring the long-term sustainability of credit unions. First, capital requirements also represent an important challenge: Credit unions must hold capital of at least 3–10 per cent of their total assets, depending on their size.[68] Representatives of the sector told us that if they perform well, assets can rise too quickly:

Without third party injections of capital… actually you probably can't grow faster than about 15 per cent a year, unless you get ridiculously profitable, and of course if you get ridiculously profitable then you have to ask yourself, what are you doing for your members in terms of loan rates and savings?

Similarly, credit unions reported that they can find themselves in financial difficulties if they allow their deposits to grow at a much faster rate than their lending. This links back to awareness raising: a survey conducted in 2014 found that only 8 per cent cite credit unions as a place to get a loan.[69] Contributing to *Co-operative News* in January 2016, Mark Lyonette, Chief Executive of ABCUL, said,

Credit unions continue to grapple with falling lending in relation to assets as deposit growth outstrips lending growth on average. This puts pressure on credit unions' sustainability as interest income from lending is the main source of income for credit unions.[70]

Not only does this threaten the sustainability of larger credit unions – many of which have moved in recent years to paying fixed rates of interest rather than dividends – it is particularly problematic for financial inclusion if it causes these larger credit unions to slow their efforts to promote savings among members in favour of promoting lending. Promoting saving is a key social function of credit unions, which helps to reduce demand for short-term credit that can lead to problem debt and financial exclusion, and regulatory drags on their ability to do so should be avoided where possible.

Key findings

- The credit union model, particularly the fact that it is not 'profit-maximising', allows the sector to offer services that the commercial banking sector will not, who might otherwise take out high-cost, short-term loans, which can lead to a spiral of debt.

- Credit unions' role in promoting saving behaviour is particularly valuable to tackling financial exclusion.

- Credit unions still face challenges in raising awareness of their services, capacity building and ensuring their long-term sustainability.

4 Education and financial capability

The Government and various public bodies have introduced a number of initiatives to promote financial education and capability in recent years. Young people tend to have lower levels of financial capability than older people, and recent evidence suggests many under-25s are building up significant levels of debt. The Money Advice Trust reports that 37 per cent of 18–24-year-olds hold one or more credit cards, an overdraft or other form of borrowing, owing a combined average of £2,989 (excluding student loans and mortgages), with 51 per cent saying they regularly worry about money.[71] This chapter discusses how these initiatives can be a form of early intervention against financial exclusion and problem debt.

Financial education

In 2014, the Government introduced a statutory requirement for maintained schools in England to teach financial education as part of the curriculum for citizenship education in all four countries in the UK.[72] The citizenship curriculum states that key stage 3 pupils (aged 11–14) should be taught about the functions and uses of money, and the importance and practices of budgeting and managing risk. Key stage 4 pupils (aged 14–16) should be taught about income and expenditure, credit and debt, insurance, savings and pensions, financial products and services, and how public money is raised and spent.[73]

In addition, the mathematics curriculum has been updated to ensure young people leave school with an understanding of the skills needed for personal finance. Both the GCSE and the new core maths qualification for those in post-16 education include placing mathematics in a financial context.[74]

Financial and enterprise education can also be taught as part of personal, social, health and economic (PSHE) education. This is a non-statutory subject, although the curriculum states that 'schools should make provision for PSHE'.[75]

A recent survey of teachers commissioned by the All-Party Parliamentary Group (APPG) on Financial Education for Young People provides some insight into the degree of buy-in from teachers and schools: 94 per cent of secondary school teachers agreed or strongly agreed that financial education gives students an essential life skill, and 95 per cent described it as important or very important. Furthermore, 75 per cent of citizenship teachers confirmed that they were teaching financial education.

However, 62 per cent of teachers felt that financial education should be taught within PSHE. Just 35 per cent of teachers described financial education as being a high or medium priority for their school, and less than one in three (28 per cent) believed that their school had put more emphasis on financial education since it became statutory.[76]

Delivery of financial education is divided among a number of different types of organisations, including schools, charities and community organisations. The private sector also plays an important role, funding interventions estimated to reach around one million children and young people every year.[77]

While teachers are the main deliverers of financial education in schools, third parties are also involved in some instances. For example, the Personal Finance Education Group (www.pfeg.org/services), which is now part of Young Enterprise, delivers educational and interactive workshops in schools which aim to develop 'core knowledge, skills and attitudes relating to money and money management'. The Personal Finance Education Group also provides training for teachers delivering financial education, as well as free support and advice.

Interventions are also taking place outside of the classroom. Lloyds Banking Group's Money for Life programme provides online resources and three Open College Network accredited qualifications. These enable practitioners in a

variety of institutions including charities, community groups, housing associations and credit unions, as well as further education colleges, to help people to develop money management skills.[78]

The Money Charity works with both children and adults to develop financial understanding. It delivers Money Workshop sessions in schools and colleges, and provides a 'Student Moneymanual' containing guidance on student finance and managing money. It also works through churches, housing associations, credit unions, charities, local councils and prisons to help adults in need of financial education.

Despite these interventions, levels of financial knowledge among young people appears to be low. In its 2011 report *Economics, Business and Enterprise Education*, Ofsted found that students often had only a vague idea about interest rates and their impact, inflation, why prices vary and the ownership of companies.[79] ING research published in 2013 found that just 5 per cent of adults believed young people were leaving school with the financial skills and knowledge they needed to manage their finances. Six in ten felt that managing money was more difficult than it was ten years ago.[80]

The APPG's research, published in May 2016, also found the following:

- Up to 70 per cent of students are still leaving formal education without ever having received a structured lesson on personal finance.
- Low levels of financial education were particularly acute among female students.
- Only 28 per cent of 17–18-year-olds receive lessons on money management before joining university or the world of work.[81]

Moreover, evidence on the factors behind higher financial literacy, including financial education provision, is limited. A meta-analysis of ten studies conducted around the world found that while financial education programmes did improve long-term financial behaviour, the impact was extremely small, explaining just 0.1 per cent of the variance in financial behaviour, with weaker effects in low-income samples. The authors also found that 'even large interventions with many hours of instruction have negligible effects on behaviour 20 months or more from the time of intervention.'[82]

In addition, the OECD-run Programme for International Student Assessment (PISA) published the results of a study in 2014. Although the UK did not participate in the study, the report found a number of interesting trends explaining variations in financial literacy that may also apply in the UK context. First, it found a number of correlations between certain demographic and academic traits and higher financial literacy, which was found to be higher among students from better off households, and a positive correlation with mathematics and literacy performance. Second, there was a correlation with students' learning mindsets: traits such as perseverance and openness to problem-solving were positively associated with financial literacy.[83] This relationship offers potential avenues for early mindset interventions explored in the 2015 Demos report *Mind Over Matter*,[84] and merits further study to establish whether these findings would be repeated in the UK.

Financial capability

These and other studies suggest that the ability to manage one's personal finances efficiently and prudently is not simply a matter of knowledge of financial know-how – such as understanding what the annual percentage rate (APR) is and the difference between overdrafts and loans – but also about developing habits, attitudes character traits and practical skills. Taken together with knowledge, these factors may be termed 'financial capability'.

The Money Advice Service's 2015 Financial Capability Survey found that large proportions of the population lack practical skills: over a third (36 per cent) cannot calculate the impact of a 2 per cent interest rate on £100 in savings, and 22 per cent cannot read a bank statement. Substantial proportions also reported attitudes and behaviour that can lead to problem debt: 14 per cent do not believe that it is important to track income and expenditure, and 20 per cent (29 per cent of 18–24-year-olds) reported that they often buy on impulse.[85]

Following on from the Financial Services Authority's Financial Capability programme in 2006, the new Financial Capability Strategy was formally launched in October 2015. This is a ten-year strategy produced by the Money Advice Service and the UK Financial Capability Board, which includes representatives from government, regulators, the financial sector and third-sector organisations. It is built around two concepts:

- collective impact and cross-sector coordination rather than isolated interventions
- testing and learning to determine what works in order to deliver evidence-based interventions, with resources steered towards activities proven to work.[86]

In order to improve the understanding of the effectiveness of financial capability interventions, the Money Advice Service has launched an Evidence Hub in collaboration with the Personal Finance Research Centre at the University of Bristol.[87] The hub aims to support the use of evidence in intervention design and funding, to make evidence over what works more accessible, and to promote high-quality evaluation. The hub includes, for example, an evaluation of Citizens Advice's Quids In programme: a voluntary financial skills programme delivered to 150 social housing tenants. The evaluation found that over three-quarters of participants had benefited financially from the programme, with positive money management, savings behaviour and attitudinal changes.[88] Similarly, the Money Advice Service's £7 million What Works

scheme provides funding to evaluate existing interventions, and funds existing interventions that have been proven to work, the evaluation of new interventions, and efforts to raise the professional standards of interventions.

A 2013 review of evidence on habit forming and learning by young children by academics at the Faculty of Education at Cambridge University, commissioned by the Money Advice Service in advance of the launch, offers a number of key insights relevant to targeting financial capability interventions.[89]

In particular, attitudes and habitual responses, such as whether we avoid bills and how we value money, can be shaped by early childhood. Other aspects of financial capability, such as the ability to override these habitual responses, reach adult levels by the age of 12.

This is important because we know that children's self-control is as important a predictor of later-life financial wellbeing outcomes – including savings, investments and self-reported money management success – as IQ and socio-economic background.[90]

With this insight in mind, the Financial Capability Strategy advises that financial education is most effective in the following stages:[91]

- ages 3–6: developing appropriate executive functions, such as self-control
- ages 6–12: financial socialisation and basic skills development, e.g. understanding consumer culture
- age 13+: experiential learning and 'just-in-time' financial skills education such as managing one's own money with parental oversight
- age 17–18: skills-based interventions important just before financial decisions have to be made, such as when a young person starts making independent financial decisions.

The Financial Capability Strategy paper argues that with the current focus on secondary school financial education, 'There is a lack of widespread interventions in primary and pre-school, so many teachable moments are missed, leading to the much harder task of behaviour change, rather than habit formation.'[92]

Expert insights

Our roundtable included representatives from a number of organisations involved in the delivery of financial education and capability to all age groups in the UK.

Financial education in schools

Most participants were sceptical about the current provision for financial education in the national curriculum for secondary school pupils, pointing out that academies and free schools were not bound by the document. Without inclusion in Ofsted's inspection framework, there is little to incentivise schools to prioritise financial education with so many competing demands on teachers' time.

However, participants acknowledged that curriculum inclusion does at least help teachers who want to teach financial education to make a case to their school. One commented:

Those who want to do it can now say 'it is on the curriculum, we've got to do it', so it perhaps give those teachers a reason.

Some criticised financial education's placement within citizenship:

It's a bit-part in a bit-part subject. It isn't examined and Ofsted aren't that interested.

It's probably in the wrong place in the curriculum… most citizenship teachers don't see this as being part of their job.

However, this was countered by some enthusiasm for the new maths GCSE and core maths qualifications, which introduce more of a financial context for mathematical knowledge to be applied to. One participant argued that in order to genuinely improve pupils' financial understanding:

There needs to be some collaborative working with PSHE, with citizenship, with other areas of the school, because maths teachers just don't have the time to go into those additional steps [beyond financial contexts].

Participants also discussed the difficulty of persuading schools to take financial education seriously, citing in particular the lack of impact evidence:

It's very, very difficult to give a rationale [to deliver financial education]. We don't have any longitudinal studies that say it has a huge amount to impact; it doesn't feature into any performance or league tables, so we need something that enables schools to see what the value is for themselves.

Participants drew a distinction between financial education in schools which tends to focus on knowledge and building financial capability more broadly. One argued:

The curriculum is very, very specifically… a theory test. It's 'tell me what a pension is, tell me what insurance is'. There is almost zero point in teaching a child what a pension or insurance is… We [have to] make it about attitudes and behaviours… It's about understanding the role that money can play in your life and being in control of your money.

Our experts discussed at length possible ways to bring practical learning and promotion of positive financial behaviour into schools. The involvement of credit unions, bringing them into the schools to encourage children to start saving early, has the benefit of promoting saving behaviour by default, and helping children to learn about

interest (or dividends) through their own balances. A number of Scottish local authorities have tried this approach, with South Lanarkshire a particularly successful example: Lanarkshire Credit Union's Savvy Savers scheme teaches children how to manage their finances, but also works with schools to help them establish their own credit union and teach children to run them independently.[93] Building on the success of Savvy Savers, in March 2016 the Scottish Government committed £300,000 to help credit unions develop saving schemes in schools.[94]

Targeting

The overall message from our expert group was that successful attempts to improve financial education and capability depend on targeting the right demographic groups at the right time with the right materials.

First, participants emphasised the importance of developing positive character traits at an early age, but noted that little of the work in this area is currently co-ordinated with wider financial capability objectives. The character 'policy community' should ensure it works closely with the financial inclusion community. The former could see financial capability goals as another way of making the case for character education, while those advocating financial inclusion strategies should see the character community as a useful resource of research and expertise that can be leveraged to promote financial capability.

Second, alongside early-years character development, and in line with the Financial Capability Strategy, participants argued that the transition to independent living in young adulthood is a crucial time, one saying:

> *A lot of good foundational stuff is done through schools, but it's… very different from what you can achieve when young people, for the first time, are taking on real responsibilities for their money.*

Participants also cited examples of just how much young adults can struggle with their finances, for example failing to understand when a bank statement was showing a negative balance. Much of this is down to a lack of basic financial capability, but the complexities of managing one's personal finances and getting the best deals was also acknowledged:

There's a reality that for lots of people this stuff is so complicated, so confusing, so overwhelming, that they don't even begin to engage with it… Lots of young people will say they're not good at maths, they don't understand basic calculations, they make an assumption that therefore they won't understand their finances, so they never even begin on that journey to learn about it.

It was suggested that the offer of a single product, potentially a reworked version of the Lifetime ISA, could help to reduce some of the complexities around borrowing and saving:

Particularly for people on lower incomes, or younger people who are just starting to save… you want one product which does everything for you… You want one product which, potentially the Lifetime ISA could become, especially if you're able to borrow back from it, which they are kind of consulting on.

If you could actually just save everything in that, then you would save… You know that would do your pension, it could also do your mortgage but you could also then if you need it borrow back from it. I think that begins to simplify things.

The young adult stage is particularly important for young people leaving care, because they have neither the financial buffer that parents are often able to provide, nor the informal advice. Participants with experience in this space argued that personal advisers for care leavers were often managing large caseloads, and were only able to step in when the situation had reached a crisis point.

Another key life point for many is becoming a new parent, not only because it throws up new financial challenges and additional costs, but also because it is a novel experience, and a point in life where people are willing to take advice:

Everybody knows they've got to do more with less and they want to make a fresh start, and they're also prepared to admit they don't know anything… It's the one point where you are weak… and happy to be led.

Finally, experiencing money or related problems can in itself be an important life event. The third sector in particular is well suited to providing holistic support to deal with multiple issues, for example around benefits or tenancy, which can cause, or be caused by, additional money problems. Jointly funded by the Money Advice Service and the Scottish Government, Making Advice Work is a grant funding programme run jointly by the Money Advice Service and the Scottish Legal Aid Board, funding a number of interventions to provide debt advice as one element of wider packages of specialist support.[95]

The taboo around money

Apart from exceptional windows of opportunity like those outlined above, many people find it difficult to discuss debt, financial problems and even money in a more general sense. In the UK at least (some participants saw it as a particularly British trait), money is a taboo.

A YouGov survey commissioned by Money for Life and Home Start in 2014 found that less than one in four (22 per cent) adults felt confident talking about financial concerns with other adults, including family and friends, with 29 per cent saying they would feel awkward. This reluctance appears to extend even into the immediate family: one in five adults said they did not know how much their partner had in savings, and more than one in ten did not even know their partner's salary. Almost a third felt it was inappropriate to involve children in discussions about money.[96] A recent

University College London study found that adults were more willing to talk about the intimate details of their romantic relationships than they were to talk about money.[97]

This taboo is problematic for two reasons. First, adults are less likely to seek help when they get into financial difficulty, whether from formal advisers or from friends or family. In our 2014 report *The Borrowers*, Demos found that many of the strategies people use to tackle debt – such as borrowing from family and friends and talking to a creditor directly – can be hampered by the stigma people feel around getting into debt.[98]

To avoid problematic debt and financial exclusion, adults must be willing to discuss problems early on before the situation becomes a crisis. To encourage future generations to break the taboo, the latest version of the Money for Life programme, which is funded by Lloyds Banking Group and will be delivered by UK Youth, will employ peer-to-peer learning within youth clubs. Not only should this model help to encourage people to talk about money, it has also been shown to be an effective way for children and young adults to learn.[99]

Second, adults are less likely to discuss money with their children as they grow up, so an important potential source of financial education is lacking. One participant said:

Observing parents, the way they act with money and the way they use money, has a huge influence on forming young children's minds as they grow.

Therefore, a big part of promoting financial capability is ensuring parents talk to their children about money, and have the financial capability themselves to pass on in the first place. Moreover, participants felt that this can work the other way around too, with children raising the issue with parents, emphasising the importance of dialogue between the generations. An example of how this can be done is the LifeSavers programme, which is focused on primary schools specifically because it is a route to engaging parents and members of the

local community. A collaboration between the Personal Finance Education Group (now part of Young Enterprise), the Credit Union Foundation and the Archbishop of Canterbury's Task Group for Responsible Credit and Savings, LifeSavers creates school-based savings clubs as a basis for financial education within the schools:[100]

We wanted to work with the children… and give them that theoretical learning in the classroom combined with the practical learning of the savings club which operates in the schools. But also to take the message home and to have those conversations with parents… so that then parents might become members of the credit union.

Similarly, alongside Savvy Savers, Lanarkshire Credit Union runs a Recommend a Friend competition, where children are encouraged to tell their parents and other family members about being part of a credit union, with those who are successful entered into a prize draw.[101]

Looking ahead

All of these elements will be crucial if we are to improve levels of financial education and financial capability: improving the curriculum and promoting financial education in schools, getting the right forms of learning (including practical skills and learning by doing) to the right demographic groups, breaking the taboos around money and debt, and encouraging people to talk about budgeting and savings across generations.

Above all, financial education and capability must be driven by the evidence. The What Works scheme within the Financial Capability Strategy will go a long way towards improving the evidence base, to determine what kinds of interventions genuinely improve knowledge and influence financial behaviour. Going forward, longer-term longitudinal studies will be needed to measure the long-term impact of the existing provision of financial education in schools, and which interventions are proven to have long-term impacts.

As the evidence base develops, securing funding for those programmes proven to work will be crucial. Given the vast disparities between funding for early interventions such as financial education, and crisis management through debt advice, delivering successful educational interventions at scale will be a key challenge in the coming years.

Key findings

- Financial education is not currently as effective as it could be, with levels of financial capability still very low among the adult (particularly young adult) population.
- There are key 'life points' where financial capability interventions can be particularly effective, such as early years, young adulthood and becoming a new parent.
- There is still a strong taboo around discussing money, which hampers efforts to improve financial capability.

5 New technology

This chapter explores how technological advances present opportunities for greater financial inclusion, but also the risks associated with the potential for an increased digital divide.

Digital and financial inclusion

The UK's relationship with technology is one of significant inequalities. At one end of the spectrum, the UK is a global leader in financial technology, second only to the US in its overall investment in the sector.[102] A new generation of programmers, data scientists and innovators is helping to power economic growth in financial services, primarily concentrated in and around the City of London.

At the other end of the spectrum, over one in five UK adults – around 13 million – lack basic digital skills, such as being able to send and receive emails, use a search engine, buy items from a website and browse the internet. Digital exclusion is concentrated in Wales and the Midlands, and among older people and those on lower incomes.[103]

In 2014, the Government published its digital inclusion strategy, setting out ten key actions, including making digital inclusion part of wider government policy, establishing a cross-government digital capability programme for people to learn how to use the government's digital services, supporting Go ON UK to coordinate digital inclusion efforts across the public, private and third sectors, and bringing digital capability support to a single website.[104] Since then, Go ON UK has merged with Doteveryone, focusing on delivering skills at three levels: basic digital skills, workplace skills and digital leadership skills.[105]

Despite these inequalities, technology is rapidly changing the way the public interacts with banks and accesses financial services. Two-thirds (67 per cent) of those who use the internet and over half (58 per cent) of all adults use the internet to bank and pay bills online. Of these, half primarily use their smart-phone or tablet to do so.[106] Over £1.5 billion was spent using contactless payments in April 2016 alone, with a 247 per cent increase over the previous year.[107] On the other hand, between 1988 and 2012 the number of bank branches in Britain more than halved, from over 20,000 to less than 9,000.[108] This trend has quickened more recently, with over 600 closing between April 2015 and April 2016. More rural areas, such as parts of Wales and south west England, have lost the most branches per population.[109] In this context, digital capability is only going to become more important to ensuring that people have access to the full range of financial services.

The Consumer Digital Index, produced by Accenture and Lloyds Banking Group, explores the relationship between the two. It plots the UK population on a digital capability index and financial capability index, with the latter measured according to access to and engagement with services, and positive borrowing and saving behaviours. It finds that 1.72 million people have both low digital capability and a low financial capability score. Both measures are strongly correlated with age: younger people tend to have high digital capability and low financial capability, while older people tend to have low digital capability and high financial capability.[110]

The analysis also found a strong link between digital inclusion and financial wellbeing and resilience. Survey respondents reported saving an average of £62 per month as a result of being online, amounting to a 'digital dividend' of £744 per year. Eight in ten respondents to the survey felt they had saved on buying holidays, and a similar proportion said they had saved on insurance. Savings were also made on entertainment, clothes, utility bills, transport and groceries. Similarly, those who were more digitally capable reported having higher savings levels and to save more often than those with lower levels of digital capability.[111]

Expert insights

Innovation

Participants at our roundtable highlighted a number of areas where new technology could be harnessed to promote financial inclusion. First, online and mobile banking can make it easier for people to 'take control' over their finances. This convenience makes it easier to check one's balance, to pay bills, and manage standing orders and direct debits. Accenture and Lloyds' research found that 86 per cent of people who manage their money online reported that they 'worry less' because they can track their finances, checking their balances three times more often than less digitally capable people.[112] The spread of online banking can also help to mitigate the impact of branch closures if the right levels of digital capability and broadband access are widespread, and the service offer from bank websites is sufficient. However, in the absence of these conditions being met, the move online could exacerbate financial exclusion.

Second, technological innovation can help financial services providers to become more efficient, cutting costs, and thus broadening access. For example, consumer credit providers are increasingly experimenting with big data analytics approaches to assessing applications.[113] This can help to reduce the time it takes for credit decisions to be made, as well as improve the accuracy of assessments of risk. More in-depth assessments may help willing providers to expand access to credit or a loan to low-income customers who might not qualify for 'off-the-shelf' products. One roundtable participant observed that banks are:

using a whole range of analytics outside of simply what's your income, what's your expenditure, looking at your behaviour, looking at social media, and how social media can profile people and the types of people they are, whether they're cautious people.

However, the risk with this trend is that it leads to a decrease in transparency over decision making. If people cannot understand and trace the factors that have gone into a decision to reject a loan application, it could become more difficult for people to challenge any of the underlying assumptions on which decisions are made and ensure they are not being discriminated against unfairly. Moreover, much of the analysis employing big data is focused on revealing correlation, rather than determining causation. There is arguably an ethical concern over denying applications for credit on the basis of characteristics that correlate with high rates of defaulting, but without any clear causal connection.

Third, the use of social media marketing and 'micro-targeting' techniques bring opportunities to promote financial services to hard-to-reach groups. This could be a particularly valuable tool for credit unions seeking to reach those unable to access commercial banking services, or those considering taking out a payday loan.

Fourth, banks have begun to experiment with incentives and behavioural approaches to promoting certain types of behaviour. For example, one participant described how lenders sometimes offer online tutorials:

There are lenders who offer online tutorials and incentivise customers where if they complete the online tutorials, then they get better rates. The customer gets a better price, and the lender has more confidence in that customer's financial capability.

One example of this is peer-to-peer lender Quidcycle, which offers online financial education courses to all its customers. For borrowers on its programme Refinance Plus, the online education programme, along with attending an annual meeting with a financial adviser, is compulsory in order to receive a bonus incentive.[114]

This idea could also be taken further, with banks offering tutorials or courses for those who have got into debt:

[With driving] you can avoid getting more points by going on a speed awareness course, and actually if [banks], once you've got into debt, instead of going 'you're in debt and isn't this really bad and we could make you feel even worse about yourself by going on a course', but actually you said… 'We could help you. If you go on this course… with people who might help you, and actually we won't hit you with the overdraft fee.'

Banks are also developing 'nudges' in their mobile apps to help customers to manage their finances. HSBC is developing an app that monitors spending, compares it with others in the same income bracket and sends notifications to encourage users to meet long-term objectives.[115] Similarly, Lloyds Banking Group has incubated Swave, a start-up which has developed an app for people who struggle to save. The app gives an actionable 'nudge' to the user's phone to move a little money into savings every time they spend money, helping them to develop savings habits.[116] This follows several banks introducing a text notification when customers go into their unarranged overdraft.

Apps are also being developed independently to help people to manage their finances, and to help develop financial capability from an early age. For example, Squirrel (www.squirrel.me/) is paid for by employers to help their staff manage their finances. It allows them to stagger their monthly income, set aside small amounts, and helps to show if they are paying too much on utility bills. It is already being used by a number of large employers, including the NHS.[117] Similarly, Pariti (www.pariti.com/) gives users a view of all their finances, and alerts them to upcoming bills and payments based on past banking activity.[118]

Digital inclusion

Building on the evidence presented before the session, including the findings from the digital capability index report,[119] participants discussed the demographic features of digital and financial inclusion. While there is an

inverse correlation between the two by age, there is a positive correlation by income: those on low incomes tend to use the internet the least and are also most at risk of financial exclusion.

Our experts also expressed a concern about moving too quickly towards digital banking. Participants agreed that while 'digital should be for everyone', it was important to maintain a traditional face-to-face offer as well. One participant praised the Keep Me Posted campaign (www.keepmeposteduk.com/campaign), which aims to ensure bank customers have a choice over how they receive their bills and statements and do not face a financial penalty for choosing to receive information by post. Some people have been paying up to £5 for ad hoc paper bills. A study conducted by London Economics and YouGov for the Keep Me Posted campaign found that 82 per cent of those who receive their financial information by post were able to correctly recall their balance, compared with 32 per cent who receive statements online.[120]

Participants also discussed the existing barriers to digital inclusion and the financial benefits that it can bring. Many of these barriers are attitudinal; one participant argued that banks have a responsibility to up their game to ensure more people want to access these benefits:

People may say they're not online because they don't trust banks. This is because banks and the financial sector haven't demonstrated trustworthy behaviour.

People may say they don't understand. This is because the info is not presented in a way they're able to access with confidence.

People may say it's not secure enough. The product or tool has not been made secure enough to reassure them.

Security fears came up several times during the course of the discussion: it is seen as a key barrier to people taking advantage of the 'digital dividend'. A recent Opinium survey found that 15 per cent of those who had visited

a bank branch in the past year were motivated to do so because they don't trust online or mobile banking, 26 per cent said it is less vulnerable to fraud, and 28 per cent said things were less likely to go wrong.[121]

Peer support

It was also felt that technology could help to break – or at least work around – the taboo around discussing money and debt through online peer support. While face-to-face support can be superior in certain situations to getting people to face up to their financial difficulties, online support can help those who are unwilling to seek formal advice. One participant said:

There is a community of people who prefer to take advice online from their peers rather than people they see as 'authority figures', as they trust people in the same situation as themselves.

Some participants were concerned about the source of online advice; for example, it was felt that algorithm-based advice 'can never be a substitute for a human'. Similarly, human online forum contributors are not always impartial and suitably qualified, but if moderated appropriately and infused with directions to more formal debt and money advice, online peer support can be a useful tool, especially for people who don't have the real-life social networks in which they feel comfortable discussing money. Above all, one participant argued:

We need a multi-channel solution. People should have the opportunity to look for advice or receive it in a different format. Webchats, face-to-face, telephone – all are necessary. Ultimately, there can be no substitute for human contact.

Key findings

- New technology can make it easier for people to take control of their finances, improve financial capability and broaden access to financial services by improving the efficiency and effectiveness of credit assessments.
- A significant proportion of the population is in danger of being left behind from the financial benefits of technology as a result of low digital and financial capability.
- Online peer support, if harnessed correctly, can be a powerful tool in promoting financial capability.
- Conversely, those who are not online have less control, more expense and are more excluded.

6 Conclusion

Financial inclusion matters. Everyone should have the opportunity to keep their money safe, to set it aside for a rainy day, and to borrow prudently to invest in their future. Social policy should aim to expand access to convenient financial services that allow people to reduce their living costs and to access the best deals, and improve financial capability that allows people to make informed financial decisions in their own and their family's interests. This report has identified a number of areas where efforts to tackle financial exclusion are particularly important, where more can be done and where improvements can be made.

Partnership working

Recommendation 1

Local charities, credit unions, bank branches and local authorities should work together to raise awareness of and refer to each other's services.

First, an important part of the solution to financial exclusion is the provision of information and signposting by trusted messengers. Much of this is already done, but it is worth seeking out opportunities to do even more.

Representatives from local third-sector organisations with a good understanding of the services available in the area, who know their service users well, are key agents for change. Whether they are involved with local housing associations, food banks or youth clubs, volunteers and paid staff who come into regular contact with financially excluded individuals need to be given the right tools and information so they can help their service users get the support they need in dealing with financial difficulties.

Similarly, banks and credit unions should be willing to signpost and refer people to debt advice charities where their services are not suitable. Following an agreement between the Government and the biggest UK high street banks, a new 'basic bank account' has been available since January 2016. This should broaden access to those who have had money problems in the past, but account holders will not be able to run up an overdraft.[122] Many of these customers will not be able to access credit from commercial providers, but may be eligible for credit union services. Banks should systematically refer these customers to credit unions to ensure they are aware of all low-cost credit options. Local authorities could play a coordinating role in ensuring these referral and signposting processes are optimised.

Recommendation 2

Banks should share anonymised data with credit unions to explore ways to target and communicate effectively with those most likely to use high-cost credit, who would be eligible for credit union services.

The credit union sector is, and will continue to be, a key player in tackling financial exclusion. However, it faces a number of challenges going forward, notably raising public awareness and understanding of its role. Alongside promoting credit union services through employers and traditional marketing, there is an opportunity to explore new opportunities arising through technological and analytics advancements. Micro-targeting – employing big data analytics to identify and then contact or advertise to particular sub-groups of the population (often using social media) – could be used to identify those most likely to benefit from credit union services. In order to do this, credit unions will need access to financial data to help them identify common features of those who would most benefit from their services. While data disclosures so far have been of limited utility,[123] private, anonymised data sharing to credit unions covering particular localities may allow for the transfer of more detailed information.

Recommendation 3

The FCA should ensure regulation does not impinge unduly on informal extensions of bill payments, and that third sector organisations are sufficiently informed about any changes to avoid any 'chilling effect' on housing associations and other organisations seeking to help their tenants and customers.

Regulation (or the interpretation of it) is acting as a hindrance in some areas, particularly for third-sector organisations. Organisations that provide money and debt advice as part of their core mission are rightly regulated by the FCA, to ensure minimum standards of efficacy and transparency. On the other hand, many non-specialist organisations – such as housing associations which try to help their tenants with money difficulties – feel constrained in not being able to provide more obvious pieces of advice that could help them to cut unnecessary spending because the distinction between 'advice' (regulated) and 'guidance' (not regulated) has not been clearly communicated. Similarly, housing associations are concerned that consumer credit regulations might apply even to informal extensions of rent arrears repayments, and may force them to evict tenants who they were willing to help. Such difficulties may also apply to private landlords and utility companies.

Products and nudges

Recommendation 4

The Government should allow Lifetime ISA customers to borrow from their savings without incurring a charge if the borrowed funds are fully repaid.

Recommendation 5

In the short term, the Government should encourage employers to offer to provide employee contributions to savings accounts through payroll, and use the opportunities provided through credit unions as well as the Lifetime ISA and Help to Save.

Recommendation 6

In the long term, the Government should introduce an auto-enrolment requirement on employers for savings.

It is readily acknowledged that financial services can be complicated, and improving financial capability can in part be achieved by product simplification. A young person who wants to start saving can find the number of options simply overwhelming: there are savings accounts, four kinds of ISA, premium bonds, current accounts with high levels of interest, peer-to-peer lending, credit union accounts, pension contributions, building society accounts and many others, each with internal competition for the best rates over different periods with different conditions. Then there is the question of how to borrow most effectively when times are tough, when to dip into one's savings buffer, when to use a credit card, when to use an overdraft and when to take out a loan. Too much complexity can stifle the benefits of competition.

Without impinging on consumer choice, the introduction of the Lifetime ISA for the under-40s in April 2017 represents an opportunity to create a single product that offers the best deal on both long-term savings and borrowing. The Government has announced its intention to consult on allowing people to borrow from their Lifetime ISA, in the same way that Americans can borrow from their 401(k) (a retirement savings plan), and return the money to the account at a later date without losing out on the bonus interest.[124] This potential offer of a simple, high-interest, tax-free savings scheme that permits penalty-free borrowing could be a powerful tool in promoting saving.

However, the Lifetime ISA is limited by the fact that the government bonus can only be used on a deposit for a first home, or received after the saver's 60th birthday. This limits its utility, even with the additional borrowing aspect, as a 'rainy day' fund that would help to manage demand for credit, as funds eventually have to be returned.

Here the Help to Save scheme, which like the Lifetime ISA offers a government bonus, is targeted at those on modest incomes, may actually be more useful to those employees.

Linking the Help to Save scheme to employer payrolls would help to ensure employees made regular contributions. In the long term, given the insight from behavioural economics known as the 'default effect', where people are more likely to choose the option that requires them to do nothing,[125] the Government should mandate auto-enrolment (an opt-out scheme) for savings, whether through credit unions, building societies or commercial banks, alongside the existing requirement to auto-enrol employees to a pension scheme.

Recommendation 7

Banks should offer services – including nudges and ringfencing – that help customers to separate their savings without incurring a loss of earnings on interest.

The Personal Savings Allowance, where basic rate taxpayers can earn up to £1,000 in savings income tax-free, will help to incentivise savings, as will the incoming Lifetime ISA and Help to Save. However, with record-low interest rates likely to continue into at least the medium term, most savings products are likely to continue to offer relatively low returns.

In order to promote savings, a number of banks have started to offer 'nudge' apps to help their customers to meet saving objectives. More banks should follow suit, and fund research to explore what kinds of nudges are most effective in this context.

Ring-fencing is another important feature that banks could promote to more of their accounts, especially because some of the best savings rates in the market come from current accounts. While it is undoubtedly a positive outcome of improved competition in the market for current accounts, it means that more people are holding the bulk of their savings in their current accounts, rather than in a separate savings account. A survey for MoneySuperMarket found that half of savers are using their current accounts for savings.[126] Helping customers to ring-fence part of their monthly income within those accounts would help to promote savings behaviour within the confines of a single, high-interest current account.

Recommendation 8

Banks should offer finance tutorials to customers as a way of achieving better lending rates, and design and pilot money-awareness courses to those who go into unarranged overdrafts or fall behind on loan repayments. As with driving-awareness courses, where drivers can attend to avoid getting points on their licence, banks should offer to waive penalty fees if customers attend.

Some lenders are offering online tutorials as part of an application for credit, with those who complete the tutorial offered better rates. These initiatives should be monitored closely, and expanded if successful.

Banks should do more to build financial capability 'after the fact' to help prevent further problems for people who get into unplanned debt or fall behind on their repayments. Getting into financial difficulty is a key 'life point' too, where people's minds are focused on their financial situation, and the right intervention can help people to plan effectively for the future. Offering a money-awareness course at a time of financial hardship would have the potential to help people to learn practical tips for managing their budget at a time when they are willing to learn. The financial incentive to do so would help to overcome any barriers related to the taboo around talking about money and pride that might cause people to refrain from seeking help and advice when appropriate.

On the other hand, many people who get into financial difficulties do so not because of any financial mishandling, but simply because their income is not sufficient to cover regular outgoings and resilience to financial shocks. Those who fall into this category may feel aggrieved or patronised at being asked to take such a course. Banks should trial different approaches to recruiting for these courses before rolling them out on a national scale. For example, they might decide to try targeting those who they believe have got into financial difficulties as a result of mismanagement through an analysis of their spending, rather than a blanket approach. Ultimately, however, offending a few people is a price worth paying for helping many more.

Recommendation 9

The Government should work with banks to establish a system of incentives to ensure banks have a financial interest in developing and offering effective interventions and reducing the proportion of their customers sliding into problematic debt.

Finally, there is an onus on Government to establish incentives for banks to engage with this agenda, to develop effective interventions such as those outlined in recommendations 7 and 8, which would lead to additional costs for banks and reduced income from overdraft charges and late payment penalties.

The Government should work with banks to establish a workable system of incentives. One option worth exploring is to generate a pot of money through the Bank Levy, to be managed by the Money Advice Service, to fund evidence gathering, and then delivering evidence-based interventions to improve the financial capability of their customers.

Education and capability

Formal financial education remains a 'bit-part' subject at school. The APPG on Financial Education for Young People recommends adding financial education to Ofsted's inspection framework. We would welcome this step, while recognising that this will not alone persuade teachers to value it. As more and more gets added to the framework, its utility as a means of ensuring subjects get taught – as a proxy for the national curriculum – is diluted. Its inclusion in the inspection framework must be accompanied by a culture change – that can be led by policy makers – whereby schools are able to give greater emphasis to preparing pupils for later-life outcomes beyond simply getting the grades. Instead, we offer two more concrete recommendations for financial education, recommendations 10 and 11.

Recommendation 10

Future funding streams for financial inclusion should focus on early intervention through the development of financial capability. In particular, evidence-based interventions that focus on developing practical skills (such as those delivered by credit unions) should be prioritised.

Given the patchy evidence available on the efficacy of financial education interventions, the Financial Capability Strategy, particularly the Evidence Hub, will go a long way to establishing what works and providing funding to interventions proven to work. However, funding is not currently in place to deliver financial capability at a large scale. This is in stark comparison with the debt advice sector, which gets a large proportion of the Money Advice Service's budget, as well as StepChange, which is funded directly (and voluntarily) by the financial services sector. While debt advice will always be vital, it is important to get the investment balance right between early intervention and promoting financial capability and ensuring the support is there when people get into a crisis.

In particular, interventions that focus on practical skills and developing savings habits, such as those successfully delivered by Lanarkshire Credit Union, have proven effectiveness among school-age children. Lanarkshire's success is in large part the result of significant funding received from the Scottish Government, and similar schemes elsewhere in the UK will also require grant funding to fulfil their potential.

Recommendation 11

The policy community around financial inclusion should work closely with the 'character' policy community to research, develop, advocate for and fund early years and primary school interventions that develop character traits – such as self-control – that are proven to be associated with positive financial behaviour later on in life.

The development of positive character traits that are proven to be linked to positive financial behaviour later in life is one particularly early form of early intervention that does not

currently get the emphasis it deserves. These are shaped by the age of 7, and an individual's ability to override these habitual responses reaches their adult level by the age of 12. The Financial Capability Strategy paper argues that 'there is a lack of widespread interventions in primary and pre-school'.[127] However, these interventions are in the process of being developed, but this is being done by a separate policy community within the education sector: those interested in promoting character. This sector is currently well funded through Department for Education grants. The two policy communities should work together more closely to develop positive interventions.

Targeting activities

In promoting financial capability there are key transition points where interventions can be particularly effective. Some of these are individual 'life points', such as certain ages while growing up or events such as becoming a new parent. Others are external impacts, such as policy changes.

Recommendation 12

Funding for financial capability should focus on key 'life points' including one-to-one money management support for care leavers, partnerships with maternity services to promote referrals of new parents, and dedicated money management training for new parents

Funding for early intervention should be based on the evidence from the Financial Capability Strategy, with particular focuses on key 'life points'. These include character development in early-years education, practical skills in schools and colleges (for example on the model of Lanarkshire's Savvy Savers scheme), and where individuals are more likely to be open to advice and thinking ahead about their finances – particularly just before young people transition to independent living (particularly important for care leavers), new parents and in the aftermath of money problems.

Recommendation 13

In line with Action for Children's request, the Government should ensure financial capability is included in the regime of support that surrounds the Youth Obligation. A similar offer should be included for all recipients of Universal Credit, with a particular focus on the incoming changes.

While there are key points in an individual's life where the right interventions can help them to avoid financial exclusion, there are also key points coming up in the policy cycle, around which a concerted effort should be made to ensure people are not left behind by the changes. In particular, welfare reforms and changes to student finance will require not only a concerted information campaign, but also a drive to promote financial capability around the kinds of decisions that people, particularly young adults, will be making as a result of these changes.

Digital activity

Recommendation 14

The Money Advice Service and Doteveryone should work together to ensure the digital capability and financial capability agendas complement one another to maximise the potential benefits.

Online banking and behavioural nudges through banking apps can make it easier and more convenient to keep track of one's finances and help people to keep control. However, there is a risk that as more and more financial transactions are made online and branches are gradually closed, less tech-savvy people will be left behind. Efforts to improve the digital capability of the population must accompany financial capability promotion if the latter is to have the desired outcome. Digital services must be designed to be easy to use and inclusive of the least capable wherever possible.

Recommendation 15

Debt and money advice charities should explore ways to harness peer-to-peer forums, by acting as moderators and contributing advisers where appropriate.

While there remains a taboo around discussing money, and a distrust of banks and those in positions of authority in some quarters, online peer-to-peer advice will continue to have an important role in ensuring people access the support and services they need. Debt advice charities should go to where people are seeking help, rather than expect people to go to them. This is likely to be particularly helpful to young people who are likely to have high digital capability but low levels of financial capability, and are more inclined than older people to use social media and peer advice for information.

Concluding thoughts

The discussion around financial inclusion is taking place against a backdrop where many households are struggling to get by simply because they don't have enough money coming in, either to cover their normal spending or to build up a savings buffer. Helping people to save and choose the right forms of credit, signposting, referring, helping people to understand their finances better: none of this will end financial exclusion or stop people getting into a debt spiral without tackling current levels of income deprivation. The introduction of the National Living Wage and the raising of the income tax Personal Allowance on the one hand and cuts to benefits and tax credits on the other will have as much, if not more, impact on the state of financial inclusion in the UK as any financial inclusion strategy.

Nonetheless, in difficult economic times, effective financial inclusion can help the millions of people struggling to pay their bills and put money aside for the future. The insights from our series of roundtables suggests a successful strategy will be one that is evidence-based, making use of the latest research insights and technological innovations to target

those most in need with effective interventions designed to promote access to appropriate financial services and enhance financial capability. But more importantly, a successful strategy will be one that is well coordinated between the public, private and third sectors – mutually reinforcing each other's efforts and making the most of each other's different strengths. This requires greater awareness of and communication between the third sector and credit unions, financial services and local and national government to bring their varied reach and expertise to bear on what is a multifaceted and persistent problem. If we can achieve this, there is no reason to shy away from the Financial Inclusion Commission's ambitious targets for 2020 – arguably rendered all the more crucial now as we face a period of economic uncertainty following the UK's withdrawal from the EU.

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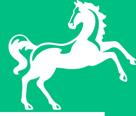

Despite the efforts of successive governments over the last decade, millions of people across Britain have limited access to financial services. Financial exclusion ranges from the extreme end – the 1.5 million adults who do not have a bank account – to those who lack practical money management skills and financial knowledge to budget effectively, borrow prudently, and build up a savings buffer to cope with financial shocks.

The unbanked and underbanked are hit by increased costs from a number of different sources, including additional costs on energy bills and missing out on the best deals on goods and services that can only be purchased online and through direct debit payments. They typically face higher borrowing costs, and find it harder to make investments such as buying a house. Money problems resulting from financial exclusion can also have a significant effect on wellbeing and health.

Building on recent work by the Financial Inclusion Commission, the Money Advice Service and the Financial Conduct Authority, this report sets out how financial exclusion can be tackled most effectively in the coming years. A successful strategy will be one that is evidence-based, making the best use of the latest research insights and technological innovations to target those most in need with effective interventions designed to promote access to appropriate financial services and enhance financial capability. Above all, it will be one that is well co-ordinated between the public, private and third sectors. This will require greater awareness of and communication between the third sector and credit unions, financial services and local and national governments to bring their varied reach and expertise to bear on what is a multifaceted and persistent problem.

If we can achieve this, there is no reason to shy away from the ambitious target to end financial exclusion by 2020 – arguably rendered all the more crucial now as we face a period of economic uncertainty following the UK's withdrawal from the European Union.

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