

Financial inclusion

Annexe F of Personal current accounts in the UK - an
OFT market study

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1 FINANCIAL INCLUSION

F.1 Financial exclusion can impose significant costs on individuals, families and society as a whole. Government policy has an important role to play in promoting financial inclusion, which can be defined as the ability of individuals to access appropriate financial products and services.

F.2 The Government's intention regarding financial inclusion was set out in the HM Treasury report *Financial Inclusion: the way forward*, and the subsequent *Financial inclusion: an action plan for 2008-11*.¹ This report has the following goal, 'for everyone to be able to manage their money effectively and securely, by having access to a bank account, and the confidence and capability to get the most from it'.

Access to banking

F.3 The first stage of the Government's financial inclusion agenda is to get everyone using a bank account.

F.4 A consumer without a bank account (unbanked) is defined as an individual who does not own (solely or jointly with any partner) a current account or basic bank account.

F.5 Those consumers currently without PCAs face detriment through the following ways:

- it is not possible to take advantage of direct debits which offer discounts and cheques may have to be cashed at significant cost
- entrance into employment is more difficult because, increasingly, employers wish to pay wages directly into an account
- pension and benefit payments are predominantly credited directly into accounts
- opportunities to borrow are limited. Bank accounts often act as a gateway to other financial products, and

¹ HM Treasury, *Financial Inclusion: the way forward*, published March 2007; *Financial inclusion: an action plan for 2008-11*, published December 2007.

- there are potential security risks from holding large amounts of money.

F.6 In 2004 the Government and PCA providers² agreed a shared goal to halve the number of adults in households without access to a bank account, and to make significant progress within two years.

F.7 The 2005/2006 Family Resources Survey³ shows that 1.3 million⁴ households are currently without any kind of account. This equates to five per cent of the total population, but for those households in the bottom three income deciles this percentage rises to 53 per cent.

F.8 The factors that contribute to people remaining unbanked include:

- Lack of money and / or debts.
- Lack of relevant identification – in order to satisfy anti-money laundering requirements.
- A preference for using cash.
- Experience of previous debts.
- A belief that PCA providers charge for using their services causing some people to never enquire about a bank account.
- A lack of perceived need.

² HM Treasury, 2004, Pre-budget Report

³ The Family Resources Survey is a periodic survey undertaken by the Office for National Statistics (ONS).

⁴ Financial Inclusion Taskforce, *Second Annual Report on Progress towards the Shared Goal for Banking*, September 2007. This shows a decrease from the 1.9 million reported in the 2002/2003 Family Resources Survey.

Utilising accounts

F.9 Once consumers have access to a PCA, the next stage is to ensure they have the confidence and capability to get the most from it. The government's intention is for everyone to be able to:

- manage their money on a day-to-day basis effectively, securely and confidently
- plan for the future and cope with financial pressure, by managing their finances to protect against short term variations in income and expenditure, and taking advantage of longer-term opportunities, and
- deal effectively with financial distress should unexpected events lead to serious financial difficulty.

F.10 The key challenges for planning for the future and coping with pressures are :

- increasing the coverage, capacity and visibility of third sector lenders so that excluded people nationwide have access to this source of affordable credit
- making saving work for low-income or financially excluded consumers through products that meet their saving needs, and through targeted saving incentives
- investigating the role of insurance as a product for financially excluded customers, and
- successfully increasing demand for financial services through targeted support, increased financial capability and realising the potential of bank accounts as a route into wider financial inclusion.

F.11 The following initiatives highlight some of the current work towards these ends:

Financial Inclusion Taskforce	The Financial Inclusion Taskforce is currently working with the financial services industry to agree an action plan on, among other things, effective usage of PCAs, particularly among low income and newly banked customers. ⁵
BACS work on direct debits and switching	<p>In 2006, the Financial Inclusion Taskforce approached BACS to explore ways of making direct debits more accessible to those currently unwilling to use them. This exploration will include a consideration of whether direct debits, in their current form, are suitable for vulnerable consumers' needs - for example due to potential incompatibility between monthly direct debits and benefits paid on a four weekly basis.</p> <p>Furthermore, BACS are considering initiatives to make the switching process more efficient and effective. These include providing consumers with a guide to switching their accounts and improving the process for transferring balances, payments, direct debits and standing orders.⁶</p>
Growth fund	The Growth Fund is a Department for Work and Pensions (DWP) initiative to provide capital for lending to financially excluded customers with revenue support to meet costs.
Now let's talk money	A DWP campaign to promote and support demand for financial products among hard-to-reach groups, working through trusted intermediaries such as social landlords, community groups and local government.
Face to face debt advice project	Led by the Department for Business, Enterprise and Regulatory Reform (BERR), the primary aim of the project is to deliver an increase in the number of advisers, and hence in the number clients assisted, within geographical areas and/or social groups both characterised by high financial exclusion.
Provision of free to use ATMs	A working group on ATMs found that a small but significant number of areas are without convenient access to free ATM. Following work in this area, LINK (the national ATM network), has recently reported that nearly 400 new ATMs are either in

⁵ Some of the initiatives that follow fall under the Financial Inclusion Taskforce's remit.

⁶ BACS, *Review of Account Switching: Final Report*, April 2008.

	place, or under contract for installation.
Saving Gateway	Since 2001, the Government has been piloting a targeted savings account called the Saving Gateway to encourage saving among lower-income households and to promote engagement with mainstream financial services.
The National Strategy for Financial Capability	Led by the FSA, the National Strategy for Financial Capability aims to find ways to improve the nation's knowledge and understanding of personal finance. The strategy aims to remedy consumers not equipped with the skills or knowledge to take on more responsibility for their financial decisions.
Thoresen review	The Thoresen review is looking into the feasibility of providing national generic financial advice for those vulnerable to poor financial decision-making.