

Financial inclusion: an action plan for 2008-11

December 2007



HM TREASURY



HM TREASURY

**Financial inclusion:
an action plan for 2008-11**

December 2007

© Crown copyright 2007

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be sent to:

Office of Public Sector Information
Information Policy Team
St Clements House
2-16 Colegate
Norwich
NR3 1BQ

Fax: 01603 723000

e-mail: HMSOlicensing@opsi.x.gsi.gov.uk

HM Treasury contacts

This document can be found on the Treasury website at:

hm-treasury.gov.uk

For general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

Printed on at least 75% recycled paper.

When you have finished with it please recycle it again.

ISBN 978-1-84532-384-4

PU452

CONTENTS

	Page
Foreword	3
Chapter 1 Introduction and summary	5
Chapter 2 Challenges for financial inclusion policy and recent steps	11
Chapter 3 New evidence and emerging developments	17
Chapter 4 Action plan for 2008-11	27

FOREWORD

The importance of financial services in all of our lives has, in recent years, risen significantly. This is a consequence of both a growing and more prosperous United Kingdom economy, and an innovative financial services sector, which has developed ever more ways of meeting the needs of its customers. Exclusion from the financial system brings real and rising costs, often borne by those who can least afford them. Promoting financial inclusion has therefore been, and continues to be, a key priority for the Government.

I want to stress that, while this agenda is clearly about the efficiency of financial services markets, and the economy as a whole, it is just as clearly about fairness and social justice. It is not acceptable that anyone, least of all the most vulnerable members of our society, should face avoidable costs such as:

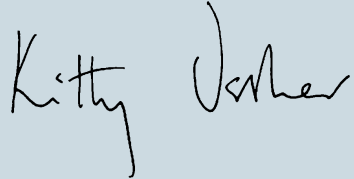
- paying commission to cash a cheque, rather than being able to pay it into a bank account;
- risking intimidation and violence, to say nothing of extortionate cost, at the hands of illegal loansharks, because no legal or affordable borrowing options are available;
- being unable to replace household necessities when an unexpected event, such as a burglary or flooding, results in their loss; or
- experiencing the stress – financial and otherwise – of over-indebtedness which could have been avoided with timely advice and support.

This is why the Government has, since 1997, taken action to tackle this problem. In 2004, we launched a financial inclusion strategy, backed by the £120 million Financial Inclusion Fund, which has helped provide hundreds of thousands of people with access to a bank account, affordable credit, and free money advice.

In the Comprehensive Spending Review in October, the Government renewed its commitment to financial inclusion, with a new Fund of £130 million for 2008-11. I am very pleased to be able to report that this Fund will be augmented with significant contributions from the Government Departments which are the Treasury's partners in delivering this policy agenda. This is a vital first step towards mainstreaming financial inclusion into wider social and economic policy.

I am also very pleased that the banking sector, which has been another crucial partner in the progress we have made so far, has renewed its partnership with the Government to promote financial inclusion, particularly through its new commitment to support the provision of third-sector affordable credit. The insurance industry is also joining us in partnership, to promote take-up of appropriate home contents insurance products. The independent Financial Inclusion Taskforce, which has done so much to help develop the Government's approach, will continue to monitor progress and advise us on how to keep moving forwards.

This document sets out our action plan for 2008-11. I believe it sets us all – Government, industry, the third sector, and other partners – a series of stretching but achievable tasks. I look forward to continuing to work together to rise to the collective challenge.

A handwritten signature in black ink that reads "Kitty Ussher". The signature is written in a cursive style with a large initial 'K' and 'U'.

Kitty Ussher MP, Economic Secretary to the Treasury

INTRODUCTION AND SUMMARY

FINANCIAL INCLUSION AND WHY IT MATTERS

1.1 Financial inclusion is about ensuring everyone has the opportunity to access the financial services products needed to participate fully in modern-day society and the economy. Financial exclusion affects some of the most vulnerable members of society – extensive research has shown that those living on low incomes, and experiencing multiple forms of disadvantage, are most likely to be affected by financial exclusion.¹ Tackling this problem, therefore, is an important part of social policy and social justice and action to break the inter-generational cycle of disadvantage.

1.2 Financial exclusion is also a question of economic efficiency. Many of the barriers to financial inclusion are examples of market failure (where the market is unable to achieve efficient outcomes by itself), including the impact of externalities and information asymmetries. These failures of the market mean that the economy is operating below its potential, and that these costs are borne by individuals, their communities, and society as a whole.

1.3 The Government has therefore taken responsibility for developing a strategic policy response, working with key stakeholders from the financial services industry, the third sector, and elsewhere. The Government's key goals for financial inclusion are about ensuring that everyone has access to appropriate financial services, enabling them 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 to take advantage of longer-term opportunities; and
- **deal effectively with financial distress**, should unexpected events lead to serious financial difficulty.

1.4 The financial products and services that people need to be able to realise these goals for themselves include bank and saving accounts, affordable credit products, simple insurance products, and free money advice. Those without access to these products face many disadvantages, including:

- finding it hard to get a job as more and more employers require bank accounts for direct credit of wages or salaries;
- paying more for utilities due to lack of access to discounts available for Direct Debit and other automated payment methods;
- having to pay extremely high rates of interest to borrow from doorstep lenders or other providers of "alternative" credit, or worse, facing extortion, intimidation and violence at the hands of illegal lenders or "loansharks";

¹ Examples include: *Payment of pensions and benefits: a survey of social security recipients paid by order book and girocheque*, Department for Work and Pensions, 2001; and *In or Out?* Financial Services Authority, July 2000

- lacking the financial buffer provided by a small sum of saving, or the security provided by simple insurance, meaning that unexpected financial pressures are difficult, if not impossible, to manage; and
- not being able to access the impartial advice, particularly on debt problems, that can help people avoid significant financial distress.

1.5 To ensure that as few people as possible have to bear these costs, the Government has demonstrated a long-standing commitment to promoting financial inclusion.

PROMOTING INCLUSION: PROGRESS TO DATE

1.6 The Government has been tackling financial exclusion since 1997. For example, in 1999, the Social Exclusion Unit's Policy Action Team 14 (PAT 14) recommended the creation of basic bank accounts.² The Government worked successfully with the banks to bring these products to the market, and there are now basic bank accounts available from 17 providers. The Government also adopted many of PAT 14's proposals for legislative change to support credit unions, creating a proportionate and risk-based regulatory regime for credit unions under the Financial Services Authority (FSA).

1.7 The Government's first financial inclusion strategy, Promoting financial inclusion,³ was published in December 2004, and included the following key announcements:

- creation of a dedicated Financial Inclusion Fund of £120 million for the 2005-08 spending period;
- prioritisation of the three areas of access to banking, affordable credit and free face-to-face money advice; and
- the establishment of an independent Financial Inclusion Taskforce to advise the Government and monitor progress.

1.8 This financial inclusion strategy, led by HM Treasury (HMT) and working in partnership with other Government departments and the financial services industry, has over the past three years made real progress.

1.9 In 2004, the Government announced a goal, shared with the banks, of halving the 2.8 million adults living in 1.8m households without access to a bank account, and of making significant progress within two years. Latest Family Resources Survey data shows that the number of unbanked people in 2005-06 had fallen to 2 million adults, living in 1.3 million households, meaning that 800,000 adults had been brought into banking between 2002-03 and 2005-06.

1.10 Since 2006, the Financial Inclusion Fund has provided Growth Funding for third sector lenders. The Growth Fund is a £42 million initiative run by the Department for Work and Pensions (DWP), which has contracted with over 100 third sector lenders around Great Britain. The Fund provides capital for lending to financially excluded customers, with revenue support to meet costs. To date, over 46,000 loans have been made, totalling more than £20 million.

² *Access to financial services, report of PAT 14*, HM Treasury, November 1999

³ *Promoting financial inclusion*, HM Treasury, December 2004

1.11 To increase the supply of free face-to-face money advice the Department for Business, Enterprise and Regulatory Reform (BERR) is administering £47.5 million to recruit and train over 500 new money advisers; these new advisers are now in post and have so far provided crucial assistance to over 66,000 clients struggling with debt.

The next steps

1.12 Building on ten years of policy action, a continuing strategy for financial inclusion – *Financial inclusion: the way forward (TWF)* – was published in March 2007. This strategy announced a policy framework for financial inclusion in 2008-11, including:

- a new Financial Inclusion Fund for 2008-11;
- an extension of the Financial Inclusion Taskforce until March 2011, so that it can continue to monitor and evaluate progress and advise the Government on financial inclusion developments; and
- a ministerial working group chaired by the Economic Secretary to the Treasury, with members from DWP, BERR, the Department for Communities and Local Government (CLG), the Cabinet Office (CO) and the Ministry of Justice (MoJ) to develop a detailed action plan for financial inclusion in 2008-11.

1.13 The strategy also announced that financial inclusion objectives and initiatives will be mainstreamed into Departmental budgets and Strategic Objectives in the next Spending Review.

1.14 Since March 2007, the ministerial working group has been developing its action plan for financial inclusion, based on the key challenges and next steps identified in *TWF*. Work, led by HMT in partnership with other Government departments and the financial services industry, has progressed well.

1.15 In the Comprehensive Spending Review in October, the Government announced that the Financial Inclusion Fund for 2008-11 would total £130 million, an 8.3 per cent increase delivered in a tight spending round.

1.16 This action plan sets out in detail how Government will use this Fund to achieve its financial inclusion objectives, over the three-year spending period from April 2008 to March 2011. This introduction has outlined the Government's strategic goals and policy framework for financial inclusion. Subsequent sections set out:

- in Chapter 2, the challenges Government and other key stakeholders, including the financial services industry, face in achieving these goals;
- in Chapter 3, recent progress in understanding appropriate policy responses to these challenges; and
- in Chapter 4, the detail of the Government's action plan for financial inclusion.

SUMMARY OF KEY ANNOUNCEMENTS

1.17 The action plan for banking is as follows:

- the Financial Inclusion Taskforce will deliver a **final evaluation on whether the shared goal has been achieved**, once Family Resources Survey 2006-07 data is available in 2008;
- the Taskforce will continue to work with the Banking Code Standards Board and Code sponsors to **monitor compliance with requirements of the Banking Code** concerning basic bank accounts;
- the Taskforce will also continue to work with the British Bankers' Association **to gather further evidence on bank account usage**;
- in the light of this evidence the Government will, in 2008, **initiate discussions with the banks on whether a new shared goal for banking is needed**;
- the Government looks forward to continuing to work with the banks and the Financial Inclusion Taskforce, consistent with its commitment **to maintain a voluntary and partnership-led approach to promoting banking inclusion**;
- **the Government and the Financial Inclusion Taskforce will work with the Payments Council** to ensure that the potential impacts – both positive and negative – of new payment services on financial inclusion are recognised and taken into consideration in the development of the National Payments Strategy; and
- the Taskforce will also continue to **monitor developments in the way banking services are delivered and distributed**, and keep the Government informed of opportunities and threats to its financial inclusion goals.

1.18 To deliver a doubling in the capacity of third sector lending to the financially excluded, the Government will **continue to support the DWP's Growth Fund initiative, with £38 million of funding from the Financial Inclusion Fund**.

1.19 Building on their successful work in partnership with Government to increase take-up of basic bank accounts, and their support for other financial inclusion initiatives, including access to free ATMs in low income areas, the banks have also committed to support third sector affordable credit, **including actions to develop new provision in 25 high priority areas identified by the Financial Inclusion Taskforce**.

1.20 The Government has given a commitment to supporting the development of third sector lenders by updating and improving the legislative framework, and **can now confirm that it is looking at the various legislative options available (including a Bill) for addressing the issues raised in the consultation**.

1.21 The Government will also continue to promote access to and take-up of saving opportunities – particularly with credit unions – through demand-side initiatives, and **will provide £2 million funding to the OFT to ensure the continuation of its "Save Xmas" campaign**.

1.22 With respect to insurance, **the Government will focus its policy response on home contents cover for those living in rented accommodation**. This work will be integrated with continued work on promoting demand. The DWP will **establish a**

"financial inclusion champions" initiative, with funding from the Financial Inclusion Fund of £12 million. This will provide dedicated members of staff with experience in working on financial inclusion to work with local authorities, social landlords and other potential financial inclusion intermediaries. This will sustain the work of the "now let's talk money campaign", and increase the accessibility of home contents insurance and affordable credit products.

1.23 The Financial Inclusion Taskforce will also have responsibility for continuing to **work with the insurance industry to ensure that appropriate low-cost home contents insurance products are available** for people living on low incomes in privately-rented accommodation.

1.24 To improve consumers' ability, confidence and motivation in managing their finances and playing an active role in the financial services market, the Government will publish **its full financial capability action plan** in spring 2008.

1.25 Following earlier commitments to continue providing free face-to-face money advice to financially excluded people, the Government will **continue to support BERR's money advice initiative in 2008-11, with funding of £76 million – £74 million from the Financial Inclusion Fund, and a further £2m from BERR.**

1.26 All continuing money advice projects will introduce a **dedicated outreach component**, building on the best practice established by the Legal Services Commission's (LSC) outreach pilots. Projects will also be required to **trial a number of approaches to further increase targeting and efficiency**, including triage, volunteer training and co-ordination, and financial capability provision. These approaches will be trialled in 2008-09, **and effective models of delivery rolled-out to all projects in subsequent years.**

1.27 **£5 million, including £3 million from the MoJ, and £2 million from the Financial Inclusion Fund, will be made available to deliver prison-focused outreach in every region of England and Wales**, in partnership with the LSC and the National Offender Management Service (NOMS).

1.28 BERR's projects to tackle illegal lending, have now been rolled out to every GB region. **The Government announces that BERR will continue to fund an illegal money lending team in every region in Great Britain until March 2011.**

1.29 To build on commitments made by the banking sector, including in the recent Banking Code review, **the Government will continue to work with banks to ensure that principles of responsible lending and fair treatment for customers in financial difficulty are upheld and applied.**

2

CHALLENGES FOR FINANCIAL INCLUSION POLICY AND RECENT STEPS

2.1 Alongside the Government's strategic goals for financial inclusion policy, *Financial inclusion: the way forward (TWF)* set out the key challenges to be overcome, by Government and other stakeholders, in making further progress towards financial inclusion goals. This chapter summarises these challenges, recaps the immediate next steps identified in TWF, and describes how these have been taken forward since March 2007.

DAY-TO-DAY MONEY MANAGEMENT

Challenges

2.2 The Government's goal is that everyone should be able to manage their money effectively and securely, through both having access to a bank account and the confidence and capability to get the most from it.

Access to banking

2.3 The Government and the banking industry have since 2004 shared a goal of halving the number of people living in households without access to any kind of bank account, and of making significant progress within two years. The baseline for this goal is the 2.8 million adults living in 1.8 million unbanked households, taken from the 2002-03 Family Resource Survey (FRS).¹ As reported in TWF, this number had fallen to 2 million adults living in 1.3 million households by the time 2005-06 FRS data was collected.

2.4 While progress is clearly being made, a number of challenges to the Government's objectives for day-to-day money management remain. These include:

- continuing to make progress with reducing the number of people without access to a bank account;
- moving beyond initial access, to consider issues of usage and continuing accessibility of services; and
- understanding the opportunities and threats to financial inclusion posed by new developments in banking services delivery and distribution.

2.5 Research shows that the costs to individuals of being unbanked rise as the number of unbanked people falls.² It is vital, therefore, that the banks and the Government continue to make progress, up to and beyond the shared goal, in reducing the number of unbanked people by making basic and other transactional bank accounts easily accessible and well understood.

Use of bank accounts

2.6 Initial access to a bank account is only the first step. As more people move from being unbanked to banked, the extent to which they are using their accounts effectively – for example, by utilising cost-effective payment methods such as Direct Debit – becomes increasingly important. And while recent progress has been made, for example through the installation of new free ATMs, it is also vital that outlets where

¹ Published annually by DWP.

² *Policy level responses to financial exclusion in developed countries: lessons for developing countries*, Personal Finance Research Centre, May 2006

people can access their bank accounts – including branches – remain accessible to all who need them.

2.7 Furthermore, a number of developments in the banking market have the potential to impact significantly on the ways in which people manage their money. These include: new technologies such as mobile telephone banking; new entrants into the market, such as credit unions and community banks; and new products, such as specialised remittance accounts. These and other developments present both opportunities and challenges for the Government's financial inclusion goals. It is therefore crucial that the Government and others understand the impact of these developments, and are in a position to respond appropriately.

Recent steps

2.8 Since publication of *TWF* in March 2007, further evidence has been collected and analysed to inform the Government's action plan:

- the Financial Inclusion Taskforce's detailed report and evaluation of progress towards the shared goal, based on 2005-06 FRS data;
- the Banking Code Standards Board (BCSB) evaluation of the impact of recent changes to Banking Code and money laundering guidelines;
- the 2007 review of the Banking Codes by Mike Young, and the industry's response to it;
- work by the banks and the Financial Inclusion Taskforce to collect and analyse data on the use of accounts by basic bank account customers;
- a progress update on the implementation of the ATM Working Group's recommendations;
- evidence from the Financial Inclusion Taskforce's nationwide mapping of financial services outlets and banking market developments study; and
- findings by the UK Remittances Taskforce on the potential of remittance services to increase financial inclusion, particularly within migrant communities.

PLANNING FOR THE FUTURE AND COPING WITH FINANCIAL PRESSURE

Challenges

2.9 The Government's goal is that everyone should be able to plan for the future with a reasonable degree of security. Affordable credit, saving accounts and simple insurance products should therefore be available to all who need them.

2.10 Key challenges in realising this goal include:

- the need to increase the coverage and capacity of third sector lenders so that people nationwide have access to this source of affordable credit;
- providing saving opportunities for all, including those on low incomes and financially excluded consumers;

- understanding the role of insurance as a product for financially excluded customers; and
- successfully increasing demand for financial services through targeted initiatives, increased financial capability, and realising the potential of bank accounts as a route into wider financial inclusion.

Affordable credit **2.11** At the heart of the Government's work to promote access to affordable credit is support for third sector lenders. While real progress has been made, coverage remains incomplete and the key challenge is to increase the coverage and capacity of credit unions and CDFIs so that they are able to provide affordable credit to excluded consumers nationwide.

Saving **2.12** Since 1997, the Government has sought to expand saving opportunities and support saving and asset ownership for all, with more tailored support for those who need it most. Key savings policies include Individual Savings Accounts (ISAs), now held by over 17 million people, and the Child Trust Fund, which will ensure that in future all young people will have a financial asset at the age of 18. Looking ahead, the Government is taking forward feasibility work on the system requirements to enable the rollout of the Saving Gateway which would provide more targeted support to those on low incomes.

2.13 Achieving increased take-up of saving opportunities will also complement action to tackle challenges in other aspects of financial inclusion. For example, increasing take-up of credit union saving accounts would not only provide people with a secure and effective means of saving, but would also provide credit unions with the capital needed to extend affordable credit to more people. Encouraging more basic bank account customers to save regularly with their bank, meanwhile, would increase the commercial sustainability of the basic bank account.

Insurance **2.14** For insurance – a relatively new focus for financial inclusion policy – the challenge has been to understand the nature of the problem of exclusion from insurance, including:

- which types of insurance are most needed by financially excluded consumers;
- the barriers, including cost, to excluded consumers taking up these insurance products; and
- how these barriers might be overcome, drawing on evidence on the success of initiatives such as insurance with rent schemes, and new approaches such as risk-reduction projects.

Demand **2.15** The Financial Inclusion Taskforce has advised the Government that a balanced financial inclusion strategy needs to focus on the demand as well as the supply side of the policy equation. Many financially excluded people do not come into regular contact with Government or the financial services industry. Lack of understanding, and perceptions of low relevance, may also be an issue, particularly with products (such as credit, saving and insurance) for which a wide range of options is available on the market.

2.16 On the advice of the Taskforce, the "now let's talk money" campaign has therefore been established by DWP, to make contact with people in the hardest to reach groups. The campaign works through trusted intermediary organisations such as

housing associations, charities and community groups, to provide excluded people with information on and support in accessing financial services.

2.17 The immediate challenge for this new demand-side approach will be to assimilate learning on the effectiveness of different approaches, including:

- local intermediary-led work such as “now let’s talk money”;
- the extent to which people with new bank accounts establish a relationship with their bank that leads to take-up of appropriate credit, saving and/or insurance products; and
- more extensive and longer-term initiatives such as a national generic financial advice network and the Government’s long-term approach to financial capability.³

Recent steps

2.18 To overcome these challenges, the Government has taken the following steps:

- invited senior representatives from the banking industry to work with the Financial Inclusion Taskforce in considering the roles of Government, the banks and the third sector in achieving a nationwide increase in the coverage and capacity of third sector lending;
- considered, within a wider review of mutuals legislation, whether changes to restrictions on credit unions – for example, around their “common bond” or on acceptance of institutional deposits – could enhance their ability to serve financially excluded consumers;
- implemented a £1 million “Save Xmas” campaign, delivered by the Office of Fair Trading (OFT) to provide users of Christmas hamper schemes with information on all their saving options;
- further considered extending saving incentives down the income scale, through the Saving Gateway;
- requested the Financial Inclusion Taskforce, the Association of British Insurers (ABI) and the insurance industry to gather and analyse evidence on financial inclusion and insurance; and
- evaluated the DWP’s “now let’s talk money” campaign to promote and support take-up of financial services through intermediary organisations working with people in hard-to-reach groups.

2.19 Additionally:

- the Thoresen Review is considering options for serving vulnerable clients within a national generic financial advice network;
- ongoing work on the Government’s long-term approach to financial capability is also supporting financial inclusion objectives of increasing understanding of, and demand for, financial services products among excluded groups; and

³ *Financial capability: the Government’s long-term approach*, HM Treasury, January 2007

- the collection of evidence, by the banks and the Financial Inclusion Taskforce, has informed the Government on the extent to which basic bank account customers are taking up other financial services products offered by their banks.

Box 2.1: The challenge of reaching vulnerable groups: financial inclusion and gender

The Government's financial inclusion strategy is making good progress in increasing the take-up of appropriate financial products and services for groups that are particularly vulnerable to financial exclusion. As reported in *TWF*, research from a number of studies has shown that women are one such group, with lone parents particularly vulnerable. It is one measure of the success of the Government's financial inclusion strategy that key initiatives are being effectively targeted at women. For example:

- Financial Inclusion Taskforce analysis shows that the number of unbanked households accessing a bank account is rising fastest among lone parent households and those in which the household head is a woman;
- of the more than 46,000 affordable loans which the DWP's Growth Fund has provided to financially excluded people, over 70 per cent have been made to women;
- 80 per cent of the people attending events organised by the OFT's "Save Xmas" campaign have been women;
- BERR's face-to-face money advice projects have provided free, face-to-face money advice to over 66,000 people, over half of whom are women; and
- research suggests that the majority of users of illegal lending are women, predominantly those with families. BERR has now rolled out to every GB region its projects to tackle illegal lending and support its victims.

DEALING WITH FINANCIAL DISTRESS

Challenges

2.20 The Government's goal is that everyone should have the information, support and confidence they need to prevent avoidable financial difficulty, and to know where to turn if they do find themselves in financial distress.

2.21 Key challenges to realising this goal include:

- making continued progress with the supply of face-to-face advice;
- understanding the potential of new, cost-effective, mechanisms for delivery of advice;
- rolling out BERR's projects to tackle illegal lenders to every GB region, building on the success of pilots in Scotland and the West Midlands;
- promoting the role of banks and other financial services providers in supporting people in, and helping them move out of, conditions of financial distress; and
- addressing the impact of low financial capability on people's capacity to deal with distress.

Face-to-face money advice 2.22 Initial evidence suggests that BERR's face-to-face money advice projects are making a real difference to thousands of people with debt and money problems each month. The Government has committed to continuing this initiative in the period from April 2008, and to considering ways in which its delivery can be made more targeted and cost effective.

Illegal lending projects 2.23 The illegal lending pilots in Scotland and the West Midlands have shown the extent to which the victims of illegal lending can be helped through targeted interventions. Following announcements in December 2006, the Government is now rolling out these projects to every region of the country. Progress has been made, with new projects already up and running in every GB region, but the Government recognises that continued monitoring and evaluation of the projects as they are rolled out will be crucial.

The role of banks 2.24 Banks have an important role in helping people deal with financial distress. The banks, under the Banking Code, have signed up to the principle that they will treat people in financial distress fairly and sympathetically. Following the recent independent review of the Code the industry has agreed to adopt new measures to support customers who may be approaching financial difficulties.

2.25 Building on these commitments, and as ever more people are brought into engagement with mainstream financial services, the challenge for the financial services industry will be to ensure that its customers are better able both to avoid and to deal effectively with financial difficulty and distress.

Recent steps

2.26 Finally, to make progress towards its goal of dealing with financial distress, the Government has, since the publication of *TWF*:

- developed options for the continued delivery of BERR's money advice projects, including through cost-effective non face-to-face channels;
- rolled out to every GB region BERR's illegal lending projects, to ensure that support for the victims of "loansharks" is available across the country;
- based on the 2007 Banking Codes Review, considered the role of banks in supporting people who find themselves in financial difficulty; and
- continued to develop its long-term approach for financial capability, to ensure that people have the skills they need to avoid financial distress.⁴

⁴ *Financial capability: the Government's long-term approach* (HM Treasury, 2007) defines financial capability as "a broad concept, encompassing people's knowledge and skills to understand their own financial circumstances, along with their motivation to take action."

NEW EVIDENCE AND EMERGING DEVELOPMENTS

3.1 As these actions have been taken forward by Government, the Financial Inclusion Taskforce and other stakeholders, the ministerial working group has been presented with new evidence and emerging initiatives to inform the development of its action plan. These findings are presented in the following sections.

DAY-TO-DAY MONEY MANAGEMENT

Access to banking services

3.2 In September 2007, the Financial Inclusion Taskforce provided its detailed report on the progress towards the shared goal.¹ Important findings from this update include:

- 800,000 adults living in 500,000 households had been brought into banking by September 2005: 60 per cent of progress towards the shared goal;
- this progress had been especially pronounced within a number of groups most vulnerable to financial exclusion and its consequences, including those living on low incomes, benefit recipients, households living in socially rented accommodation, and women and lone parents;
- progress in reducing exclusion from banking was greater in terms of transactional accounts (current or basic bank account): 1.6 million people in 1.1 million households had gained access to a transactional bank account by September 2005. This measure is significant because it is such accounts that offer customers the full benefit of a bank account; and
- while the next set of FRS data reflecting the position in September 2006 (due in Spring 2008) will be required for the Taskforce to make a definitive judgement on whether significant progress has been made within two years, the Taskforce believes, on the basis of industry data, that it is likely that further progress will have been made since September 2005.

3.3 The Taskforce's update also reports on evaluation of recent changes to Banking Code guidelines conducted by the BCSB. Following its latest annual "mystery shopping" exercise, conducted in early 2007, the BCSB found that the new Code guidelines had improved identification and verification processes and the speed with which applications are processed, and that applicants seeking a basic bank account are "usually" able to obtain one. One remaining area of concern highlighted by this research was the relatively low level of availability of in-branch literature on basic bank accounts, despite this being stipulated in the new guidelines.

3.4 Since the publication of these findings, Mike Young's formal Review of the Banking Codes has concluded, with recommendations that further changes be made to the Banking Code to increase the accessibility of basic bank accounts, including:

- that applications not be turned down purely on the basis of a record of bad debt or undischarged bankruptcy; and
- that banks offering basic bank accounts advertise this fact with a standardised logo in branch windows.

¹ http://www.financialinclusion-taskforce.org.uk/PDFs/second_annual_taskforce_banking_report_sept_2007.pdf

3.5 The Code sponsors – the BBA, the Building Societies Association (BSA) and APACS (the UK payments association) – have responded to the Review, and have committed to continuing to work with the Financial Inclusion Taskforce, Government and other stakeholders to ensure that take-up of basic bank accounts is promoted effectively, and to monitor compliance with the current provisions of the Banking Code.

3.6 The Government welcomes the progress that has been made, both in reducing the number of unbanked, and in improving account opening processes. The Government will continue, through the Financial Inclusion Taskforce, to monitor developments in these areas.

3.7 Finally, good progress has been made in placing 600 non-charging ATMs in low-income areas across the UK. The former Economic Secretary to the Treasury, Ed Balls MP, and John McFall MP, Chairman of the Treasury Select Committee, issued a joint update in June 2007. Through the efforts of banks, building societies and independent ATM operators, under co-ordination by LINK, 127 of the target 600 new free cash machines had been installed and were issuing cash to the public. A further 344 new machines were under contract. By the end of this year, a further update on the installation of free-to-use cash machines in deprived areas will be provided.

Use of bank accounts

3.8 With respect to the use of bank accounts by those new to banking, the Financial Inclusion Taskforce has advised the Government that three priority types of account usage should be considered:

- use of Direct Debits to pay bills;
- use of free ATMs to withdraw money from accounts; and
- use of accounts as a "store" of money across an individual's budget cycle (as opposed to a vehicle for incoming payments withdrawn immediately in full).

3.9 The Taskforce has worked with the BBA and the banks to gather new evidence on these dimensions of usage. Early findings from this work, relating to account activity in the month of September 2007, are encouraging:

- over one third (34 per cent) of basic bank accounts currently have at least one active Direct Debit instruction, with an average of 2.5 payments per month amongst these accounts;
- two-fifths (40 per cent) of basic bank account holders make three or more ATM withdrawals per month; and
- fewer than eight per cent of basic bank account holders carried a low-enough average account balance to suggest that their income was being withdrawn in one transaction.

3.10 On the issue of Direct Debits, which are particularly important for customers in reducing the cost of utilities and other services, the Taskforce has also reported positive engagement with BACS, the organisation which owns and operates the Direct Debit system. BACS has conducted research into use of and attitudes to Direct Debit amongst lower income consumers, and is launching an awareness campaign, which will work through intermediary organisations, including banks, and join up with the Government's "now let's talk money" campaign.

Taskforce research

3.11 Financial Inclusion Taskforce research on both mapping the supply of financial services across Great Britain, and developments in the banking market, is progressing

well. The former project is mapping a range of financial service outlets nationwide, including banks, building societies, Post Offices, credit unions and Community Development Finance Institutions (CDFIs), advice centres and ATMs. The project has also generated a "demand" model, which maps areas of high financial exclusion, and allows analysis of gaps in supply. This gap analysis has, as is discussed below, focussed initially on affordable credit, but will be extended to other services in due course.

3.12 The Taskforce has also conducted an initial scoping study of developments in the banking market, and has identified two emerging themes: first, the ongoing emergence of new payment technologies such as "contactless" and pre-paid debit cards and e-money; and second, the use of new distribution channels and models – physical and virtual – for banking services.

Remittances 3.13 The DFID-funded Remittances Task Force has agreed to take forward a study to understand how remittance services fit with existing financial service products offered to migrant communities by banks, money service businesses, credit unions and CDFIs, and whether products can be designed to help bring more people into the banking system. The Remittances Task Force is currently in the process of tendering for consultants to undertake this work. It is expected that the Task Force will report to Government by Spring 2008.

PLANNING FOR THE FUTURE AND COPING WITH FINANCIAL PRESSURE

Affordable credit 3.14 The DWP Growth Fund has been fully operational since July 2006. In that period, more than 46,000 loans have been made, totalling over £20 million. 85 per cent of these have reached low income consumers in the areas of highest financial exclusion, showing that the scheme has successfully targeted those most in need. The majority of contractors have successfully managed levels of delinquency within agreed targets. The Growth Fund is working, providing a platform on which further significant progress can be built.

3.15 The Financial Inclusion Taskforce's working group on third sector credit (TSCWG), including senior members from the banking industry, has considered how further progress with developing third sector lending can be achieved, and has reported its recommendations to the Government.²

3.16 Supply and demand mapping of third sector affordable credit commissioned by the TSCWG shows that there are 25 "red alert" areas, and a further 56 "amber" areas, with very high or high levels of under-served demand for affordable credit. The TSCWG has recommended that these areas be the immediate priority for locating new third sector lenders. Investment in establishing these new lenders, combined with further investments in additional capacity where third sector lenders are already serving financially excluded clients, should allow the third sector to aim towards a target of 150,000 loans per annum to excluded customers.

3.17 The TSCWG recommends that the Government, banks and third sector work together to build on the momentum of the Growth Fund, to achieve the doubling of lending capacity to the excluded needed to achieve this target by March 2011, combined with an extension of provision through credit unions or CDFIs to 25 of the most under-served areas around the country.

² The Working Group's report can be accessed at http://www.financialinclusion-taskforce.org.uk/taskforce_papers.htm

Box 3.1: Findings and recommendations of the Financial Inclusion Taskforce TSCWG

The TSCWG has set out a long-term sustainable vision for third sector lending to the financially excluded, in which the sector is able to serve all potential clients through commercially secured deposits and investments. In this vision, all of the c.200 local authority areas with above average demand for affordable credit have sustainable provision, with aggregate capacity to serve a total of at least 1 million financially excluded clients a year, out of a potential market of at least 3 million.

To take steps towards this sustainable vision, the TSCWG recommends that, by 2011:

- current Growth Fund capacity for lending to the financially excluded be doubled to 150,000 loans, totalling £60 million, per annum; and
- coverage be extended to 25 of the highest priority under-served areas of the country, as identified by the Taskforce's mapping research.

To achieve this accelerated momentum, the TSCWG recommends a partnership between the Government, the banks, the third sector, and other key organisations in which:

- the Government supports third sector lending to the financially excluded through a continued Growth Fund in 2008-11, and through its ongoing legislative review to ensure that regulation is enabling;
- the banking sector supports an expansion of third sector affordable credit, including through action to develop new provision in 25 high priority areas through financial and in-kind support;
- the third sector continues with its drive toward professional development, sharing of best practice and good governance;
- other key partners such as local authorities and social landlords engage positively with the process of expanding coverage and capacity; and
- the Financial Inclusion Taskforce monitors and reports on progress.

Mutuals review **3.18** The Government's long-term aim is to provide the cooperative and credit union sectors with a cost-effective legislative framework, which will enable them to compete even more effectively in the modern society and to continue to fulfil their valuable social role. In June 2007, the Government therefore launched a consultation on co-operative and credit union legislation in Great Britain,³ to inform policy and to provide the evidence base for any proposed changes. A follow-up document is planned for December 2007 shortly after publication of this action plan.

3.19 One of the issues covered in the consultation was the relaxation of restrictions on the "common bond" within which credit unions must operate. The Government has already announced that the Treasury will work with the FSA to review legislation and enable tenants and employees of housing associations to be included within the common bond of existing credit unions. The Government is, as part of the wider legislative review, also considering further ways of liberalising the common bond while safeguarding members' rights.

³ Review of the GB co-operative and credit union legislation; a consultation, HM Treasury, 2007

Saving 3.20 Savings has a key role to play in increasing personal financial resilience, making it easier to deal with unexpected expenses or falls in income. Saving opportunities can also bring people into the financial system, helping to tackle financial exclusion.

3.21 To explore the use of matching (a Government contribution for each pound saved) as an incentive for lower-income individuals to save, the Government has piloted the Saving Gateway. Over 22,000 participants took part in the pilots, amassing over £15m in savings, and over £5m in Government matching. These pilots confirmed the success of matching as a targeted incentive for lower-income savers. They also demonstrated the clear benefits of the scheme in promoting regular saving, bringing individuals into contact with financial institutions for the first time, and offering a regulated environment in which to save. In the Pre-Budget Report in October 2007, the Government announced that it is taking forward feasibility work into the system requirements to enable the roll-out of the Saving Gateway.

3.22 In the wake of the collapse last year of the Christmas hamper company Farepak, the Government announced a £1 million campaign to be run by the Office of Fair Trading. The campaign, "Save Xmas", has targeted people who have used Christmas hamper schemes to "save" for Christmas, and provided information on the options available for saving towards a specific objective (such as Christmas).

3.23 "Save Xmas" has reached over 58,000 people directly through its communication work, and targeted many thousands more through front-line workers in intermediary organisations. Around 70 per cent of attendees at campaign events reported being unsure about their options for Christmas saving before attending the events; over 90% of attendees reported knowing more about their options, and where to go for more information, after these events.

3.24 The campaign has successfully directed people to different Christmas saving accounts, including the increasing number being developed by credit unions both before and after the Farepak collapse. There is evidence that these accounts have been popular, and are bringing financially excluded customers into contact with credit unions for the first time. This highlights the role which credit unions can play in helping financially excluded people to save as well as borrow. The Government recognises that this is an important complement to its strategy for affordable credit, as money collected by credit unions as savings can be used as capital to fund their lending activity.

Insurance 3.25 The Financial Inclusion Taskforce has established an insurance working group (IWG), with members from the insurance industry and the Association of British Insurers (ABI), to consider key questions for insurance and financial exclusion, including which insurance products are most relevant to excluded consumers, what the barriers to their take-up are, and how these barriers might be overcome.

3.26 The IWG has now reported back to Government on its interim findings. The IWG recommends that home contents insurance (HCI) should be the priority for policy action, as recent research has shown that for those living on low incomes, HCI is simultaneously amongst the most demanded, and least accessed, types of insurance cover.⁴ The recent flooding in parts of England has, unfortunately, also served to highlight the significance of HCI as a financial services necessity.

⁴ *Financial inclusion and insurance: meeting low-income consumers' needs*, ABI, 2007

3.27 The IWG has identified significant barriers on both the supply and demand side of the market for HCI. On the demand side, barriers include:

- apathy and lack of understanding of the benefits of insurance;
- a mistrust of insurance companies; and
- concerns about affordability, which can range from HCI being unaffordable at any price due to very low income, through to low awareness of a genuinely affordable HCI option leading to lack of take-up.

3.28 On the issue of income and wealth, the IWG has reported that those living in rented accommodation can be particularly at risk from insurance exclusion due to supply side factors. Renters tend to move more frequently than owner-occupiers, have less control over the security and risk factors that affect premium prices, and cannot purchase HCI bundled with mandatory buildings cover. The IWG has recommended, therefore, that the policy response should focus on those living in rented accommodation, distinguishing between privately- and socially-rented housing.

Box 3.2: Recommendations of the Financial Inclusion Taskforce IWG

To overcome supply-side barriers to take-up of affordable HCI, the IWG recommends that:

- support be extended to social landlords – perhaps as part of a wider effort to involve them in financial inclusion – in establishing insurance with rent or other affordable schemes targeted at their tenants;
- continued work be undertaken by the insurers and social landlords to ensure that these products are appropriate and tailored to the needs of financially-excluded consumers; and
- the insurance industry take immediate steps to develop simple products that meet the needs of private tenants, taking into account the specific issues they face.

IWG recommendations for action to address barriers on the demand side are that:

- the ABI's recently-launched campaign promoting insurance to low-income consumers be supported by the industry, Government (including local government), and social landlords;
- the "now let's talk money" campaign be expanded to include insurance in its brief; and
- these two initiatives work together to make links with all interested organisations – such as the FSA and Citizens Advice – to co-ordinate activity to promote insurance.

3.29 For social renters, a variety of schemes offering affordable insurance have been developed, including insurance with-rent. However, the availability of such schemes is patchy, and no comprehensive audit is available to indicate where they are available. Smaller housing associations, in particular, may struggle to offer schemes because of the set-up cost and need for specialised expertise; and even where schemes are available, staff are often not trained in how to promote the product to tenants.

3.30 Private renters also face significant supply-side barriers. Private landlords do not offer affordable schemes to private renters, and the accumulation of risk factors associated with low-income privately rented accommodation – such as living in high crime areas, low levels of security, and short-term housing tenure – combined with prohibitively high minimum levels of cover mean that products available through the open market are often too costly to be affordable. The IWG makes a number of high-

level recommendations for how the barriers identified above might be overcome. These are summarised in Box 3.2 above.

Promoting demand **3.31** The "now let's talk money" campaign has been active for over nine months, and is showing positive results. More than 2,500 organisations have registered on the campaign website, which receives regular traffic, including downloads of financial inclusion materials. The campaign has now completed a series of regional launch events, and campaign staff operating in around fifteen areas have made contact with over 2,000 intermediary organisations. Free training on financial inclusion awareness has been delivered to hundreds of these intermediary organisations. A recent procurement exercise for a £1 million small project fund led to over 200 bids from intermediary organisations. 25 projects helping excluded people will be supported by the campaign.

3.32 These early successes of the campaign show that the intermediary-led approach is an effective way to mobilise action to promote financial inclusion. In its annual progress update to the Treasury, the Financial Inclusion Taskforce noted that two additional elements would increase the effectiveness of the campaign:

- strategic links with local government, to increase the campaign's reach; and
- independent evaluation of the effectiveness of the campaign in improving financial inclusion outcomes, to allow the campaign to better target its resources.

3.33 Where a financially excluded individual has a bank account, that bank is a potentially important intermediary in supporting their access to a wider range of financial services. The Taskforce and the BBA have conducted research to examine the extent to which basic bank account holders have taken out other financial services products with their banking provider. Interim findings show that:

- almost one in five (19 per cent) basic bank account holders has subsequently opened a saving account or ISA;
- eight per cent of basic bank account holders have gone on to take out a credit card from their bank, increasing access to mainstream credit; and
- more than ten per cent of basic bank account holders go on to open a full service current account, offering greater account functionality.

3.34 These figures show that banks do provide a potential route into wider inclusion for people whose first step into engagement with financial services is through a basic bank account. This benefits not only the individuals concerned, but also the banks, which aim to develop commercially sustainable relationships with their customers by "cross-selling" a range of products. While the figures for the relatively well-understood products above are encouraging, lower figures for take-up of more complex products – such as home contents insurance, taken up by only two per cent basic bank account customers – shows that challenges remain to this potential being fully realised.

Financial capability **3.35** Financial capability has an important role to play in promoting demand. The Government wants all consumers to be equipped to play an active role in the financial services market. The Government's aspirations to improve financial capability across society over the next 10-20 years are for:

- all adults in the UK to have access to high-quality generic financial advice to help them to engage with their financial affairs and make effective decisions about their money;
- all children and young people to have access to a planned and coherent programme of personal finance education, so that they leave school with the skills and confidence to manage their money well; and
- a range of Government programmes focused on improving financial capability, particularly to help those who are most vulnerable to the consequences of poor financial decisions.

3.36 Working towards these aspirations, the Government has announced a dedicated economic well-being and financial capability programme, as part of Personal, Social and Health Education in secondary schools, to begin in September 2008. In addition, the Government has announced an £11.5 million package of support for schools to teach children financial skills over the Spending Review period. A substantial part of this money will be used to develop Child Trust Fund branded teaching resources. The Government will publish its financial capability action plan in spring 2008.

DEALING WITH FINANCIAL DISTRESS

Money advice and outreach **3.37** BERR's face-to-face money advice projects have been running since April 2006, and have recruited and trained over 500 new money advisers. The 16 projects have provided over 66,000 clients with help with their money problems; advisers have now reached a steady-state level of provision of almost 22,000 clients per quarter. Waiting times for money advice where the projects are operating have fallen to an average of one-two weeks, in some cases from many months. In a number of projects, waiting lists have closed and instant access to advice is available.

3.38 Findings from the initial evaluation of these projects show that they have performed well in targeting above-average numbers of financially excluded clients, and have not led to widespread displacement of funding or advisers – a potential risk when introducing a significant new funding stream.

3.39 The Financial Inclusion Taskforce has reported that the projects are also implementing a number of approaches (such as the integration of outreach, and linking with the "now let's talk money" campaign) to increase further the proportion of financially excluded clients being reached by the projects.

3.40 The Legal Services Commission has conducted further evaluation of its money advice outreach pilots; these are testing advice delivery in locations such as prisons, family and children's centres, community centres, credit unions and housing advice centres. The 22 pilots have helped more than 19,000 clients, over 85 per cent of them financially excluded. In line with these figures, detailed evaluation shows that the outreach locations chosen have been highly effective in reaching hard-to-reach clients; many outreach clients were unaware that a citizens advice bureau or a solicitor was located within two miles of their home.

3.41 The evaluation showed that prison-based outreach has been especially effective at reaching financially excluded people; 90 per cent of prison interviewees who had real financial difficulties had not previously sought advice⁵. It also found that 30% of prison interviewees with financial problems said their debts were causing problems for their families. Prison interviewees welcomed the introduction of the outreach service, and some commented on the wider value they attached to money advice in terms of helping to tackle re-offending.

Illegal lending projects **3.42** Pilot projects based in Glasgow and Birmingham, tackling illegal lending and providing support to its victims, have now been rolled out to every GB region. Positive findings from monitoring and evaluation of the pilot teams include:

- the two pilots have helped identify almost 250 illegal lenders;
- proceedings instituted against around 60 individuals have resulted in prison sentences totalling more than 15 years and 230 hours of community service;
- nearly 2,000 victims have been helped by the pilots, saving them an estimated £3.3 million in payments; and
- Proceeds of Crime Act claims have been launched to recover assets worth an estimated £2 million.

3.43 The nationwide rollout will allow this enforcement action against illegal lenders to be increased, and will also help victims to access affordable credit and other sources of support. Project teams are building links with providers of money advice and affordable credit, in particular Growth Fund funded lenders, to help victims make the transition to legal forms of affordable credit. Project objectives now specify that teams must monitor the outcomes of such referrals in order to assess the project's success in helping victims to make a transition away from illegal lending.

The role of banks **3.44** The Banking Code Review has reported on the role of banks in helping people who find themselves in financial difficulty. It recommended the adoption of a range of new measures in the Code in order to minimise the number of people who may experience problems. The industry has published a positive response to the review, and committed to including in the Code new requirements to:

- pro-actively identify customers who may be heading towards financial difficulties, and provide further information about how to tackle their situation; and
- consider waiving or reducing charges and interest where a customer is in financial difficulties and working constructively with the financial institution to address the situation.

Financial capability **3.45** Advice on money matters can help people avoid financial distress and prevent the need for crisis intervention. The Government's long-term approach on financial capability identified a gap in the market for affordable "generic" – i.e. personalised but unregulated – financial advice. The Government has asked Otto Thoresen to take forward an independent feasibility study to research and design a national approach to generic advice. It welcomed the interim report of the Thoresen Review, published in October 2007 and looks forward to the Review's final report early in 2008.

⁵ *Putting money advice where the need is - evaluating the potential for advice provision in different outreach locations*, Legal Services Research Commission, 2007

People with multiple and complex problems

3.46 People experiencing complex and multiple problems – including financial exclusion - need co-ordinated support to meet their needs effectively. The Families At Risk Review, led by the Social Exclusion Task Force, is examining the fragmentation between services at the local level, in particular between children’s and adults’ services, that can act as a barrier to integrated or joint working between different agencies. The Review will publish *Think Family: Transforming the life chances of families at risk* in December 2007, setting out how local areas can coordinate services more effectively and will contain important lessons for service providers, including financial inclusion services, working at the local level to address the needs of the most disadvantaged.

4.1 Previous chapters of this document have set out:

- the Government's strategic goals and policy framework for financial inclusion;
- the challenges Government and other key stakeholders, including the financial services industry, face in achieving these goals; and
- recent progress in understanding appropriate policy responses to these challenges.

4.2 The ministerial working group has considered these findings, and based on the emerging evidence, developed a detailed action plan for financial inclusion for the CSR period, 2008-11.

MONEY MANAGEMENT

Banking 4.3 Evidence has shown that progress continues to be made with the shared goal to reduce the number of unbanked adults by half, with improvements in accessibility of basic bank accounts, and with ongoing installation of free ATMs in deprived areas.

4.4 However, emerging findings on the use of basic bank accounts suggests that more needs to be done to ensure that account holders are getting full use and value from them. The initiative being lead by BACS to promote use of Direct Debits is an encouraging first step, and the Government will be interested to monitor progress with the pilots with Barclays bank.

4.5 The action plan for banking is as follows:

- the Financial Inclusion Taskforce will deliver **a final evaluation on whether the shared goal has been achieved**, once FRS 2006-07 data is available in 2008;
- the Taskforce will continue to work with the BCSB and Code sponsors to **monitor compliance with requirements of the Banking Code** concerning basic bank accounts;
- the Taskforce will also continue to work with the BBA **to gather further evidence on bank account usage**;
- in the light of this evidence the Government will, in 2008, **initiate discussions with the banks on whether a new shared goal for banking is needed**; and
- the Government looks forward to continuing to work with the banks and the Financial Inclusion Taskforce, in line with its commitment to maintaining a **voluntary and partnership-led approach to promoting banking inclusion**.

4.6 With respect to developments in the field of payment technology, **the Government and the Financial Inclusion Taskforce will work with the Payments Council** to ensure that the potential impacts – both positive and negative – of new payment services on financial inclusion are recognised and taken into consideration in the development of the National Payments Strategy.

4.7 The Taskforce will also continue to **monitor developments in the way banking services are delivered and distributed**, and keep the Government informed of opportunities and threats to its financial inclusion goals.

PLANNING FOR THE FUTURE AND COPING WITH FINANCIAL PRESSURE

Affordable credit **4.8** The Financial Inclusion Taskforce's working group on third sector credit (TSCWG) has recommended, in the medium term, a doubling of the capacity of the third sector in order to provide affordable credit to 150,000 financially excluded customers a year, and extend coverage into 25 priority under-served areas.

4.9 To deliver this increase, the Government will **continue to support the DWP's Growth Fund initiative, with £38 million of funding from the Financial Inclusion Fund**. This funding will go towards supporting the revenue and capital funding requirements of existing high-performing Growth Fund lenders, including continuing support for training needs within third sector lenders, as well as providing capital to new lenders established in priority areas.

4.10 Furthermore, building on their successful work in partnership with Government to increase take-up of basic bank accounts, and their support for other financial inclusion initiatives, including access to free ATMs in low income areas, the banks have also committed to support third sector affordable credit, **including actions to develop new provision in 25 high priority areas identified by the Financial Inclusion Taskforce**.

4.11 The Growth Fund team in DWP will work with banks to identify areas most suitable for action, and to ensure that banks' action is co-ordinated and targeted strategically. Action by the banks could include:

- secondment or placement of staff with relevant experience and skills;
- provision of legal and other professional services;
- investment in IT systems and equipment;
- providing back-office premises;
- increasing lending and risk-assessment capabilities;
- providing access to banking platforms; or
- direct financial support to meet start-up and other revenue costs.

4.12 The Government welcomes this commitment to action by the banks. Following recommendation from the TSCWG that funding from a number of different sources (including Government) needs to be co-ordinated and systematically deployed, the Government will also provide a dedicated staffing resource within the DWP Growth Fund team to work with banks to identify suitable opportunities for investment of financial and in-kind support.

4.13 The Financial Inclusion Taskforce will continue to monitor the Growth Fund, and will also evaluate progress being made towards the target to extend provision to 25 high priority areas. The Taskforce will report annually on performance of the Growth Fund, and on the activities being undertaken by banks towards extending coverage more widely.

4.14 The Government has already committed to supporting the development of third sector lenders by updating and improving the legislative framework, and **can now confirm that it is looking at the various legislative options available (including a Bill) for addressing the issues raised in the consultation.**

4.15 The DWP will also conduct a financial and practical feasibility study into whether the private and third sectors can be brought into partnership with the Government in delivering a reformed Social Fund budgeting loans scheme.

Saving 4.16 The Government is continuing development work on the Saving Gateway. It announced in the Pre-Budget Report that it is taking forward feasibility work into the system requirements to enable the roll-out of the Saving Gateway. Further announcements will be made at the Budget.

4.17 The Government will also **continue to promote access to and take-up of saving opportunities, particularly with credit unions, through demand-side initiatives**, as described below. Responsibility for monitoring progress in this area will be given to the Financial Inclusion Taskforce as part of its expanded remit, which in 2008-11, will cover issues relating to saving and financial inclusion.

4.18 The Government has also noted the potential of the OFT's "Save Xmas" campaign to help inform people of their Christmas saving options, including saving accounts offered by credit unions. **The Government will provide £2 million funding to the OFT for "Save Xmas" to continue to operate.**

Insurance and demand 4.19 In line with recommendations made by the Financial Inclusion Taskforce's insurance working group (IWG), **the Government will focus its policy response for insurance on home contents cover for those living in rented accommodation.** The action plan will focus on objectives in the following areas:

- ongoing work with the insurance industry to ensure that appropriate, and where necessary, tailored home contents insurance products are available to both social and private tenants;
- promotion and support for the supply of insurance schemes by social landlords; and
- promotion of awareness of and demand for appropriate insurance products, by both the industry and the Government, working through appropriate intermediaries.

4.20 These objectives will be pursued through an initiative, to be integrated with Government's work on promotion of demand, including an ongoing "now let's talk money" campaign. To achieve this, the DWP will **establish a "financial inclusion champions" initiative, with funding from the Financial Inclusion Fund of £12 million.** This will provide dedicated members of staff with experience of working on financial inclusion to work with local authorities, social landlords and other potential financial inclusion intermediary organisations to provide:

- expertise and best-practice co-ordination within local authority areas on insurance schemes to make it easier for housing associations and other social landlords (including councils and arms-length management organisations), to establish insurance schemes for their tenants;
- a point of contact for the ABI campaign that will promote appropriate insurance products to low income consumers;

- the local intermediary outreach and co-ordination needed to develop the local stakeholder networks on which the "now let's talk money" campaign relies; and
- in line with recommendations from the Financial Inclusion Taskforce, a more strategic link between "now let's talk money" and the local government sector.

4.21 The continuing "now let's talk money" campaign will be delivered through the new champions initiative. The campaign's scope will be widened to include home contents insurance (working closely with the ABI campaign) and to increase focus on saving, particularly in credit unions. The campaign will also continue to ensure that demand for banking services is being promoted, and that opportunities for banking to provide a route into wider inclusion are taken. The effectiveness and outcomes of the campaign will be monitored and evaluated on a regular basis by the Financial Inclusion Taskforce.

4.22 Finally, the financial inclusion champions initiative will facilitate effective join-up between other aspects of financial inclusion policy. For example:

- financial inclusion champions will provide a point of contact for the Growth Fund team and banks looking to work with local authorities to establish new third sector lending provision in priority under-served areas;
- they will also work with the three financial inclusion Beacon local authorities (Leeds, Sheffield and South Tyneside) to develop a financial inclusion "business case" and best practice guide to use to raise the profile and understanding of financial inclusion issues within local authorities; and
- the champions initiative will be co-ordinated by a project board involving officials from DWP, HMT and CLG, as well as key stakeholders such as the Financial Inclusion Taskforce, the Local Government Association and Citizens' Advice.

4.23 The Financial Inclusion Taskforce will also have responsibility for continuing to work with the insurance industry to ensure that appropriate low-cost HCI products are available for people living on low incomes in privately-rented accommodation.

Financial capability

4.24 The Government is committed to improving consumers' ability, confidence and motivation with respect to managing their finances and playing an active role in the financial services market, as set out in *Financial capability: the long-term approach* in January 2007. The Government will publish its full financial capability action plan in spring 2008.

DEALING WITH FINANCIAL DISTRESS

Money advice

4.25 Following its commitment to continue supporting the supply of free face-to-face money advice to financially excluded people, the Government will continue to support BERR's money advice initiative in 2008-11, with funding from the Financial Inclusion Fund of £74 million. BERR has provided a further £2m from its own CSR budget, meaning total funding for the initiative will be £76 million.

4.26 To increase further their effectiveness in targeting financially excluded clients, all continuing money advice projects will introduce a **dedicated outreach component**,

building on the best practice established by the LSC's outreach pilots. Where appropriate, staff from LSC pilots may be transferred into the money advice projects.

4.27 Projects will also be required to **trial a number of approaches in order further to increase targeting and the number of people helped**. These include:

- **triage** of clients at an early stage to identify those who most need face-to-face help;
- **volunteer training and co-ordination**, to increase the capacity of the projects; and
- introducing an element of **financial capability provision** to provide appropriate preventative advice.

4.28 These approaches will be trialled in 2008-09, **and effective models of delivery rolled-out to all projects in subsequent years**.

Outreach advice

4.29 The LSC's money advice pilots will be reconfigured to focus on prisons, the outreach location where early evaluation indicates support to have been most effective, with a service for both prisoners and, where appropriate, their families. The new outreach service will be commissioned jointly by the LSC and NOMS, under NOMS's finance, benefit and debt pathway for tackling re-offending. The involvement of NOMS will allow the delivery of services in a prison environment to be as effective and joined-up as possible.

4.30 This **£5 million initiative will operate in every region of England and Wales**, and will be funded by £2 million from the Financial Inclusion Fund, and £3m from the MoJ budget.

4.31 In the medium term, the LSC and the MoJ will also examine options for mainstreaming outreach provision into the implementation of its Community Legal Services strategy, incorporating the learning gained from the Financial Inclusion Fund pilots from 2006-08.

Illegal lending projects

4.32 The illegal lending projects have now been rolled out to every GB region. To ensure that the victims of illegal loansharks – many of them among the most vulnerable not only to financial exclusion, but also to a wide range of social problems – continue to have access to this important form of support, the Government announces that BERR will continue to fund an illegal money lending team in every region in Great Britain until March 2011. Current plans are that activity will continue at a similar level of intensity throughout the period, subject to periodic review of the impact of the initiative.

4.33 To build on commitments made by the banking sector, including in the recent Banking Code review, **the Government will continue to work with banks to ensure that principles of responsible lending and fair treatment for customers in financial difficulty are upheld and applied**. This will help to ensure that people avoid getting into problems, and that those who do find themselves in difficulty receive appropriate support from financial institutions.

Financial capability

4.34 The Government recognised in Financial capability: the long-term approach that many consumers lack access to preventative advice on their finances and asked Otto Thoresen to undertake a feasibility study into a national approach to generic

financial advice. The Government looks forward to the final report of the Thoresen Review and will respond to Thoresen's recommendations in its financial capability action plan in spring 2008.

CONCLUSION

4.35 This action plan sets out clearly how the Government, together with its partners in the financial services industry and third sector, will work towards achieving its financial inclusion objectives in 2008-11.

4.36 Work in partnership with the banks will continue, to reduce further the number of unbanked people, and to ensure that bank account access is helping people to take advantage of the resulting opportunities for engagement with financial services, in ways that improve their day-to-day lives.

4.37 Building on the successes of its current strategy, the Government will continue with significant funding for initiatives to increase the supply of affordable credit and free face-to-face money advice. The Government will extend its successful financial inclusion partnership with the banking sector, working together to extend the coverage and capacity of the third sector in providing affordable credit to the financially excluded.

4.38 The Government will also continue with its demand-side policy to promote financial inclusion through trusted local intermediary organisations, building on the growing awareness of its "now let's talk money" campaign, through a new financial inclusion champions initiative. This initiative will raise the profile of financial inclusion issues within local government, and provide an important channel not only for demand-side work, but also for work to increase the availability of appropriate insurance products, including in partnership with the insurance industry.

4.39 The Financial Inclusion Taskforce will continue to play an important role, monitoring and evaluating progress across these initiatives, and advising on new developments. The Taskforce's detailed terms of reference for 2008-11 will be agreed in due course.

ISBN 978-1-84532-384-4



9 781845 323844 >