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Treasury Committee

Financial inclusion: credit, savings, advice and insurance

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The Treasury Committee

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) from Session 1997–98 onwards are available on the Internet at www.parliament.uk/parliamentary_committees/treasury_committee. A list of Reports of the Committee in the present Parliament is at the back of this volume.

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Summary

Our approach

Too many people cannot gain access to appropriate financial products and services at present: they struggle to obtain affordable credit or helpful financial advice and face barriers in opening and operating bank accounts. Financial exclusion blights the lives of many millions of people; it increases the costs they bear for basic services; it makes them vulnerable to illegal or high-costing lending; it reinforces social exclusion. An effective and coherent strategy to promote financial inclusion can make a substantial contribution to the fight against poverty. In this Report and the two Reports that will follow—one on banking services, the other on financial capability and the roles of Government and public bodies in the overall strategy—we identify the main elements of the strategy we wish to see Government develop. In the current Report we focus on three main areas for action.

Affordable credit

The first priority area for action if the Government strategy on financial inclusion is to punch its weight is in improving access to affordable credit. The Government needs to spearhead action to tackle high-cost credit, galvanising enforcement action against illegal lenders, monitoring the effectiveness of measures to ensure increased competition in the home credit market and actively promoting improved data-sharing among and for lenders. The Government must act soon to release the potential of third sector lenders—credit unions and Community Development Finance Institutions—to provide lending. Measures to increase the ability of credit unions to raise capital and to reduce their costs of operation must be enshrined in a new Credit Unions Act. The Government's own Social Fund must become a more effective lender to the poorest members of society which is more fully integrated with other provision of affordable credit for people on low incomes.

Saving for all

The savings industry in the United Kingdom has not served those lower down the income scale at all well. Even a small cushion of savings can make a great deal of difference to the personal finances of those on lower incomes. The Government must do more to promote affordable savings, ensuring that the valuable lessons in the first pilot phase of the Saving Gateway are not overlooked and that the Gateway is promoted nationwide as a framework for support for savers. The Government's measures to promote savings for all must be more effectively integrated with its financial inclusion strategy.

Access to financial advice

Access to good financial advice is too often open only to those looking to purchase particular financial services products or to some of those with serious debt problems. Generic financial advice which is not tied to a sales process for particular products would represent a key building block in an effective financial inclusion strategy. The provision of such advice on a more systematic basis is in the interests of the financial services industry and all consumers. The Government must take the lead in discussions to secure agreement on the wider provision of generic financial advice.

1 Introduction

Why financial inclusion matters

1. Most people take access to financial services for granted. They obtain credit, operate bank accounts and make investment decisions. They make choices in a competitive market. They see the benefits of the trend towards a “cashless society”. However, for a significant minority of people in the United Kingdom, such financial services seem inaccessible. Such people face higher charges for loans and other financial services. They face barriers in undertaking even simple transactions. They often do not know who to turn to for advice and support. They suffer from the drawbacks of the trend towards a “cashless society”.

2. Financial exclusion can blight the lives of those affected by it. It can limit opportunities for employment and enterprise, impose a premium on the costs of basic services and reinforce social exclusion. Financial exclusion imposes costs on society and the State, making it harder to tackle unfairness and more expensive to distribute benefits. Financial exclusion also has detrimental effects on the financial services industry itself, limiting the chances for companies and other providers to broaden their customer base.

The genesis of our inquiry

3. In November 1999 the Social Exclusion Unit published a report to the Treasury on Access to Financial Services which estimated that about 1.5 million low income households used no financial services. The report highlighted a mismatch between customers’ needs and the products on offer. It made a series of recommendations about credit unions, insurance and basic banking services.¹ Furthermore, a recent FSA survey found that 43% of people had no savings at all.² The importance of developing basic banking services was also a theme of the Cruickshank Report on Competition in UK Banking published in March 2000, which noted that the additional costs and other problems faced by those without a bank account were likely to increase as electronic money transmission became more common, and which recommended that the Government give priority to developing a benchmark for basic banking services.³

4. Those two reports served as a stimulus to the more general spread of basic bank accounts among major banks in 1999 and 2000 and to the joint development by the Government, the banks and the Post Office of what became the Post Office Card Account. These developments were reviewed by the then Treasury Committee in the 1997–2001 Parliament in a Report on Banking and the Consumer in March 2001, which drew attention to continuing problems of financial exclusion and recommended that the banks market basic bank accounts more actively.⁴ Concern about the failure of banks adequately

1 *Access to Financial Services*, Report of Policy Action Team 14, HM Treasury, November 1999, pp 1–3 <http://www.socialexclusionunit.gov.uk/downloaddoc.asp?id=127>

2 FSA, *Levels of financial capability in the UK: results of a baseline survey*, March 2006, p 43

3 *Competition in UK Banking: A Report to the Chancellor of the Exchequer*, HM Treasury, March 2000, chapter 7

4 Treasury Committee, Fifth Report of Session 2000–01, *Banking and the Consumer*, HC 138, paras 18–24

to market and promote basic bank accounts was also expressed by the Treasury Committee early in the following, 2001–05, Parliament.⁵

5. The importance of financial inclusion and the barriers to it were also highlighted in several other inquiries by our predecessors in the last Parliament. In a Report on Transparency in Credit Card Charges in December 2003, the then Committee highlighted the adverse effect of flat fees on poorer customers and the problems faced by those with excessive credit card debts, and emphasised the importance of efforts to improve financial literacy and provide advice for the over-indebted.⁶ A Report by our predecessors in July 2004 drew attention to weaknesses in the long-term savings industry which adversely affected its capacity to attract savings from many less affluent consumers and potential consumers, and again returned to the themes of financial education and accessible advice.⁷ Finally, in March 2005, the then Committee examined how the expansion in the number of cash machines levying charges had a particularly adverse effect on those on low income and those living in low-income areas.⁸

6. In the 2004 Spending Review the Government announced the establishment of a Financial Inclusion Fund to support initiatives to tackle financial exclusion and the creation of a Financial Inclusion Taskforce to monitor progress. The Spending Review also committed the Government to seek progress in three key areas by:

- working with the banks to identify a target for reducing the number of people without a bank account;
- working in partnership with the private and voluntary and community sectors to develop models which made more affordable loans available; and
- increasing the capacity to provide free face-to-face money advice for vulnerable consumers facing debt problems.⁹

7. In December of the same year, at the time of the 2004 Pre-Budget Report, the Government fleshed out some of the commitments in the 2004 Spending Review. The Treasury published an analysis of the extent of financial exclusion. It announced that the Financial Inclusion Fund would be allocated £120 million over three years and would “support the Government’s aims to increase access to affordable forms of credit and to see a significant increase in capacity of free face-to-face money advice”.¹⁰ The then Treasury Committee provided an initial reaction to these announcements in its Report on the 2004 Pre-Budget Report, welcoming the commitment to assistance for basic financial advice.¹¹

5 Treasury Committee, Fifth Report of Session 2001–02, *Banking, Consumers and Small Businesses*, HC 818–I, paras 6–8

6 Treasury Committee, First Report of Session 2003–04, *Transparency of Credit Card Charges*, HC 125–I, paras 67, 73–109 and 129–136

7 Treasury Committee, Eighth Report of Session 2003–04, *Restoring confidence in long-term savings*, HC 71–I

8 Treasury Committee, Fifth Report of Session 2004–05, *Cash Machine Charges*, HC 191

9 *2004 Spending Review: New Public Spending Plans 2005–2008: Stability, security and opportunity for all: Investing for Britain’s long-term future*, HM Treasury, Cm 6237, July 2004, paras 5.24–5.28

10 *Promoting financial inclusion*, HM Treasury, December 2004, para 1.32

11 Treasury Committee, First Report of Session 2004–05, *The 2004 Pre-Budget Report*, HC 138, paras 78–81

The conduct of our inquiry

8. Building on the work of our predecessors, we decided to undertake an inquiry on financial inclusion at an early stage in the new Parliament and we announced terms of reference in mid-November 2005.¹² We held eight oral evidence sessions between January and May 2006, taking evidence from consumer, voluntary, community and commercial groups with experience of financial inclusion issues,¹³ from the Banking Code Standards Board and senior representatives of the major high street banks,¹⁴ from the Post Office, from the Financial Inclusion Taskforce, from the Financial Services Authority (FSA) and from Ministers and officials in relevant departments, including Mr James Plaskitt MP, Parliamentary Under-Secretary of State in the Department for Work and Pensions (DWP), and Mr Ed Balls MP, Economic Secretary to the Treasury. We also received a great deal of useful written evidence, most of which is published with Volume II of this Report, and the remainder of which has been reported to the House.¹⁵

9. We were also greatly assisted in our inquiry by two visits we undertook. On 1 February 2006 we visited Services Against Financial Exclusion (SAFE) at Toynbee Hall in Tower Hamlets to observe the delivery of programmes to assist with financial inclusion and to talk to individuals who had experienced difficulty gaining access to financial services. Later that month we visited New York and Washington DC, and in the course of that visit we held several meetings directly relevant to our inquiry on financial inclusion.¹⁶ We are most grateful to all those who assisted the Committee during our inquiry, and particularly to those whom we met in the course of our visits.

Reporting on our inquiry

10. The evidence we received during this inquiry has covered a great range of issues. It has become clear to us that financial inclusion is not a single challenge, but a multi-faceted issue. In order to ensure that we give proper consideration to the different aspects of the challenge, we have decided to make three separate reports to the House. In this, the first of those three reports, we provide an overall introduction to the issues surrounding financial inclusion and then consider and make recommendations in four areas: credit, advice, savings and insurance. We will shortly be making two further Reports dealing respectively with:

- “Banking the unbanked”, a Report which will examine the provision of banking services and issues surrounding the Post Office Card Account; and
- Financial capability and the roles of the Government and the FSA in relation to financial inclusion.

12 http://www.parliament.uk/parliamentary_committees/treasury_committee/tcpr051115.cfm

13 Which?, Citizens Advice, The National Consumer Council, A4e (Action for Employment), The Association of British Credit Unions, The Community Development Finance Association and The Resolution Foundation.

14 HSBC, Barclays, HBOS, Lloyds TSB and Royal Bank of Scotland.

15 For a list of memoranda published in Volume II of this Report, see p 75; for a list of memoranda reported to the House, but not printed, and information on how they can be inspected, see p 78.

16 The Committee met The Citizens Financial Group Inc, the CDFI Fund, The Office of Financial Education, the Small Business Administration, the Coalition of CDFIs and City First Bank of DC.

2 The challenges of financial inclusion

What is financial inclusion?

11. Financial inclusion can be defined as the ability of individuals to access appropriate financial products and services. This definition clearly raises as many questions as it answers. It hinges on an understanding of “appropriate” products and services. As will be seen, financial inclusion has fairly different meanings in the context of banking and in the context of a more diverse market such as the credit market. In seeking to understand the challenge of financial inclusion and the measures needed to promote it, we have sought to concentrate not on finding a final definition of the term, but on understanding what is involved in being financially excluded, what can be done to tackle such exclusion, what forms financial inclusion can take and what benefits flow from financial inclusion.

The nature of financial exclusion

12. The United Kingdom has one of the most innovative and diverse financial services sectors in the world. Despite this, many individuals struggle to gain access to basic financial products such as bank accounts, credit, insurance and financial advice. Financial exclusion or lack of access to appropriate financial products and services can arise for a variety of often inter-linked reasons. Witnesses suggested a variety of causes including:

- Exclusion due to inappropriate or excessively high charges: interest rates for doorstep lenders and other alternative credit products may be high and lead to a long-term cycle of over-indebtedness.¹⁷
- Exclusion due to religious beliefs or other cultural barriers: financial services may not comply with Islamic law, which forbids the charging of interest, for example.¹⁸
- Exclusion due to disability: disabled people might find it difficult to access premises, or find it difficult to read marketing material.¹⁹
- Exclusion due to being on lower incomes or being long-term recipients of benefits, which impacts most on the disabled, ethnic minority groups, the elderly and those excluded from the labour market.²⁰
- Locational exclusion: lack of access in the person’s locality to appropriate financial services.²¹

17 Ev 244, 282, 300, 398

18 A Atkinson, “*Migrants and Financial Services: A review of the situation in the United Kingdom*”, University of Bristol, March 2006, pp 16–17

19 Ev 456, 364

20 Q 719; Ev 455; HM Treasury, *Promoting financial inclusion*, chapter 2

21 Ev 220

- Regulatory requirements: regulations imposed by the Government or the FSA play a valuable role in enhancing consumer protection, but, where regulations are excessive or are implemented in a way which does not take account of particular circumstances faced by individuals, they might accentuate financial exclusion.²²
- Self-exclusion: where an individual feels that there is little point in applying for financial products because he/she expects to be refused, or is unwilling to engage with the financial services industry as a result of previous experiences.
- Information problems: an individual may have difficulty obtaining the information he or she needs, either due to the requirements of the providers (who may be unwilling to lend to people without a credit history)²³, or to the challenge to the individual as consumer, who may not be able to access marketing information or may have particular difficulty choosing between complex products.

13. Some witnesses believed that financial exclusion would become a bigger challenge in the future. One reason why such a development seemed likely was the increasing responsibility placed on individuals to plan for their retirement.²⁴ Another factor cited was that delivery of the Government's welfare strategy will increasingly involve the direct payment of benefits and care allowances into bank accounts, with increasing moves to "individualised budgets"—leaving people to manage larger amounts of money and make payments for the provision of public and private services. This trend could serve as an opportunity to introduce people to financial services, increasing the importance of claimants being able to access and operate appropriate accounts. However, where people have difficulty in managing accounts, benefits and tax credits could go unclaimed.²⁵ Technological change may lead to greater market segmentation by financial institutions, allowing them to exclude groups of customers whom they perceive to be less likely to be a source of profit.²⁶ On the other hand, technological progress can work to promote inclusion if it can allow financial service providers to better identify and reduce the risks of lending to low-income consumers or to use automated processes to reduce costs.²⁷

The varieties and scope of financial exclusion

14. Financial exclusion is not a unified phenomenon. Some people may have access to some financial services and products, but have great difficulty obtaining access to others. Financial exclusion may seem absolute in some cases—for example, where a person feels they are simply unable to open a bank account—but more relative in other cases—for example, where an individual feels that he or she is paying an unduly high cost for financial

22 Ev 353, 215, 202

23 Ev 295

24 Q 5

25 "Banking benefits: CAB evidence on payment of benefits into bank accounts", Citizens Advice, January 2006, pp 22–23

26 D Knights, "Virtual financial services: who wants them?", Keele University, 2000

27 S Collard and E Kempson (2005), *Affordable Credit: The way forward*, Bristol: The Policy Press

products and services such as credit or insurance. At least to a degree, the scope of financial exclusion in banking can be delineated by reference to the number of individuals or households without a bank account—“the unbanked”. In the context of credit, the picture is more complex. The credit market is more diverse than that for bank accounts, with a large number of additional providers alongside the mainstream banks. The vast majority of households will be able to access some form of credit, but such credit may come at a high cost, or even from an illegal source. Credit may be accompanied by onerous terms or conditions, excessive penalties and even threats if repayment is not made. Too much access to credit and irresponsible lending and borrowing can lead to a spiral of over-indebtedness and wider problems.

15. In the main, financial exclusion, particularly in the context of banking services and affordable credit, is associated with those on the lowest incomes, and long-term recipients of benefits.²⁸ However, we received evidence that problems with exclusion include both a wider set of financial products and a wider group of people. Which? believed that

exclusion has generally been associated with consumers in the lowest income/socio-economic cohorts. And it is quite true that the most vulnerable consumers in society are the most affected by financial exclusion and its associated disadvantages. However, we take the view that exclusion affects a much wider population of consumers on lower-median incomes.²⁹

Which? noted particular problems for this group of people in gaining access to value for money pensions and long-term savings products and objective financial advice. For example, the Pensions Commission found that the long-term savings industry has a poor track record of serving customers with incomes of above £9,500 but below the median of £22,000.³⁰ The Resolution Foundation also identified a lack of access to generic financial advice affecting this group.³¹

The costs of financial exclusion

16. Many witnesses noted that financial exclusion can impose significant costs on individuals, families and society as a whole. These include:

- Denial of access to services or a requirement to pay higher charges for services: the Fuel Poverty Advisory Group indicated that not paying by direct debit increases the cost of energy bills by around £70 per year.³² Other services such as mobile phone contracts may not be available to the financially excluded.³³
- Barriers to employment and enterprise: Many employers require wages to be paid into a bank account. This can leave people at risk of exploitation in the

28 HM Treasury, *Promoting Financial Inclusion*, chapter 2

29 Ev 500

30 *Pensions: Challenges and Choices: The First Report of the Pensions Commission*, October 2004, chapter 6

31 Ev 447

32 Ev 320

33 HM Treasury, *Promoting Financial Inclusion*, Foreword

informal economy if they do not have a bank account. Lack of access to financial services can make it difficult for people to start their own business. Excessive debt can act as a disincentive to work.

- Opportunities to save can be insecure or difficult to access, and lack of security in storing money can leave individuals vulnerable to loss or theft.³⁴
- Opportunities to borrow can be limited (or illegal).³⁵
- Difficulty in building assets: Owning or obtaining assets can be difficult without access to finance. People may be reluctant to save because of lack of access to advice and low-cost products.³⁶
- Difficulty in smoothing income to cope with shocks: If households cannot access credit they may find it difficult to deal with large one-off items of expenditure. Help the Aged noted that many of the poorest pensioners can struggle to make ends meet when facing one-off costs or unexpected bills.³⁷ Lack of insurance can result in high costs if a person is a victim of crime.
- Contribution to child poverty: The Government's review of child poverty in 2004 highlighted the links between financial exclusion and child poverty.³⁸ Paying more for certain financial services and the impact of debt can exacerbate the harm caused by child poverty. There are at least 800,000 children in households without bank accounts.
- Entrenching social exclusion: Financial exclusion contributes to social exclusion; individuals and neighbourhoods which are financially excluded can become disengaged from mainstream society.

Benefits of financial inclusion

17. While financial inclusion alone cannot prevent poverty, it can help ameliorate some of its worst effects and help provide routes into work and enterprise. Ms Claire Whyley, Director of Policy at the National Consumer Council (NCC), noted that “at a basic level, financial inclusion can reduce the costs of poverty for people on low-incomes”.³⁹ The NCC believed that

unless being financially included makes a positive difference to the lives of those who are excluded, it will not be inclusion in any meaningful sense ... Meaningful financial inclusion can only be achieved if financial products and services are designed and delivered to meet the particular needs of people on the lowest incomes,

34 Ev 340

35 HM Treasury, *Promoting Financial Inclusion*, Foreword

36 The Resolution Foundation, “*Closing the gap: providing financial advice to people on low incomes*”, May 2005

37 Ev 334

38 HM Treasury, *Child Poverty Review*, July 2004, p 45

39 Q 4

ensuring that they are not only accessible, but also attractive, appropriate and available.⁴⁰

18. Financial inclusion can help towards the achievement of the Government's objective to increase the rates of asset-ownership amongst lower-income households.⁴¹ Promoting financial inclusion can also help in the regeneration of local areas if money saved by increased access to financial services can be re-invested in the community.⁴²

19. Poor people end up paying proportionally more for their money. Promoting financial inclusion is crucial to the fight against poverty. An effective Government strategy to combat financial exclusion has a crucial role to play in enabling those on low incomes and others who are financially excluded to take their own steps away from poverty.

40 Ev 396

41 Speech by John Hutton MP, Secretary of State for Work and Pensions, to Fabian Society, 10 May 2006, *Ending Child Poverty and Transforming Life Chances*

42 Ev 280

3 Access to affordable credit

The costs of credit

20. Although the vast majority of households are able to access some form of credit, for some households that credit may come at a high cost, or even from an illegal source. Credit may be accompanied by onerous terms or conditions, excessive penalties and even threats if repayment is not made. Too much access to credit and irresponsible lending and borrowing can lead to a spiral of over-indebtedness and wider problems. The Places for People Group told us that it is an

inescapable fact that the poorest people, living in the most disadvantaged communities are paying frighteningly high levels of interest when they need to borrow money and have to rely on the home-collected credit companies. Such high rates of interest commonly lead to unmanageable levels of debt and the attendant poor health, insecurity of accommodation and culling of aspiration.⁴³

21. We gathered evidence about the high rates of interest that can be charged to low income consumers by particular types of lenders:

- Home credit companies or doorstep lenders: these provide small, short-term unsecured cash loans with weekly repayments which are collected from the customer's home. The average value of a loan is £300 and 70% of home credit loans are for less than £500. Charges range from 140% up to 400% Annual Percentage Rate (APR).⁴⁴
- Payday loans: these loans are a form of short-term credit, whereby customers write a cheque to a lender and receive an amount in cash. The lender then waits for up to 30 days before presenting the cheque to the bank. Charges can reach around £75 for a £300 loan, leading to an extremely high APR.⁴⁵
- Pawnbrokers: these lenders offer credit secured against goods; monthly interest rates can range from 5% to 12%. This equates to an APR of between 70% and 200%.⁴⁶
- Illegal or unlicensed lenders: in the case of such lenders, it is difficult to observe the precise amounts charged, but APRs can reach over 1,000%.

22. The NCC suggested that 7.8 million people are excluded from the mainstream credit market. Ms Whyley told us that this figure was based on those who had applied for credit and been refused a number of times.⁴⁷ Research from the Personal Finance Research Centre (PFRC), supported by the Joseph Rowntree Foundation, indicates that “6.2 million

43 Ev 432

44 S Collard and E Kempson (2005)

45 www.paydayuk.co.uk

46 S Collard and E Kempson (2005)

47 Ev 398

people of working age could potentially benefit from the wider availability of affordable credit” and “3.3 million people lack ready access to mainstream credit market”.⁴⁸ Citizens Advice believed the situation was more complex, telling us that they came across people who were on very low incomes and benefits who had an “astonishing amount” of mainstream credit borrowing which caused them problems.⁴⁹ This could indicate that the situation is dynamic, with borrowers moving in and out of work and able to access more mainstream sources of credit, but falling back on the non-mainstream market when they encounter financial difficulties or are out of work.

23. The PFRC research and other evidence⁵⁰ submitted to the Committee indicates that financially excluded individuals valued credit agreements that offered:

- Loans that were small, short-term and available in cash;
- Access to credit quickly and easily without lengthy or intrusive application procedures;
- Affordable weekly payments that were compatible with their households budgeting cycle; the focus was often on the amount of the weekly repayment, not what the total cost of borrowing actually was; a combination of the discipline of weekly payments with occasional penalty-free “payment holidays” was sought;
- Lenders that were familiar, were perceived to be trustworthy and understood the circumstances of low-income consumers.

24. It was recognised in evidence by both consumer groups and participants in the financial services industry that mainstream lenders would struggle to provide loans fitting such characteristics at affordable rates. HSBC told us that

provision of the short-term, very low value micro-credit typically required by these customers is simply not deliverable in a cost-effective manner. To cover our operating costs alone would require charging a disproportionately high APR relative to our other lending products and this is not a position we would wish to adopt.⁵¹

Action for Employment (A4e) told us that, amongst “those on lower incomes, the need is not for large lump sums—these are the loan amounts (in the thousands) that are profitable to the banks. In the main, households require relatively small amounts in the low hundreds for a variety of necessary or ‘essential’ items such as utility bill payments, replacement of critical household goods (such as a cooker) or getting the car fixed.”⁵² Mr Mick McAteer, Principal Policy Adviser at Which?, believed that an alternative solution, such as one offered by credit unions, might be more appropriate for this type of borrower because credit unions charged much lower rates of interest than alternative sources of credit.⁵³ Ms

48 S Collard and E Kempson (2005)

49 Q 46; Ev 242–243

50 S Collard and E Kempson (2005); Ev 398

51 Ev 353

52 Ev 167

53 Q 51

Whyley suggested that a series of stepping stones should be developed so that, if people wanted, they could move into the mainstream and out of it as they saw fit. She noted that the third sector had very minor coverage in the United Kingdom and thought that it was important “to be realistic about what they can deliver ... It is crucial that the mainstream remains involved even if they are not the people directly offering products to people who are financially excluded.”⁵⁴

Tackling high cost credit

Illegal lenders

25. Individuals who cannot obtain credit through the formal sector may turn to illegal or unlicensed lenders. This can lead to those individuals being charged extortionate rates of interest and, in the worst cases, being faced with threatening and anti-social behaviour. The DTI told us that they had put £2.6 million into funding pilot projects to tackle illegal money lenders in the West Midlands and Scotland. Ms Fiona Price, Director of Cross-Market Interventions in the DTI, thought that the regulatory powers available to trading standards departments were adequate, and that the main focus was now on “putting the resources into enforcement”.⁵⁵

26. Ms Teresa Perchard, Director of Policy at Citizens Advice, believed that it was important to examine whether consumer credit law could be enforced more effectively to look after those people who were being exploited in some of low-income communities.⁵⁶ Professor Elaine Kempson described the early results of a study she was conducting into illegal lending for the DTI as raising real cause for concern.⁵⁷ The Trading Standards Institute has encouraged the DTI to examine the impact the pilot projects have had, with a view to extending them to other parts of the country.⁵⁸

27. We have received evidence suggesting that illegal and unlicensed lending represent real causes for concern. It is essential that measures we consider later to promote affordable credit are matched by effective action against the blight of illegal lending. We welcome the Government’s emphasis on putting additional resources into enforcement, but we also expect the Government to galvanise enforcement action against illegal lenders by stressing the high priority which it attaches to this matter, by stronger enforcement action by the DTI against illegal lending, and by extending the DTI’s pilot projects throughout the United Kingdom.

Doorstep lenders

28. Providers of home credit, or doorstep lenders, typically offer small value, short-term unsecured loans. These are generally repaid on a weekly basis from a customer’s home to a

54 Ibid

55 Q 960

56 Q 50

57 Ev 426

58 Trading Standards Institute, press release, 20 June 2006, “Getting the Teeth into Loan Sharks”, www.tsi.org.uk

representative or agent of the company. Provident Financial, a company that represents over 50% of the home credit market, indicated that

the cash price of a loan is important to customers, but the qualities of convenience, good service, flexibility and control are key elements in the product design. The agent's weekly home visit is central. It is the major factor in the cost of providing home credit, but it helps manage the risk of lending, assists the customer's budgeting and provides regular face-to-face communication.⁵⁹

Provident Financial claimed that APR was a flawed measure for the effectiveness of such credit because the use of APR “distorts the apparent cost when loan terms are short and fails to include default charges and service fees often levied on products other than home credit”.⁶⁰ Following a super-complaint from the NCC, the Office of Fair Trading (OFT) referred the supply of home credit to the Competition Commission for investigation. The Competition Commission has provisionally concluded that the

lack of competition, from other credit products, new entrants or among the home credit providers themselves, means that customers face higher prices for their loans than would be expected in a competitive market.⁶¹

The extent of overcharging was deemed to be substantial and of a value in the region of £100 million a year.⁶²

29. The Competition Commission has published a notice of possible remedies and sought views on their effectiveness and practicability.⁶³ These possible remedies include:

- Obliging lenders to share data on customers' payment records, which would allow customers to demonstrate information about their creditworthiness to other lenders and reduce the advantage enjoyed by existing lenders;
- Obliging lenders to provide better price information and offer comparable products—to enable consumers to make comparisons between providers and increase price competition;
- Strengthening the requirements to provide statements—to provide clear information to consumers and enable them to demonstrate creditworthiness to other potential lenders;
- Reducing the restrictions on canvassing—to improve the ability of other companies to compete with existing lenders;
- Increasing the early settlement rebate—which would reduce the price paid by customers when they repay their loans early.

59 Ev 440

60 Ibid

61 Competition Commission, News release, *Home Credit customers pay a high price*, 27 April 2006

62 Ibid

63 Competition Commission, *Home credit market inquiry, Notice of possible remedies under Rule 11 of the Competition Commission rules of procedure*

30. The Competition Commission also noted that, “if it appears likely that remedies of the kind set out above might not prove immediately effective, the [Competition Commission] will consider imposing price caps—which would directly address high prices resulting from lack of competition for a limited period whilst other remedies take effect”.⁶⁴

Promoting competition amongst providers of high cost credit can play an important role in reducing interest rate charges. We note the provisional findings of the Competition Commission that a lack of competition in the market means that home credit customers are being overcharged by up to £100 million a year. We expect due consideration of the full range of possible remedies followed by rapid implementation of measures to increase competition and benefit consumers.

Tackling extortionate credit and an interest rate cap

31. The Consumer Credit Act 2006 received Royal Assent on 30 March 2006. When it comes into effect, the Act will replace the current rules on extortionate credit with an “unfair credit relationships test”. The amended provisions will enable a court to consider whether the relationship between the creditor and debtor arising out of a credit agreement is unfair to the debtor because of the terms of the agreement, the way in which the agreement was operated by the creditor or any other thing done or not done by or on behalf of the creditor before or after the agreement was made.⁶⁵ Section 38 of the new Consumer Credit Act will also give wide powers to the OFT to take action if it is dissatisfied with any matter in connection with any business being carried on by a holder of a consumer credit licence or any other conduct of such a person.⁶⁶ Citizens Advice welcomed these changes and considered it “vital” that the OFT would be “prepared to use its licensing and injunctive powers to both address persistent bad practices and to establish minimum standards of conduct for lenders”.⁶⁷

32. Some evidence we received proposed that an absolute interest rate cap for credit be introduced.⁶⁸ The DTI did not include proposals for an interest rate cap in the Consumer Credit Act 2006. Professor Kempson told us:

superficially [an absolute interest rate cap] is a very attractive idea. However, our research with people on low incomes suggests that it is premature while they have such poor access to low-cost credit and could well have an adverse effect on the people it would be intended to benefit. It would, undoubtedly, lead to a displacement of costs (with more additional charges) so that they would not have to be included in the APR quoted by lenders. This would result in a serious lack of transparency for people who need it most. It could also lead some of the larger lenders specialising in lending to people on low incomes to move ‘up-market’ and stop lending to the poorest and highest risk borrowers. This would not, of itself, be a concern if there

64 Ibid

65 Consumer Credit Act 2006, Explanatory notes, p 14

66 Ibid, p 20

67 Ev 245

68 Ev 433

were sufficient alternative provision for these people ... However, this is currently not the case. Consequently more people would turn to unlicensed lenders.⁶⁹

33. We welcome the provisions of the Consumer Credit Act 2006 covering the unfair credit relationship test and the introduction of additional powers for the OFT. It is vital that the OFT exercises these additional powers in order to address persistent bad practice and excessive or unfair charges in the consumer credit market. We note the possible drawbacks of introducing an interest rate ceiling for credit, including the possibility that it could lead to increasing charges that would not be included in the APR and that a lack of sufficient alternatives could lead to people turning to unlicensed lenders. At this stage, we believe the Government should continue to encourage the development of measures to promote alternatives to high cost credit and assess the suitability of the new powers in the Consumer Credit Act 2006 before considering whether to impose an interest rate ceiling.

Data-sharing

34. In part, loans to low-income consumers attract a high rate of interest because of the perceived risk of default. If lenders can obtain information about a borrower's good payment record, which could reassure them about the risk of default, they may be willing to extend credit at a lower interest rate. Data-sharing can improve the situation for some borrowers, although it may not improve access for those who have defaulted in the past. The Places for People Group called for a policy designed to enable individuals to develop portable credit histories, allowing them to move from third sector lenders to mainstream providers and to benefit from the competitive forces operating in the prime credit market.⁷⁰ The Finance and Leasing Association (FLA) noted that, if there was no information, or only negative information, available about an individual, then this could lead to exclusion because mainstream lenders might be reluctant to lend in view of the difficulty in evaluating the potential for default.⁷¹ The FLA suggested that, for previously excluded households who lacked a track record of borrowing from mainstream providers, lenders could use data showing reliability of payment, such as information from housing associations and other third sector landlords.⁷²

35. In the last Parliament the then Treasury Committee examined the problems in the credit card sector arising from incomplete data-sharing and argued that such failings had been instrumental in the level of cases of over-commitment by borrowers. The then Committee called for the credit card industry, relevant government departments and the Information Commissioner to work together on certain aspects of data-sharing.⁷³ **Our current inquiry has demonstrated both the importance of effective data-sharing in enhancing access to affordable credit and the potential benefits of data-sharing beyond the traditional lending industries. We are disappointed that there is insufficient evidence as yet of concrete progress arising out of the proposals of our predecessors for**

69 Ev 426

70 Ev 432

71 Ev 296

72 Ibid

73 HC (2004–05) 274, paras 55–66

increased data-sharing. We recommend that the DTI and the Financial Inclusion Taskforce investigate as a matter of urgency the benefits of wider data-sharing in increasing access to affordable credit and the barriers to such data-sharing. We further recommend that the DTI actively promote measures involving lenders and non-financial services organisations such as housing associations and local authorities to ensure the development of more comprehensive data-sharing.

Credit unions and CDFIs

The role of the third sector

36. One of the key measures taken to increase the availability of affordable credit in recent years has been to promote the development of third sector and not-for-profit lenders. The two main models for not-for profit lenders in the United Kingdom are credit unions and Community Development Finance Institutions (CDFIs). The Treasury told us that “The focus on third sector credit provision recognises that third sector lenders are uniquely placed to address the needs of excluded communities”. The Treasury observed that third sector lenders

- are often geographically targeted in nature and so can provide affordable credit in areas of high financial exclusion;
- are often small in size and so can target those encountering exclusion and can develop more innovative and suitable methods of loan delivery;
- often help clients obtain money advice in the course of providing a loan, and connect people to more mainstream financial opportunities; and
- offer rates of interest well below those in the alternative credit market (typically between 12 and 30% per annum).⁷⁴

Credit unions

37. There are currently 549 credit unions in England, Scotland and Wales. The credit union is particularly associated with Northern England. As at June 2005, they had a loan portfolio of £286 million. Credit unions have four statutory objectives laid down by the Credit Unions Act 1979. These are:

- a) the promotion of thrift among the members of the society by the accumulation of their savings;
- b) the creation of sources of credit for the benefit of the members of the society at a fair and reasonable rate of interest;
- c) the use and control of the members’ savings for their mutual benefit; and
- d) the training and education of the members in the wise use of money and in the management of their financial affairs.⁷⁵

38. Credit unions have been growing strongly in recent years and now serve 500,000 adult members and 70,000 junior members, with membership having doubled since 2002.⁷⁶ The maximum amount a member can borrow is typically determined by the level of savings they have with the credit union, with many credit unions requiring a pattern of saving to be established before they will lend. This can be a barrier for people requiring instant access to loans, although some credit unions have begun to offer loans solely based on ability to repay rather than on an existing savings pattern. Such loan funds require close monitoring by the credit union concerned.⁷⁷

39. There was a recognition in evidence that although the mutual status of credit unions was important, a key component in determining the success of an individual credit union was its ability to attract customers through the provision of high quality financial services.⁷⁸ It was also noted that, in order to attract customers, credit unions had to avoid becoming labelled as “poor people’s banks”.⁷⁹ The District of Canterbury credit union noted that, in order to be successful, “community-based credit unions require the active participation of all members of the community, not just the financially excluded”. They had recruited founder members to provide the initial capital necessary to form the credit union.⁸⁰ It was suggested that, in order to make a significant difference in promoting financial inclusion, credit unions needed to enhance their continuing efforts to become more professional, particularly if they were to be able to maintain their recent rate of growth. The Association of British Credit Unions (ABCUL) told us that

many credit unions had been set up in the 1980s and 1990s solely as anti-poverty initiatives. Run solely by local volunteers, these credit unions were not built for expansion and growth, and although they had a real impact in the communities in which they were based, this impact was limited. In 1999 a significant piece of development research into credit union’s in Britain was published called, ‘Towards Sustainable Credit Union Development’. For the first time credit unions were encouraged to become more business focused and more professional. The employment of paid staff and professional high street premises, along with clear leadership and vision began to show real signs of growth in those credit unions that adopted the changes.⁸¹

40. Both community-based and employer-based credit unions are subject to a cap on the maximum interest rates they may charge, although the Government has recently increased this from 1% a month (12.7% APR) to 2% a month (26.8% APR). This move was welcomed by credit union representatives.⁸²

75 Ev 170

76 Ev 170–173

77 Joseph Rowntree Foundation, “*Building Better Credit Unions*”, February 2006

78 Paul Jones (2006), *Giving credit where its due: Promoting financial inclusion through quality credit unions*; Ev 284

79 Ibid

80 Ev 284

81 Ev 173

82 Qq 267, 312; Ev 173

CDFIs

41. CDFIs are not-for-profit organisations which provide lending and investment facilities at competitive rates in disadvantaged communities. CDFIs aim to provide finance to individuals and businesses which are unable to access finance from mainstream banks. The majority of CDFI activity has focused on providing loans to, and equity investments in, small businesses, including social enterprises. However, several CDFIs have now expanded into personal lending, offering personal loans at interest rates of between 15 and 30% per annum. In 2004, a total of around £1.1 million was lent by CDFIs engaged in personal lending, although the institutions involved have reported that the amount lent continues to grow.⁸³

42. Derbyloans is a CDFI that operates in Derby and has been trading since May 2003. By early December 2005, it had made about 680 personal loans with a total value of about £440,000 and about 50 business loans worth about £180,000. Initial personal loans are charged at 25% APR and have an absolute maximum of £1,000. Subsequent loans are charged at 22% and are not allowed to exceed £2,500. Repayments are almost always by direct debit, either weekly or monthly; the exceptions are repayments by PayPoint card, an option which was only introduced recently. A typical loan of £250 over 26 weeks would be repayable at £10.18 a week. This would mean a total repaid of £264.68. This would be around £135 cheaper than a loan available from a doorstep lender. Mr Andrew Baker, Chief Executive of Derbyloans, told us that “not only does the customer have an additional £135 to spend locally over the life of the loan, but also the £265 that he/she does have to pay is retained in the local economy for relending”.⁸⁴

Other services

43. In addition to affordable credit, third sector lenders provide other financial services, such as the ability to build up savings or obtain financial advice. Mr Mark Lyonette, Chief Executive of ABCUL, noted that “it is only when people actually start to save a small amount of money when they have been paying high-cost credit, at that point that people break the cycle of taking more and more high cost loans”.⁸⁵ CDFIs have begun to develop partnerships with banks to help people open basic bank accounts and savings accounts. Many CDFIs and credit unions either provide money advice and education in house or have links to external debt advice agencies such as Citizens Advice Bureaux.⁸⁶ Ms Susan Davenport, Chief Executive of Leeds City Credit Union, told us that quite a lot of people, who perhaps had not used a financial institution before and were used to working in the cash economy, did not know how to operate an account, and she explained that the credit union took the time to explain how to use the account.⁸⁷ Mr Baker noted the importance of education and advice and was clear that “to some extent, just to make affordable credit available to people who do not know how to manage their basic finances is putting a plaster

83 HM Treasury, *Extending a Community investment Tax Relief*, June 2005, pp 15–16

84 Ev 280

85 Q 234

86 Q 260

87 Q 236

over the cracks. It is not a solution in itself”.⁸⁸ Ms Bernie Morgan, Chief Executive of the Community Development Finance Association (CDFA), observed that a significant amount of time could be spent on providing budget management and financial advice to clients and that this added to the operational costs of third sector lenders.⁸⁹ Some credit unions plan to begin offering a form of bank accounts, an issue which we shall discuss in our Report on financial inclusion and banking services.

General approach

44. While recognising the encouraging progress made by third sector lenders, the Treasury stated that “the coverage of these types of organisation is at present limited and a number of barriers to further growth remain”.⁹⁰ **Third sector lenders—credit unions and Community Development Finance Institutions—have a vital role to play in increasing access to affordable credit and promoting financial inclusion. They also help by providing opportunities to save and to access money and budgeting advice. We welcome continued efforts to increase the professionalism of third sector lenders to enhance their sustainability. However, the coverage of third sector lenders remains limited, and the Government and the organisations themselves need to take continued action to improve their ability to grow and attract additional capital.**

The Growth Fund and other sources of assistance

45. The Government has set aside £36 million from the Financial Inclusion Fund to support a growth fund for third sector lenders. The DWP told us that this growth fund “will be used to make affordable loans more available through local third sector lenders such as Credit Unions and Community Development Finance Institutions”.⁹¹ Mr Plaskitt told us that the DWP was “contracting with 90 providers to deliver the growth fund”, and he was confident that this would result in “100,000 more affordable loans being made available”.⁹² He told us that he wanted the largest possible geographical spread of support and that he saw the money as a seed corn investment to start the programmes which would then become self-sustaining in the future. He said that the money from the growth fund was available right up to 2008, but that the Government would be prepared to support some of these networks in other ways beyond 2008. The DWP intends to ask for financial reports from these 90 organisations for up to ten years, indicating that they are seen as long-term programmes.⁹³

46. ABCUL welcomed the growth fund because they saw the fund as target-driven and the guidelines for granting growth fund money to third sector lenders would require that applicants had a proven track record and could provide a robust business plan to support their application. ABCUL particularly applauded the fact that the funding regime would

88 Q 309

89 Ibid

90 Ev 342

91 Ev 276

92 Q 896

93 Q 901

ensure that the money would go directly to the organisations involved in lending, rather than being funnelled through development agencies or consultants.⁹⁴ The CDFA, while welcoming the £36 million growth fund, noted that by the time the contracts were signed, there would only be 18 months to achieve the objectives before the funding ceased. Ms Morgan observed that “currently funding is in place and has been confirmed until 2008 for many [CDFIs], but we need longer visibility than that because, as investment vehicles, we are attracting investment, and we need our investors to be reassured we will be here for the longer term”.⁹⁵ The CDFA also believed that funding was necessary to build the capacity of third sector lenders through training, legal support and help with expansion.⁹⁶ Mr Baker did not believe that

a CDFI that is just doing personal lending can ever be self-sustaining ... My view, having run a CDFI for three years, is that you can probably get to cover about 60% of overhead costs by having a lean, mean, efficient organisation, but you are never going to get to much past 60%.⁹⁷

This could indicate that CDFIs conducting personal lending may need to attract funding for other services such as money advice, or to combine personal lending with larger loans to small businesses or for home improvement.

47. The United States has a long established fund for CDFIs, created under the Riegle Community Development and Regulatory Improvement Act 1994.⁹⁸ The US CDFI Fund uses Federal resources to invest in and build the capacity of CDFIs to provide capital and financial services to under-served people and communities. The fund is divided into two sections. The first is a financial assistance component which provides CDFIs with loans, equity investments or deposits. The fund is targeted at ‘Economic Development Hot zones’—areas with a combination of high poverty, low median family incomes and high unemployment. The second, Technical Assistance component provides grants to CDFIs to enhance their capacity to serve their target market through the provision of staff training, IT improvements and developing loan monitoring procedures. The awards are generally used to form new CDFIs or to enable existing ones to reach critical mass.

48. We welcome support from the Government for third sector lenders in the form of the £36 million Growth Fund. We note that such support at present is only short-term in nature, and will only scratch the surface in terms of the overall need for affordable credit. We recommend that the Government consider how best to provide longer term funding for third sector lenders, and in particular how to maximise the ability of Government funding to act a lever to bring in private capital. The Government must also ensure that, as well as supporting established third sector lenders, additional money is provided to build capacity in financially excluded areas that currently lack established third sector lenders. To ensure value for money from the Growth Fund, we

94 Ev 175–176

95 Q 323

96 Ev 262

97 Q 297

98 For further details, see US Department of the Treasury, Community Development Financial Institutions Fund, Performance and accountability report, FY2005, www.cdfifund.gov

recommend that the Government consider providing technical support through programmes that enable third sector lenders to improve their lending practices and upgrade their IT infrastructure.

49. A further option for funding CDFIs and credit unions in the future might be to utilise some of the money in unclaimed assets held in retail banks and building societies. The Commission for Unclaimed Assets, which was established by the Chancellor of Exchequer to examine possible uses of such funds, recommended the establishment of a Social Investment Bank to disperse the money so as to maximise the beneficial impact. Such funds could be used to provide financial and advisory support to third sector organisations and other social enterprises, including CDFIs and credit unions. A Social Investment Bank could provide a mix of technical support for, and equity investment in, CDFIs and credit unions.⁹⁹ **We note the consultation being undertaken by the Commission on Unclaimed Assets on the possible use of money from unclaimed assets in banks and building societies to establish a Social Investment Bank which in part could provide funding and technical support for CDFIs and credit unions. We expect to return to this issue as part of an inquiry into unclaimed financial assets early in 2007.**

Credit unions in Northern Ireland

50. Across the United Kingdom less than 1% of the population are members of a credit union. In Northern Ireland credit unions are more prevalent, with over 26% of the population being members.¹⁰⁰ The greater success of credit unions in Northern Ireland has been attributed to the promotion of credit unions by organisations that are strongly established in local communities, most notably the Catholic Church and the Orange Order. The movement has also benefited from operating under bespoke legislation overseen by the Department of Enterprise, Trade and Investment Northern Ireland (DETI-NI).¹⁰¹ Research conducted by the Joseph Rowntree Foundation concluded that the strength of the movement stemmed in part from the fact that, from “the outset,...their long-term viability requires that they attract a cross section of people from local communities, and not just those who are socially or financially excluded”.¹⁰²

51. The Irish League of Credit Unions told us that “Member credit unions in Northern Ireland currently play a vital role in promoting financial inclusion by providing a significant savings and loans network throughout Northern Ireland as a whole but often, in areas and to people that other providers choose not to serve. This is particularly significant in rural and disadvantaged communities”.¹⁰³ The League told us that while they currently had an excellent working relationship with the DETI (NI), the ability of the DETI to regulate member credit unions in a manner that is conducive to the continued development of credit unions within the jurisdiction was significantly impeded by the

99 The Commission on Unclaimed Assets, *A Social Investment Bank*, Consultation Paper, July 2006: www.unclaimedassets.org.uk

100 Joseph Rowntree Foundation, “Building better credit unions”, (Goth, McKillop and Ferguson), February 2006, p 5

101 Ibid, p 1

102 Ibid, p 47

103 Memorandum from the Irish League of Credit Unions, p 4, not printed

legislative environment within which credit unions in Northern Ireland are currently expected to operate. In particular, they told us that

paragraph 23 of Schedule 3 to the Northern Ireland Act reserves the following powers for Westminster: financial services, including investment business, banking and deposit-taking, collective investment schemes and insurance; financial markets including listing and public offers of securities and investments, transfer of securities and insider dealing ... Further the schedule states that this does not include the subject matter of the Credit Unions (Northern Ireland) Order 1985.¹⁰⁴

52. The League told us that “in effect, this means that credit unions in Northern Ireland cannot seek to expand into the reserved areas such as deposit taking, insurance and mortgage activity of any type without concurrently seeking to be regulated by the FSA”. The League concluded that “however great the burden of this legislative difficulty at this time, the League is even more concerned with its potentially detrimental effect into a future where credit unions will need to be in a position to offer services on a par with other providers in the sector in order to survive. That they would be prevented from doing so as a result of a legislative/regulatory impasse is invidious.”¹⁰⁵ They raised the possibility of seeking an Exemption Order under section 38 of the Financial Services and Markets Act 2000. The League also told us of other legislative barriers, including Article 24 of the Credit Unions (Northern Ireland) Order 1985, which prevented them from carrying on ‘the business of banking’. They suggested that “such prohibition could cause untold difficulties for credit unions in Northern Ireland as they strive to continue to meet the needs of their members” and suggested that “such a preventative measure has no place in the legislation of today’s financial marketplace”.¹⁰⁶ They also noted that credit unions in Northern Ireland have been denied authorisation to offer Child Trust Funds on the basis that the protection offered by the League’s Savings Protection Scheme does not equal to that available under the Financial Services Compensation Scheme (FSCS), although it was not currently open to credit unions in Northern Ireland to participate in the FSCS.¹⁰⁷

53. Regarding provision of support from the United Kingdom Government, the League welcomed the establishment of the Financial Inclusion Fund, but expressed disappointment that no money from the £36 million Growth Fund administered by the DWP had been made available to credit unions in Northern Ireland. They suggested a number of areas where Government funding might be appropriate, including support for loan guarantees, money advice and capital funding.¹⁰⁸

54. Credit unions in Northern Ireland are well-developed and play an important role in promoting financial inclusion and access to affordable credit. The regulatory environment is currently preventing credit unions in Northern Ireland from expanding into areas such as insurance, mortgages and the provision of Child Trust Funds. We recommend that the Government take action to ensure that the regulatory regime

104 Ibid, p 4

105 Ibid, p 5

106 Ibid, p 6

107 Ibid, p 15

108 Ibid, pp 14–15

supports the expansion of credit unions in Northern Ireland. We also note that credit unions in Northern Ireland have been unable to apply for Government support through the Growth Fund for third sector lenders. We recommend that the Government and the Northern Ireland Executive give consideration to the most appropriate ways to provide additional Government funding and support to credit unions in Northern Ireland.

Attracting capital and expertise from the banks

55. Mainstream banks provided a range of professional support and funding to third sector lenders. Barclays has provided support for a management information system for credit unions—the so-called PEARLS system—which enables credit unions to monitor a series of financial ratios to ensure financial stability and aid strategic planning.¹⁰⁹ Credit unions adopting the system have seen reduced loan delinquency and operating expenses and increased growth in assets and membership.¹¹⁰ ABCUL welcomed support from Barclays Bank for the introduction of the PEARLS system.¹¹¹ RBS told us that it was supporting a CDFI called Fair Finance in East London. They have provided £5,000 to capitalise a loan fund lending to African and Bangladeshi women who were unable to obtain a loan from a bank, an interest free loan of £20,000 for small business lending and have agreed to provide a further £20,000 for personal lending.¹¹²

56. Mr Lyonette believed that it was necessary to distinguish between the corporate social responsibility initiatives undertaken in this area in the United Kingdom and the quite significant amounts of money provided in the United States under the auspices of the Community Reinvestment Act—legislation which we will be exploring in greater detail in our Report on banking and financial inclusion—which had helped third sector lenders become successful.¹¹³ **We welcome support from the banks for third sector lenders through the provision of capital and expertise. However, the level of support remains far lower than that provided in the United States. We recommend that the Treasury and the banks collectively give consideration to common ways of measuring and reporting on the extent of the provision of capital and support to third sector lenders by individual banks.**

Community Investment Tax Relief

57. The introduction of Community Investment Tax Relief (CITR) was one of the recommendations made by the Social Investment Taskforce established by the Chancellor of the Exchequer and which reported in 2000.¹¹⁴ The necessary legislation was enacted within the Finance Act 2002 and the first CDFIs began receiving investment under the scheme in March 2003. The tax relief is available for investments in accredited CDFIs

109 Ev 208: PEARLS stands for *Protection, Effective Financial Structure, Asset Quality, Rates of Return, Liquidity, and Signs of Growth*.

110 Ev 174

111 Ibid

112 Ev 454

113 Q 277

114 Social Investment Taskforce, *Enterprising Communities: Wealth beyond welfare*, October 2000

where the investment is held for at least five years. The taxpayer, who can either be an individual or a company, receives relief to offset against Income Tax or Corporation Tax liability, the relief being set at 5% of the amount invested in the year the investment is made and a further 5% in each of the four subsequent years. The tax relief is therefore worth 25% of the initial investment¹¹⁵ and is in addition to any return (in the form of dividends or interest) achieved by the CDFI over the five year term. The Social Investment Taskforce originally envisaged the tax relief attracting investment of up to £1 billion. Although the Government stated that it would be keen to see investment up to that level, it noted that some time would be needed to achieve this objective.¹¹⁶ As of September 2005, investments totalling £38 million had been made in accredited CDFIs. The cost to the Exchequer of the tax relief is therefore around £2 million in 2005–06, with further payments of £2 million over the subsequent 4 years.

58. Currently CITR is only available to CDFIs investing in or providing loans to small businesses or associated business advice services. In June 2005, the Government published a consultation document seeking views on the case for, and practicalities of, extending a community investment tax relief scheme to the personal lending activities of CDFIs.¹¹⁷ There was widespread support amongst witnesses for an extension of the CITR scheme to personal lending to help third sector lenders attract capital.¹¹⁸

59. The CDFA submitted evidence on a number of issues which were currently stifling greater use of CITR. These included confusion over whether an investor could continue to receive the benefits of CITR if they retained their investment in the CITR for a second five-year period. The CDFA also raised issues about the implementation of the scheme, including the limitations of the cap on the size of loans and how commitments to lend were treated in the accreditation process.¹¹⁹ The two main banks, Charity Bank and Tridos, that had accounted for the majority of investment raised under CITR are no longer accepting deposits, in part due to the restrictions of the scheme.¹²⁰ The Economic Secretary to the Treasury told us that the operation of the scheme was an issue that the Government and the Financial Inclusion Taskforce “want to look at very closely in the months ahead”.¹²¹

60. ABCUL argued that CITR should also be extended to credit unions seeking subordinated capital. They stated that there was strong demand for such an extension amongst credit unions and that a number of banks would be willing to lend to credit unions on these terms. They noted that the growth fund, to which we have already

115 The US New Markets Tax Credit programme offers a credit of 39% of the amount invested and is claimed over a seven year period. 5 percent of the initial investment claimed as a credit during the first three years and 6 percent during the subsequent four years.

116 HM Treasury, *Enterprising Communities: A tax relief for community investment*, 2001, p 20

117 HM Treasury, *Extending a Community Investment Tax Relief Scheme*, June 2005

118 Ev 263, 281

119 Ev 262–263

120 See www.charitybank.org, www.tridos.co.uk

121 Q 992

referred¹²² would not completely meet the demand for capital that currently existed in the credit union movement.¹²³ The National Housing Federation observed that

around 70% of housing associations are charities, paying either limited or no corporation tax. Therefore, the Treasury’s current tax relief proposal offers no financial incentive to the vast majority nor would it offset the expense and risk of investing in personal lending. One option would be to implement a subsidy system in place of the proposed tax relief to ensure that all investors—charities and non-charities—would benefit.¹²⁴

61. We welcome the introduction of Community Investment Tax Relief, although we note that the additional investment secured is still a very long way from the original target for such a scheme set by the Social Investment Taskforce. To promote the availability of affordable credit, we support the extension of the tax relief to investments made in personal lending by CDFIs and to credit unions seeking subordinated capital. We recommend that the Government also consider the introduction of a matched funding scheme to provide incentives for housing associations and other charities to invest in CDFIs. More generally, there is a need for the Treasury to review the operation of the scheme to ensure that its potential for securing long-term investment is maximised. In particular, the Treasury should examine the treatment of commitments to lend and the overall cap on the size of loans. To promote long-term and sustainable investment, we further recommend that investors should be able to continue to receive the benefit of the tax relief if they retain their investment in the same CDFI for a second period of five years.

A new Credit Unions Act?

62. ABCUL told us that, while section 5(1) of the Credit Unions Act 1979 provides that only individuals may be members of credit unions, “many credit unions have been approached by local community groups who wish to deposit their money with the credit union”, but are “prevented from doing so by current legislation”.¹²⁵ Mr Lyonnette told us that local community groups had been approaching credit unions and asking “Why can’t we bank with you? Why can’t we put our deposits with you?” and that this request had come from those at ground level who believed that such an approach would be important and would help regenerate local communities.¹²⁶ We talked to one CDFI in Washington DC which accepted deposits from individuals, businesses, community groups, so-called “non-profits”—organisations such as homeless shelters—churches and other religious organisations and charter schools. Deposits earned a competitive market rate of return and, just as importantly, depositors had the added satisfaction of knowing that their money was being used to support loans and other work to improve the local community. Large depositors also had access to a scheme called CDARS (Certificate of Deposit Account Registry Service), which meant that any large deposits were shared out between numerous

122 See paras 45–48.

123 Ev 176

124 Ev 387, 389

125 Ev 176

126 Q 272

other community banks through a central clearing house. This had the effect of providing Federal deposit insurance for amounts substantially above the current limit of \$100,000 per person or organisation. Providing insurance in this way allows many CDFIs and other community banks to accept larger deposits of up to \$5–20 million, while providing added reassurance that the full amount of the deposit was guaranteed if the institution were to fail. The Financial Services Compensation Scheme currently operating in the United Kingdom guarantees deposits from banks, building societies and credit unions up to a limit of £31,700.¹²⁷

63. The Economic Secretary to the Treasury told us that “over the last few years, there have been quite a lot of ways in which [the Government] has legislated to support the growth of co-operatives and mutuals”. He said that Treasury officials had engaged in “extensive discussions with representatives from the credit union movement” on the issue of organisational deposits.¹²⁸

64. Credit unions are playing a significant if limited role in combating the problems of high cost credit. Credit unions have the potential to play a far greater role in the future. Although the Government has made some welcome steps in recent years, we have received evidence that credit unions are being limited in their capacity to grow and develop by an outdated legal framework that has not changed in its essentials for 27 years. It is time for the Government to act in order to release the potential of credit unions. New legislation is needed to enable credit unions to accept organisational deposits, to support their ability to raise capital and to reduce their costs of operation. We recommend that the Treasury consult credit unions and other interested parties on a new Credit Unions Act to enshrine such measures as a matter of priority with a view to introducing such legislation in the course of the current Parliament.

FSA regulation of providers of third sector credit

65. In July 2002, credit unions became regulated as deposit-takers by the FSA. This approach to regulation was a key recommendation of the credit union taskforce and allowed credit union members to become eligible for the Financial Services Compensation Scheme, should the credit union become insolvent.¹²⁹ The FSA told us that its “regulatory regime for Credit Unions is proportionate, requiring suitable standards while recognising their role in reducing financial exclusion”. The FSA stated that it also provided assistance to credit unions through a dedicated section of their website and regular “surgeries” to enable credit unions to discuss regulatory issues with the FSA.¹³⁰ We asked credit unions about the impact of FSA regulation. Mr Lyonette told us that he sometimes found himself at financial services functions where he was practically the only person there who had a good word to say about the FSA. He told us that the FSA had set out to produce a proportionate regime for credit unions and had delivered. This had been a success story

¹²⁷ 100% of the first £2,000 and 90% of the remainder up to £31,700: see Ev 315–318.

¹²⁸ Q 1006

¹²⁹ The credit union taskforce was established by the Treasury in July 1998, with a remit to explore ways in which banks and building societies can work more closely with credit unions to increase their effectiveness; look at ways to widen the range of services that are provided to credit union members; and encourage the continued expansion of the movement. Its report was published by the Treasury in November 1999.

¹³⁰ Ev 306

and had “produced very positive benefits for the [credit union] movement, not just in terms of financial discipline but also in terms of credibility” because deposits were now protected by the Financial Services Compensation Scheme.¹³¹

66. CDFIs that invite retail investment are registered with (but not regulated by) the FSA under the Industrial and Provident Societies Act 1965. The FSA was concerned that “regulation of those inviting retail investment would add unreasonable costs to the sector while it is still in an early stage of development”. The FSA stated that it was working with the CDFA on proposals for the development of a Code of Practice for CDFIs as an alternative to regulation.¹³² Ms Morgan welcomed the FSA’s input and noted progress made in making the registration process robust while recognising the specific characteristics of the CDFI model.¹³³

67. Evidence provided by credit unions and CDFIs indicates that the FSA has been successful in applying a risk-based and proportionate regulatory regime to third sector providers of affordable credit. FSA regulation of credit unions has delivered significant benefits in terms of increased professionalism and investor confidence. We welcome the approach of the FSA in this area and recommend that it continue to offer targeted support and guidance for credit unions and CDFIs to help them comply with regulatory requirements.

Direct deduction of repayment from benefits

68. The increased costs and risks of extending small value loans to the financially excluded can mean that such loans are expensive to provide and administer. In order to reduce the cost of credit to the financially excluded by reducing the risks associated with lending to this group, the Government is currently working towards “providing private and third sector lenders with the opportunity to be able to apply for repayment to be made by deduction from benefit where normal repayment arrangements have broken down”. The rationale for the scheme is to “reduce the risk of debts being written off in the event of default and therefore the cost of lending to people in such circumstances (and thereby improve the viability of such loans/low cost lenders)”.¹³⁴ The costs of implementing the scheme will be met by an allocation of £10 million from the Financial Inclusion Fund. The DWP told us that this facility will be made available only to lenders who meet criteria for responsible lending and make loans available at more affordable rates of interest. They also told us that deductions will be subject to constraints to avoid hardship to the benefit customer.¹³⁵

69. The NCC pointed to research indicating that a system of direct deductions from income for credit repayment was attractive to many benefit recipients, but as an option of choice rather than a last resort. The NCC observed that direct deduction from benefits was

131 Q 270

132 Ev 307

133 Qq 313–314

134 Ev 277

135 Ibid

not set to be a pro-active payment option of choice for the consumer. This is a missed opportunity.¹³⁶

One Parent Families believed that there might be some advantages to such a scheme because it would provide some certainty for borrowers as well as lenders, but believed that safeguards protecting claimants needed to be put in place.¹³⁷

70. We sought views from third sector lenders on the advantages of allowing the deduction of debt repayments from benefits. Mr Lyonette told us that it was not clear what demand there would be from credit unions for such a scheme, and thought that it would have been prudent for the Government to have done more research before introducing the scheme.¹³⁸ CDFIs considered that such a scheme was worth exploring, although they also raised questions about whether it would be a choice for the borrower or an arrangement that was only activated on default.¹³⁹ Illustrating the potential advantages of such a scheme in terms of improving the sustainability of third sector lenders, Mr Baker told us that “probably 40% of our overheads in 2005 ... was spent on managing customers in some sort of default”. He went on to state:

if there was a means whereby we could claim payments from benefits after an agreed level of default, it would reduce the amount of non-productive time spent on managing customer defaults and we could spend much more time doing the things we ought to be doing. It takes the risk out of the business and it would also mean [the CDFI] could attract other funding.¹⁴⁰

71. Citizens Advice had a number of concerns about the scheme; they questioned how the scheme would fit alongside the existing third-party deduction scheme for rent arrears, council tax and energy costs and were also worried that excessive deductions from benefits could leave recipients with inadequate income for essential expenses. Citizens Advice also voiced concern regarding the overall cost of the scheme.¹⁴¹ For the Financial Inclusion Taskforce, Mr Pomeroy expressed reservations about whether the scheme would work in practice. He told us that it would probably be better if it was operated where repayments came out automatically rather than only when arrangements had broken down.¹⁴² Mr Plaskitt told us that 20 lenders were in discussion with the DWP about joining such a scheme.¹⁴³

72. Cutting the cost and risk associated with lending to the financially excluded can reduce the interest rate paid by the borrower and improve the sustainability of third sector lenders. The evidence we have received indicates that direct deduction of repayments from benefits could be attractive, but principally when it is an active choice

136 Ev 398

137 Ev 417

138 Q 262

139 Q 306

140 Ibid

141 Ev 246–247

142 Q 517

143 Q 896

by the borrower rather than a mechanism of enforcing debt collection. We believe that the Government should explore this issue further. Such exploration should accompany a review of the wider application of the third party deduction scheme. We are not convinced that the Government's current proposals represent value for money and include appropriate safeguards. We recommend that the Government, in its response to this Report, publish a full breakdown of the planned expenditure of £10 million on the scheme, alongside details of the safeguards that will be in place to protect borrowers and evidence that such investment will improve the availability of affordable credit and the sustainability of third sector lenders.

The Social Fund

73. The Social Fund was introduced in 1988 as a flexible means of assisting benefit claimants and people on low incomes with expenses that they could not meet from their regular income. Loans are interest-free and are generally repaid by deductions from benefits. There are seven types of Social Fund support available in the form of both grants and loans. The gross loans budget for 2005–06 is estimated to be around £610 million. That budget is made up of a combination of new funding (worth £39 million for 2005–06) plus forecast loan repayments.¹⁴⁴ Thus, in that financial year, over 93% of gross loans expenditure was planned to be funded by repayments. The Social Fund also provides grants to individuals. The wider application of these grants and the efficiency of their operation have been discussed in Reports by the Committee of Public Accounts and the Work and Pensions Committee.¹⁴⁵ We have restricted our considerations to the provision of loans through the Social Fund.

74. Budgeting loans are interest-free and available to people who have been in receipt of one of the main income-related benefits for at least six months. The DWP told us:

The loans budget is limited and has a number of complicated mechanisms to control supply and live within budget. Gross expenditure on Budgeting loans in 2004–05 was slightly under £500 million with 1.2 million loans and an average award of around £400. In 2004–05, around 1.6 million applications were made of which 377,000 were declined. Crisis loans are available to help meet expenses in an emergency or disaster to prevent serious risk to the applicant's or their families health and safety. The applicant does not have to be receiving any social security benefit or tax credit.¹⁴⁶

75. We received evidence drawing attention to a variety of problems with the Social Fund. Professor Kempson considered that

there are many (especially elderly) eligible people who are completely unaware of the Social Fund. The funding for both Budgeting loans and Community Care Grants is inadequate to meet the needs that exist, so that eligible applicants generally only get some of the money they apply for, if they get any financial help at all. Constraints on the Budgeting Loan scheme budget also mean that repayment rates are generally

144 Ev 277

145 Social Security Committee, Third Report of Session 2000–01, *The Social Fund*, HC 232; Committee of Public Accounts, Twelfth Report of Session 2005–06, *Helping those in financial hardship: the running of the Social Fund*, HC 601

146 Ev 277–278

much higher than in the commercial sector, which causes financial difficulties for some users and deters others from applying at all.¹⁴⁷

The IPPR believed that, “when someone approaches the Social Fund, this is an instance in which the State comes into contact with the financially excluded and the hard-to-reach and each time [it] turns them away empty-handed or with no more than a short-term palliative”. They called for a review to explore how this contact could be made more productive, in order to make a longer term difference to the capabilities and inclusion of users.¹⁴⁸

76. Evidence from the NCC indicated that one in four people turned down by the Social Fund borrowed from high cost doorstep lenders or unlicensed loan sharks.¹⁴⁹ We obtained several letters of rejection submitted by Citizens Advice. These did not specify alternative sources of affordable credit which claimants could approach. We suggested to witnesses that there might be more scope to increase links between the Social Fund and other providers of affordable credit. Third sector lenders supported suggestions for there to be some mechanism of referral to credit unions or CDFIs.¹⁵⁰ Mr Lyonette told us that if there were people who did not qualify for Social Fund loans whom credit unions could help, then it would make some sense for there to be some kind of referral system.¹⁵¹

77. Eligibility for Social Fund loans takes into account the current level of household savings. For instance, in order to be eligible for a budgeting loan, a person of working age can have no more than £500 in savings and a pensioner no more than £1,000. Help the Aged believed that “this is far too low and prevents many older people on low fixed incomes from receiving any help”.¹⁵² In April 2006, the Government increased the savings limits for budgeting loan applications to £1,000 for people of working age and £2,000 for pensioners.¹⁵³

78. The DWP told us that improvements to the Budgeting Loan scheme had come into effect in April 2006.¹⁵⁴ The aim was both to simplify and to expand the scheme. Some of the key changes were as follows:

- Only actual budgeting loan debt would be taken into account when calculating entitlement to a further budgeting loan; previously, existing budgeting loan debt was counted twice (known as the ‘double debt rule’).
- The calculation of budgeting loan maximum amounts would be based solely on family composition.

147 Ev 427

148 Ev 359–360

149 National Consumer Council, *Affordable credit*, July 2005, p 1

150 Qq 258–259

151 Q 259

152 Ev 334–335

153 Ev 278

154 Ibid

- Maximum standard repayment rates would be reduced from 15% of a customer's qualifying benefit allowance plus any Child Tax Credit and Child benefit to 12%.
- Maximum repayment rates would be reduced from 25% to 20%.
- The maximum repayment period would be extended from 78 weeks to 104 weeks; or where a customer has particular difficulties, from 104 weeks to 130 weeks.
- The overall debt limit for budgeting loans and crisis loans combined would be increased to £1,500.¹⁵⁵

79. Citizens Advice welcomed the abolition of the 'double debt rule' and made a series of suggestions for further reform, including improvements to the quality of advice, widening access to recipients of tax credits and Incapacity benefit, a substantial increase in Social Fund budgets, particularly for Community Care Grants and Budgeting Loans—because “far too much time and money is spent in administering a complex system with high rates of refusal”—abolishing the qualifying period for Budgeting loans, more reasonable repayment rates, and a new fast track scheme to provide interim advance payments to people who appear to have made a valid claim for benefit.¹⁵⁶ One Parent Families raised the possibility of matched debt reduction payments when people who had borrowed from the Social Fund moved into work. One Parent Families were concerned that, under the current scheme, those who lost eligibility to income-related benefits when they were transferred to tax credits would also lose entitlement to the Social Fund, despite being on the same level of income.¹⁵⁷

80. We put the concerns of witnesses and suggestions for reform to Mr Plaskitt. He was convinced that “the Social Fund does not punch its weight in terms of the financial resources the Government puts behind it” and considered that it was possible “to do a good deal more in terms of sustainable support for people and more in terms of affordable credit lines than it does at the moment”. He believed that there was unmet need because the way in which the Social Fund offered support was “uneven and unpredictable”. This pointed to “difficulty in the way the Social Fund is drawn up. It is very rule based. It is very complex in many areas.” He told us that he was examining

how we can take that resource and use it in a more flexible way and, instead of just passively responding to a particular need that some one presents [it] with, how we can get longer term engagement with [applicants], steer them towards advice on financial management, perhaps towards saving, towards realistic and acceptable forms of affordable credit. [The Social Fund] could do an awful lot more than it does at the moment.¹⁵⁸

155 Ibid

156 Ev 254–256

157 Ev 418

158 Qq 903–907

81. The Social Fund plays a vital role in helping those on low incomes to access affordable loans to meet one-off items of expenditure. However, we note the comments of the relevant Minister in evidence to us that the “Social Fund does not punch its weight in terms of the financial resources the Government puts behind it”. The funding for the Social Fund should more clearly match the needs of those on low incomes. We have received evidence to suggest that the Social Fund is failing in its mission to assist those most in need of credit. It is essential that the Social Fund becomes more fully integrated with other provision of affordable credit for people on low incomes. Given that many people rejected by the Social Fund turn to unlicensed lenders, we recommend that the Government instigate arrangements to refer unsuccessful applicants to local credit unions and CDFIs where appropriate or other providers of affordable credit. We note calls for eligibility for the Social Fund to be expanded and believe that the Government should keep the funding of Social Fund lending activities under review, in particular if the intention to transfer some recipients of income support and jobseeker’s allowance to the tax credit system goes ahead. The DWP needs to instigate an open debate on reform of the Social Fund to ensure that the Social Fund can make a better contribution to improving access to affordable credit and become a more positive source of assistance for people on low incomes. We recommend that the DWP conduct a review to explore how the Social Fund’s contact with the financially excluded could be made more productive in order to make a longer term difference to the capabilities and inclusion of users.

Secured lending

82. The problems of financial exclusion, including access to affordable credit, are generally associated with those who do not own their own homes. However, we received evidence of problems in this area affecting low-income homeowners. Citizens Advice told us:

Problems with secured credit must be addressed in any strategy to tackle financial exclusion. While homeowners have seen their wealth hugely increase with rising house prices, people in receipt of low incomes or with impaired credit histories can only realise this asset by taking out expensive secured loans. With CAB advisers now reporting increased numbers of arrears cases and possession actions relating to secured lending (much of which is sub-prime or near prime), we believe that access to affordable secured credit is also a key issue for a financial inclusion strategy to consider.¹⁵⁹

We raised this issue with Mr Pomeroy who told us that “secured lending of the sort that I think you are describing has not been something which has been high on [the Financial Inclusion Taskforce’s] agenda, simply because the majority of people on low incomes do not have security”.¹⁶⁰ He pledged to examine this issue, and subsequently submitted a note indicating that relevant data

shows some home ownership, in particular outright ownership, amongst those with no [bank] account of any kind. Further analysis of this group suggests that, of the

159 Ev 245

160 Q 525

outright home owners with no bank account of any kind, 38% have a household income of less than £10,000 a year, 27% between £10,000 and £20,000 and 35% over £20,000 ... The Taskforce will explore what further information can be collected about this group from the [Family Resource Survey] and other sources to identify the characteristics of these households. In particular, it will wish to know the extent to which such households have a need to borrow and, if they do, whether they make use of their homes as security to minimise the cost of borrowing.¹⁶¹

83. The Council of Mortgage Lenders (CML) provided further evidence of the lack of ability of low-income homeowners to access secured lending. They noted:

Local housing authorities now have a broad power to provide financial and other assistance for home repair and improvement. This has meant that grants are only rarely available and people are being encouraged to take out loans to carry out home improvements. The CML has helped where it can. However it should be noted that many lenders are often reluctant to get involved as these are often small loans to people who have limited ability to pay, with a disproportionate amount of administration involved. Some non-profit organisations including housing associations and other special purpose vehicles are developing to provide assistance to these people. However, progress is slow as highlighted by a recent Joseph Rowntree Foundation report for the [Department for Communities and Local Government] (DCLG) 'Implementing new powers for private sector renewal'. The report concluded that unless private finance can be more effectively levered in to private sector renewal programmes it is difficult to see how local authorities can meet their obligations. Given that areas of poor housing are often linked to low incomes, this is an area where there is a risk of financial exclusion.¹⁶²

84. The Economic Secretary to the Treasury admitted that issues could arise

where you have a row of houses where a lot of money is being spent to [install] new roofs and there is one house in the middle where you might have somebody who bought the house under right-to-buy but then for whatever reason just does not have the access to financial support to make their contribution ... We need to think innovatively in this area. I think this is really a matter for the Housing Minister rather than myself in the first instance but it is something which from a financial inclusion point of view we need to address because it is not clear that it is simply going to be resolved by asking people to take on substantial amounts of extra debt.¹⁶³

85. Increasing levels of home ownership mean that improving access to secured lending needs to be addressed as part of the Government's financial inclusion strategy. There are cases where low-income homeowners face real financial difficulty. We note that progress has so far been slow in attracting lenders to provide home improvement loans to low-income owner-occupiers to help meet the Government's Decent Home standards. The provision of such lending could be an important role for CDFIs and

161 Ev 303–304

162 Ev 270–271

163 Q 1009

other third sector lenders. We recommend accordingly that the Government consult on ways to expand the ability of such organisations to provide secured loans.

Right to Buy lending

86. Citizens Advice highlighted a number of problems faced by former tenants of social landlords who had exercised their right to buy their homes. These problems included tenants entering into mortgage agreements where the borrowers income was insufficient to maintain repayments from the outset and borrowers finding themselves surprised by clauses in their mortgage agreement to increase payments significantly within months or years of the loan commencing.¹⁶⁴ Section 156 of the Housing Act 1985 provides a mechanism for the Secretary of State to specify by order Approved Lending Institutions (ALI) for the purpose of the right to buy scheme.¹⁶⁵ Citizens Advice told us that, when a lender applies for approved status, the lender is required to provide certain company information, details of the business they intend to engage in and details of any complaints made to the company and the complaints handling process. The Department for Communities and Local Government (DCLG) also requires information relating to the lending itself, such as the terms of loans to be offered, use of brokers, promotion materials and awareness of relevant industry code. Citizens Advice believed that

the ALI scheme provides right-to-buy borrowers with a safeguard of sorts by establishing a partial (though not mandatory) perimeter through which lenders can only pass if they demonstrate certain basic requirements. We presume [DCLG] have some selection criteria based on the information they request but we have no information as to how this operates. Equally it is not clear if a lender's performance against these criteria is monitored over time in any way.¹⁶⁶

87. Mr John Tiner, the Chief Executive of the FSA, told us that “if there is an organisation which has FSA authorisation, then that would meet [the criteria of the ALI scheme] automatically. So I think that is consistent between the [FSA and DCLG].”¹⁶⁷ Mr Clive Briault, Managing Director, Retail Markets, in the FSA, informed us that the FSA had examined whether right-to-buy ought to be one of the priority themes for further examination during their first year of mortgage regulation, but had decided that it was a lower priority than the areas they chose to look at such as equity release, mortgage documentation and action to deter unauthorised brokers operating outside the regulatory regime.¹⁶⁸ **Citizens Advice has presented evidence of abuses in the Right to Buy market. We recommend that the FSA view this as a priority area for examination as part of its enforcement of mortgage regulation. We further recommend that the Government clarify, in its response to this Report, what additional consumer protection stems from the system of specifying Approved Lending Institutions for the purpose of the right to buy scheme and whether the Department for Communities and Local Government is undertaking any monitoring of the record of these lenders or the number of complaints**

164 Ev 252

165 Ibid

166 Ibid

167 Q 700

168 Q 701

made. Finally, we recommend that the Government explore the possibility of transferring responsibility for approving and monitoring Approved Lending Institutions from the Department for Communities and Local Government to the FSA.

4 Saving for all

Savings and financial inclusion

88. The Treasury's account of measures it had taken and intended to take to tackle financial exclusion which was published in December 2004 identified an absence of savings as an integral element in financial exclusion.¹⁶⁹ The Treasury set out measures in the field of savings that were being taken that assisted in combatting financial exclusion, including the creation of Child Trust Funds, the Saving Gateway and the stakeholder suite of low-cost savings and investment products due to become available from April 2005.¹⁷⁰ However, the overall approach in the Treasury's document of December 2004 and the Government's financial inclusion strategy as it has evolved since then has focused its attention on three main themes—banking services, credit and advice—and has not put great emphasis on saving.

89. Evidence we have received indicated that a full picture of the challenges of financial inclusion required fuller consideration of saving for all as an essential and integral element of a strategy to promote financial inclusion. The IPPR suggested in evidence that

savings have an important role to play in widening financial inclusion. First, they provide a financial buffer and therefore reduce the need for expensive credit. If people have savings they are less likely to face a situation in which they need affordable credit but have no access to it. Second, the process of accumulating savings itself draws people into banking services and increases their familiarity with financial concepts.¹⁷¹

90. The Government, in its own written evidence, recognised that “saving and asset ownership have a critical role to play” in that they opened up opportunities to people which can change the way they think about and plan for the future. The Government also acknowledged that “saving allows people to manage their finances both day-to-day, over the medium term and in preparation for retirement”.¹⁷² Mr John Hutton MP, the Secretary of State for Work and Pensions, noted in early May 2006 that

promoting financial inclusion is crucial to overcoming poverty. Increasingly inequality in asset-ownership threatens to become the social divide of the future.¹⁷³

91. A recent FSA survey found that 43% of people had no savings at all, with a further 15% of people only having savings of less than half their monthly income.¹⁷⁴ Although some evidence observed that financially excluded households would typically not be able to afford to save,¹⁷⁵ we also received suggestions the issue was more nuanced: while some

169 HM Treasury, *Promoting financial inclusion*, December 2004, Chart 1.1

170 *Ibid*, paras 1.14–1.16

171 Ev 358

172 Ev 344

173 Speech to Fabian Society, 10 May 2006

174 FSA, *Levels of financial capability in the UK: results of a baseline survey*, March 2006, p 43

175 Ev 249

households could not afford to invest long-term in inflexible products that would not give them access to their money when they needed it, many households undertook shorter term and more flexible forms of saving. Mr McAteer identified what he saw as some of the reasons why savings were so limited for many people:

I think we have done a fairly big programme of research to try and understand why people do not save for the future, and so on, and our research tells us that the main reasons why people are not saving are basic unaffordability compounded by the record levels of personal debt and the housing market, and so on. We think that the retail sector is cost-based and does not allow us to reach those parts of the market that should be saving, so there are economic inefficiencies built into the system.¹⁷⁶

92. Ms Whyley noted that long-term saving for the future was not “on the radar of people who are financially excluded and on very low incomes, and that is probably quite appropriate. I think the sort of saving they are looking to do is the day-to-day saving so that they can smooth their income a bit and, if they are able, putting a little bit more aside for the rainy day” or unexpected expenditure. She drew attention to credit union initiatives where people had discovered that they could afford to save even small amounts. She argued that the problem lay in the lack of appropriate products for those wishing to save small amounts.¹⁷⁷

The basic advice regime

93. The Treasury’s description of the linkage between savings and financial inclusion in December 2004 placed emphasis on the role that could be played by the new suite of stakeholder savings and investment products in the marketplace from April 2005.¹⁷⁸ The basic advice regime for the sale of stakeholder products was introduced by the FSA at that time. This was intended to be “a streamlined and proportionate regime for the regulation of advice on the sale of the Government suite of ‘stakeholder’ savings and investment products which is designed to support firms ability to sell stakeholder products to lower income consumers more cost effectively”.¹⁷⁹ Basic advice is a short, simplified form of savings and investment advice. Consumers are taken through a series of pre-scripted questions to identify their financial priorities and determine whether a product from within the range of low-cost regulated saving and investment stakeholder products is suitable for the customer. The suite of stakeholder products currently comprises five types of products, each with a set of specific characteristics defined by regulation. These are the cash deposit, the medium term investment product, the smoothed investment fund, the Stakeholder pension and the Child Trust Fund.

94. Which? saw “no evidence that the Basic Advice regime is encouraging retail insurance firms to actively target consumers on lower-median incomes”.¹⁸⁰ Mr Tiner admitted that “very, very few financial institutions” had signed up to offer products under the basic

176 Q 122

177 Ibid

178 HM Treasury, *Promoting financial inclusion*, para 1.14

179 Ev 309

180 Ev 509

advice regime.¹⁸¹ The FSA submitted a list of the 46 organisations that had signed up to offer the basic advice regime. Of these, there was only one major insurance company and no major high street banks, with the overwhelming majority made up of small Independent Financial Advisers.¹⁸²

95. The FSA told us that “broadly, the feedback from the industry has indicated that we have created a regime that is proportionate to the products being sold”.¹⁸³ This assessment was disputed by financial services firms and organisations that submitted evidence. The ABI were disappointed that “the FSA’s basic advice regime, designed specifically for the sale of stakeholder products, has retained many of the high-cost features of the current ‘full advice’ regulatory regime. The original vision—of simple, reliable products sold cheaply within a light-touch regulatory regime—has been lost.”¹⁸⁴ Norwich Union told us that “further layers of complexity were added to the model which increased costs. It is therefore hard to deliver within the price cap and has limited the use of the model by providers and distributors”.¹⁸⁵ Mr Tiner did not agree with the ABI’s views. He thought that “the full advice, fact find and advice process that takes two and a half hours is now down to 22 minutes; that is quite a significant shift”.¹⁸⁶

96. We received evidence that the restricted range of investment products offered through the basic advice regime could also be a factor behind the low take-up of the regime. Mr Dyfrig John, Chief Executive of HSBC, noted that “when you are giving advice you generally wish to give some options to the customer”. HSBC told us that they “do not offer basic advice or a stakeholder investment product as we believe that the limitations of basic advice, and the restricted product range for investments under basic advice (one product) do not meet important customer needs”.¹⁸⁷ Mr James Crosby, Chief Executive of HBOS, claimed that “for a number of years [HBOS] have provided simple investment products with simple charges, and we provide full advice is a superior proposition on those basic products than stakeholder based advice”.¹⁸⁸ **The restricted range of products available under the basic advice regime, combined with the perception that the scheme has not been as light touch as expected, has led to a low number of major providers introducing the basic advice regime. We recommend that the FSA conduct a full review of the basic advice regime to examine what factors have led to such a low take-up of the scheme by the financial services industry and how the regime can be reformed to increase take-up. In making this recommendation, we do not wish to imply that the problems lie solely with the design of the regime. Problems with basic advice are inseparable from issues relating to the structure of the industry itself.**

181 Q 693

182 not printed: the latest information on which firms have signed up to offer products under the basic advice regime is available from the FSA’s on-line register.

183 Ev 309

184 Ev 189–190

185 Ev 411

186 Q 750

187 Q 889

188 Q 888

A market-led solution?

97. Many of the issues relating to financial inclusion that we are examining are related directly to the provision of products by financial services providers in a competitive market. Accordingly, we have given careful consideration as to whether the current weaknesses of saving for all can be remedied by a market-led solution.

98. In both the last Parliament and the current Parliament the Treasury Committee has examined the challenges facing the long-term savings industry. In 2004, the then Treasury Committee concluded that “the bear market has exposed a catalogue of problems and scandals that has left a large body of savers feeling disillusioned with the long-term savings industry”.¹⁸⁹ The disconnection between many savers and the savings industry is closely related to the problems that came to the fore at the end of the 1990s and at the start of the current decade when a commission-driven sales process led to serious doubt being cast over the impartiality and value of savings advice. Our predecessors noted in 2004 that the commission-driven distribution model creates a “negative image ... in the eyes of some potential savers”.¹⁹⁰

99. More recent developments have reinforced the impression that the problems of the long-term savings industry relate not simply to perceptions among savers and potential savers, but also to the overall viability of the business model of the industry, and of the life office business model in particular. In March 2006 Mr Trevor Matthews, Chief Executive of UK Life and Pensions at Standard Life, stated that “our basic business model is flawed”.¹⁹¹ In April 2006 Mr Ned Cazalet of Cazalet Consulting cast doubt on the viability of this model in evidence to us. He told us that this model relied on the payment of commission to intermediaries for new sales, which gave those intermediaries an incentive to move business from one provider to another, a process which generated costs to providers without creating new business. He estimated that, in four years, insurance companies had spent about £17 billion on trying to obtain pensions business, with little to show for it except business moved from one company to another before it could become profitable. Mr Cazalet thought that “this model is economically defunct ... crazy ... hugely loss-making and ... unsustainable”.¹⁹²

100. More recently, in September 2006, Mr Cazalet indicated that, of £121 billion in new single premium business received by the life offices over the preceding five years, £119 billion could be accounted for by recycling or “churning” of business from other offices, rather than the generation of new business.¹⁹³ On the same occasion, Sir Callum McCarthy, Chairman of the FSA, said:

we have at present a business model which is based on incentives which produce results which are unattractive to reputable providers, unattractive to their customers, and whose benefits to intermediaries are questionable. What are we going to do to

189 HC (2003–04) 71-I, para 110

190 *Ibid*, para 38

191 *The Scotsman*, 5 March 2006

192 Treasury Committee, Fifth Report of Session 2005–06, *The design of a National Pension Savings Scheme and the role of financial services regulation*, HC 1074–I, para 10

193 Speech by Mr Ned Cazalet to Gleneagles Savings & Pensions Industry Leaders’ Summit, 16 September 2006

change it? ... But the solution to the problem must lie principally with the industry. And one of the key questions that must be addressed is this: who is the real customer of the provider—is it the policyholder who invests their money in the hope of seeing a decent return? Or is it the distributor, who in the main, secures access to the end-consumer for the provider? If, as many commentators would have it, it is indeed the distributor who is the actual customer of the provider, this raises all manner of difficulties which further perpetuate the shortcomings of the current model—particularly with regard to treating the real customer fairly. I understand well that many are frustrated by what they describe as the ‘commission stranglehold’ that the advisory community enjoys, but so long as providers continue to compete over the attractiveness of their commission proposition, the fundamental flaws in the present business model will remain.¹⁹⁴

101. On 24 October 2006, Sir Callum told us that he thought that many in the industry now recognised that the current business model was “deeply unattractive” for both businesses and consumers and were trying to change the situation. He envisaged the possible emergence of new providers as one way in which the market might change.¹⁹⁵

102. We are not concerned in the current Report with the general viability of the long-term savings industry, although this is a matter to which we may well return. We are concerned with the narrower question of whether it is fit for purpose in terms of providing appropriate savings opportunities for the less well-off. Our inescapable conclusion is that it is not fit for purpose. The market may change in the future, but until it does, it is likely that non-market-led solutions will also be necessary to solve the problems of savings incentives and opportunities for the less well-off.

The Saving Gateway

Background

103. One of the ways in which the Government can support saving is by “matching”—by providing a cash contribution to individual savings. One method of “matching” is to provide tax relief at source for personal and stakeholder pensions. Another method of “matching” is the so-called Saving Gateway which was launched in April 2001 and which was intended to provide lower-income earners incentives to save by offering to match savings with additional contributions paid by the Government.¹⁹⁶ An initial pilot stage was established in 2002 under which the Government matched pound-for-pound the savings of low-income households up to a limit.¹⁹⁷ In December 2004, the Government announced that a second Saving Gateway pilot would begin in 2005.¹⁹⁸

194 Speech by Sir Callum McCarthy to Gleneagles Savings & Pensions Industry Leaders’ Summit,, “Is the present business model bust?”, 16 September 2006

195 Treasury Committee, Minutes of Evidence taken before the Committee on 24 October 2006, *FSA annual report scrutiny*, HC 1594–ii, Qq 186–187

196 HM Treasury press notice, “New proposals to tackle child poverty and open opportunities to all”, 26 April 2001

197 HM Treasury, *Pre-Budget Report 2004*, December 2004, Cm 6408, p 98, para 5.38

198 *Ibid*, p 98, para 5.39

104. The policy is intended to increase rates of saving and asset ownership amongst eligible families and to explore how Government matched funding and the provision of financial information can promote saving amongst those who do not usually save.¹⁹⁹ The Treasury told us that “matching, as an alternative to tax relief, provides a more understandable, transparent and effective framework of support to savers, and ... provides greater incentives for those on low incomes who often cannot benefit from tax relief”.²⁰⁰

Evidence from the pilots

105. The Treasury provided further information about what had emerged from the two phases of pilots. In the first phase, savings were matched at a £1 for £1 rate and people could save up to £25 a month and a total of £375 over the 18 month period. To be eligible to open an account, people had to have an income of £11,000 per year or less, or if they had children or a disability, £15,000 a year or less. According to the Treasury, a report on the project had shown

some very positive findings on saving characteristics of low income participants. Account holders saved a total of around £475,000 with half of participants (52%) achieving the maximum amount of £375, and 70% managing to save over £375. The final evaluation confirmed matching in particular can double saving among low-income groups (average individual net saving increased from £150 to £300 over 18 months) and encourage genuinely new savers and new saving. Before the pilot, 56% had no money saved in a savings account and 25% did not have a current account at all.²⁰¹

106. Professor Kempson, who undertook the report, told us that the first pilot phase had been a “great success” and that people had been attracted to this account because it “was clearly designed for those on low incomes and this helped overcome their resistance to deal with the banks”.²⁰² Ms Whyley stressed that the first pilot phase of the Saving Gateway was “simple” and “easy to communicate” and provided a real tangible benefit to saving rather than spending.²⁰³ HBOS, which had administered the first pilot phase of the Saving Gateway through their branch network, told us that their overall experience of the pilot had been positive, but had raised issues arising from the fact that a higher than normal number of customers had difficulty satisfying the anti-money laundering/identification requirements and also noted that branch capacity was stretched due to the very high take-up rates and the lack of telephone or internet application processes.²⁰⁴

107. The Treasury explained that the second pilot of the Saving Gateway was much larger than the first, with a value of £15 million. Account opening which began in March 2005; by Summer 2005 all 22,000 accounts had been opened. Accounts will operate for 18 months and Halifax is providing the banking facilities in six areas. The second pilot is testing a

199 Ev 344–345; HM Treasury, *Savings and Assets for all*, April 2001

200 Ev 345

201 Ibid

202 Ev 428

203 Q 122

204 Ev 219

variety of different incentive structures. As with the first pilot, funds only become available at the end of the 18-month account. Eligibility criteria relating to age, receipt of qualifying benefits and level of earnings.²⁰⁵ Table 1 gives further information about the arrangements in the different pilot areas:

Table 1: Savings Gateway second pilot areas

Location	Match Rate*	Monthly savings limit	Maximum Match	Maximum Savings
Manchester	£1 : £1	£25	£400	£400
South Yorkshire	£1 : £2	£25	£200	£400
East Yorkshire**	£1 : £2	£25	£250	£400
Cumbria	£1 : £2	£50	£400	£800
East London	£1 : £5	£50	£160	£800
Cambridgeshire	£1 : £5	£125	£400	£2,000

Source: Ev 34

Note: (* Match Rates are £ Government Match : £ Participant's saving) (** £50 initial endowment) Note: All pilots allow savings in 16 out of 18 months.

108. Professor Kempson expressed some reservations about the second pilot because it seemed to have

lost the simplicity and focus of the first one—which was clearly aimed at people on low incomes and had a match rate that was easy to understand. While we welcome exploration of matching as an alternative to tax relief generally, we are concerned that the Saving Gateway may, like ISAs and Stakeholder Pensions, fail to attract people on low incomes.²⁰⁶

The IPPR noted that eligibility for the second pilot had been extended “upwards to an individual income under £25,000, or household income under £50,000. The arguments in favour of a matched savings account are far weaker higher up the income distribution.”²⁰⁷

Comparisons from abroad

109. In the United States the Individual Development Account (IDA) has been introduced. These are matched savings accounts to enable low-income families to save towards a specific goal such as buying their first home, paying for college education, or starting a small business. The matched funding is provided through a variety of government and private sector sources, including charities and employers. However, the programme is relatively small, with around 26,000 active accounts at the end of 2004.

110. In the Republic of Ireland, the Special Saving Incentive Accounts (SSIA) scheme was introduced in 2001. Accounts could be opened between 1 May 2001 and 30 April 2002. The scheme allowed savers to invest in their SSIA account on a monthly basis for a 60 month period. The Irish Government provided a top-up of 25% of the value of subscriptions made in each month. At the end of the five year period when the account matures, the saver is entitled to all the funds in the scheme less an exit tax of 23% levied on

205 Ev 347–348

206 Ev 428

207 Ev 358

the profit from the investment of both the saver's subscriptions and the Government contribution. The accounts were available to all and 1.17 million people applied (approximately two-thirds of the Irish workforce). Data indicates that 28% of account holders were on an income of less than €20,000 (£14,000) a year.²⁰⁸ In the 2006 Finance Act, the Irish Government introduced an incentive for those earning less than €50,000 a year to reinvest some or all of their SSIA funds in a pension product when their SSIA account matures.²⁰⁹ There remain questions about the extent to which the Irish scheme was successful in encouraging new saving as opposed to the transfer of existing savings into the SSIAs and it may be too soon to draw definite lessons from experience in the Irish Republic for policy in the United Kingdom

Conclusions

111. As part of its inquiry into the 2004 Pre-Budget Report the then Treasury Committee explored with the Chancellor of the Exchequer whether it would have been better to extend the Saving Gateway nationwide after the success of the first pilot phase in promoting sustainable saving and stated that it looked forward “to the Government moving as quickly as possible, subject to evaluation of the initiatives, to national availability of the Saving Gateway scheme”.²¹⁰ **There is evidence from abroad and from the emerging findings of the Saving Gateway pilots that matched savings accounts such as those piloted as part of the Saving Gateway provide a clear and understandable framework of support for savers. They also provide clear incentives for those on low incomes who often cannot benefit from tax relief. The first pilot phase of the Saving Gateway showed that matching can encourage genuinely new savers and increased savings. We are concerned that the valuable lessons from the first pilot phase of the Saving Gateway must not be overlooked and that the Gateway must be promoted nationwide at an early stage as a framework for savings for all, although we recognise that in any national roll-out the Government will need to consider the overall match rate, which income levels the scheme should be focused on and the overall cost of the scheme. We recommend that the Government examine ways to encourage the development of matched savings accounts with contributions from the private and charitable sectors.**

Capital limits for benefits

112. We received evidence drawing attention to the relevance to financial inclusion of capital limits for benefits. The Government stated that its objective in this area was to ensure that “benefit arrangements strike a sensible balance between providing targeted State support and not unfairly penalising those who have acted responsibly by saving”.²¹¹ The DWP told us that from April 2006 the Capital threshold in Income Support (IS), income-based Jobseeker's Allowance (JSA(IB)), Housing Benefit and Council Tax Benefit (CTB) will increase from £3,000 to £6,000 and that the upper capital limit in IS and JSA(IB)

208 Republic of Ireland Department of Finance, Tax Strategy Group, TSG05/13, Special Savings Incentive Accounts (SSIAs)

209 See press release, 1 June 2006, Minister Cowen welcomes maturity of SSIA accounts, Department of Finance, www.finance.gov.ie

210 Treasury Committee, First Report of Session 2004–05, *The 2004 Pre-Budget Report*, HC 138, para 77

211 Ev 278–279

will increase from £8,000 to £16,000. The total cost of these changes is estimated at £15 million each year.²¹²

113. Citizens Advice welcomed these changes, but noted that “the rules on ‘tariff income’ remain the same; that is that every £250 of savings over the £6,000 is assumed to produce a weekly income of £1. These rates of return are unrealistic. Currently, once a person has £6,000 in capital, they are assumed to be receiving a rate of return of 10.4%. The base rate is 4.5%. From April 2006, the same tariff income will apply on capital over £9,000, even after the capital limits have risen. In contrast, the tax credits system takes into account actual income from savings and investments. This is a much fairer system, which should be adopted by the benefits system”.²¹³ **We welcome the increase in the capital allowances for benefits. We recommend that the Government review the rules on tariff income to ensure that the withdrawal rates for additional saving above capital allowances continue to encourage households on benefits to accrue additional saving.**

Housing associations savings with rent accounts

114. Providing easy and accessible savings products was seen in evidence as an important factor encouraging the financially excluded to save. Some housing associations have begun to offer the ability for tenants to save alongside the collection of rent.²¹⁴ However, if savings accrued by tenants increase to over 1% of turnover then, under the Financial Services and Markets Act 2000, the housing association would need to be authorised by the FSA as a deposit-taker.²¹⁵ **We recommend that the Government consult on the case for an exemption for Registered Social Landlords from the FSMA requirements to register as a deposit-taker. The Government should consider whether the appropriate degree of regulation could be accomplished through other bodies such as the Housing Corporation.**

Savings and other aspects of financial inclusion

115. We received evidence which highlighted linkages between saving and other aspects of financial inclusion. The Financial Inclusion Taskforce told us that it recognised the value of helping people to accumulate small levels of savings as part of tackling financial exclusion in particular as a key tool to avoiding over-indebtedness.²¹⁶

212 HM Treasury, *Budget 2006*, p 206

213 Ev 249

214 Notting Hill Housing Association. The scheme is known as “Rent Plus”: see www.nottinghillhousing.org.uk

215 The Financial Services and Markets 2000 (Regulated Activities) Order 2001 states that Accepting deposits is a specified kind of activity if money received by way of deposit is lent to others; or any other activity of the person accepting the deposit is financed wholly, or to a material extent, out of the capital of or interest on money received by way of deposit. The Order does not define “wholly or to a material extent” but the FSA will take a view whether the scale of the proposed operations might enable the scheme to escape regulation on the grounds that the value of the deposits expected to be generated is immaterial either in absolute terms or relative to the turnover of the operation as a whole. In practice, the FSA has usually considered it reasonable to regard a scale of less than about 1% of turnover as being immaterial, so allowing a scheme falling below this level to be outside the regulation: information provided by the FSA.

216 Ev 304

116. It was suggested that the key to freeing income up for saving for financially excluded people was to tackle some of the other costs of financial exclusion. Ms Davenport of Leeds City Credit Union believed:

it is not true that they cannot afford to save. It is just that usually they are paying out so much to doorstep lenders and other organisations that they do not have any free income. If we can free up their income by giving them a more affordable loan, then they can and do [save]. I think [credit unions] have proved that.²¹⁷

Mr Lyonette noted that “only when people actually start to save a small amount of money when they have been paying high cost credit, at that point, that people break the cycle of taking more and more high cost loans”.²¹⁸ ABCUL told us:

Southwark credit union in London started offering a benefit service to members in 2005. By June 2005 235 members were having a total of £344,950 in benefits paid into the credit union and £32,149 or 9.3% of that was retained by the credit union as savings. Other credit unions are reporting between 5 and 10% retention of benefits.²¹⁹

117. East Lancashire moneyline (a CDFI) has developed a partnership with HBOS which enables individuals to open a saving account with savings collected alongside loan repayments; it was suggested that the appeal of this arrangement was the ease of saving.²²⁰

Conclusions

118. **Saving is not accorded the same priority in the Government’s strategy for promoting financial inclusion as credit, advice and banking. The evidence we have received suggests that savings, and the problems of making saving worthwhile and beneficial for those on lower incomes, are integral to any effective strategy on financial inclusion. In our subsequent Report on the roles of the Government and the Financial Inclusion Taskforce and the overall strategy, we will consider further whether the terms of reference of the Taskforce ought to be amended to include access to savings and the role of savings clubs. In the present Report, we have set out a series of recommendations designed to ensure that saving is accorded a higher priority in the context of financial inclusion and that the particular needs of savers and potential savers are at the heart of Government actions to combat poverty and financial exclusion.**

217 Q 278

218 Q 234

219 Ev 175

220 Ev 287

5 Access to financial advice

Debt advice

119. While over-indebtedness currently only affects a small proportion of the population, it can have devastating consequences for those individuals and families involved. Rising consumer debt had led to increased demand for debt advice to help people resolve their problems. Citizens Advice told us that the number of debt enquiries they received had risen markedly and that their services were “increasingly over-subscribed with evidence of significant unmet need”, reflected in the fact that “waiting times for specialist appointments now often run to several weeks”.²²¹ Professor Mervyn King, the Governor of the Bank of England, speaking on the occasion of the publication of the May 2006 Inflation Report, while noting that debt problems were currently not a major factor determining the path of overall consumer spending, said that “all the statistics on households that have got into trouble with debt are rising and rising quite sharply” and that “the number of calls to the National Debt helpline has risen quite sharply”.²²² Ms Fiona Price of the DTI told us:

Levels of borrowing are certainly quite high and it is certainly true that the number of calls to debt advice agencies is increasing. It is not clear that the reason for the increase in numbers is that people are suffering a significant greater problem. Other possibilities are that people are being encouraged to seek advice earlier which is something we very much want them to do.²²³

120. As part of the Financial Inclusion Fund, the Government has allocated:

- £45 million to be administered by the DTI to support an increase in provision of face-to-face money advice. The funding will be split over a two year period—£15 million in 2006–07 and £30 million in 2007–08.
- A further £6 million will be used by the Legal Services Commission to pilot mechanisms of money advice outreach aimed at those who do not normally present themselves to debt advisers.²²⁴

121. This additional money was welcomed by Citizens Advice as “a very positive initiative”.²²⁵ Citizens Advice told us that the money they had secured from the fund represented “help for over 88,000 people who need money advice, delivered by 370 new money advice caseworkers” and that the additional funding “allows Citizens Advice, with its partners, to increase its capacity throughout England and Wales to meet demand, especially in areas of particular social deprivation and financial exclusion”.²²⁶ The DTI

221 Ev 257

222 Professor Mervyn King, May 2006 Inflation report press conference, 10 May 2006

223 Q 953

224 Ev 347

225 Ev 257

226 Ibid

informed us that, in total, 14 projects had received money from the fund and that this was expected to increase the number of debt advisers by up to 500.²²⁷

122. However, concern was expressed by a number of witnesses about the sustainability of the increase in the number of debt advisers and about whether extra provision might go to areas that were already well-served, rather than being used to fill gaps in existing provision. Citizens Advice called for “greater certainty about funding beyond 2007–08” and believed that, “as things stand, there seems to be a real risk that the potential for a step change in provision will not be fully achieved, and abruptly reversed, without a clear and early indication of long-term funding”.²²⁸ Professor Kempson also expressed concerns regarding

the speed with which the Fund is being allocated and the short-term nature of the funding, with no plans for ensuring that services survive beyond the end of the initiative. Large numbers of new money advisers will need to be recruited and trained in a very short period of time (or existing services will have their staff depleted) and may face redundancy as soon as they have developed their expertise. This would certainly be poor value for money.²²⁹

In response to concerns about the provision of long-term funding, the DTI stated that it had to “work within the government spending cycle” and that “future funding will be looked at as part of the Comprehensive Spending Review”.²³⁰

123. We commend the work of the Consumer Credit Counselling Service, Money Advice Trust, AdviceUK and Citizens Advice Bureaux in providing debt advice. We welcome the additional £45 million of funding up to 2007–08 for debt advice allocated as part of the Financial Inclusion Fund, which will allow the recruitment of over 450 debt advisers and provide help for over 100,000 people. However, the short-term nature of the funding offered so far places those debt advisers at risk of redundancy almost as soon as they have developed their expertise. We understand the constraints placed upon long-term commitments by the nature of the spending cycle. However, the Government could go a considerable way to assuaging concerns about funding by demonstrating its belief in the fundamental importance of, and necessity for, debt advice and by committing to assuming a leadership role in securing funding from its own resources and from the financial services industry to ensure that the necessary increase in debt advice is sustained.

Generic financial advice

The current gap

124. Complex financial services products and concepts, combined with inadequate financial capability, increase the need for consumers to be able to access some form of advice when making financial decisions or purchasing financial services. Consumers

227 Q 948

228 Ev 257

229 Ev 428

230 Q 952

lacking effective access to financial advice are clearly at a disadvantage in a market generally characterised by severe inequalities of information available to consumers and product providers. We received evidence of a significant “advice gap” in the market, where consumers found it difficult to obtain access to financial advice. The Resolution Foundation, a research and policy organisation focusing on how people’s advice needs can be met by either the public or private sectors, told us:

There are around 8 million people in the UK today who pay basic rate tax on incomes between £10,000 and £22,000 ... Basic rate taxpayers with this level of income largely fall outside of the catchment criteria for financial advice in the UK. Most free advice services cater to the remedial needs ... of those already in serious debt. Meanwhile, the financial services industry offers advice only when bundled with a product sale. At these income levels, such sales are just not attractive to most product providers who focus on the most profitable customers—i.e those on higher incomes”²³¹

125. Professor Kempson noted research that Bristol University had undertaken for the DWP, which found that IFAs did not, on the whole, see many people on low incomes.²³² The Financial Services Consumer Panel agreed that “there was a need for the provision of advice about generic financial needs which is completely separate from the sales process”, and the Panel observed that this need was increasing as individuals were being given more responsibility for financial planning. The Panel noted that “consumers are frequently urged to seek advice. But this is, in some cases a hollow suggestion because for many there is nowhere obvious to turn.”²³³ Which? drew attention to several trends that they felt would increase the need for advice, including growing debt, financial planning and pension risks being transferred to the individual, emergency advice to deal with mis-selling scandals, a complex State benefit system and more complex financial products.²³⁴ In our Report into the design and regulation of a National Pension Saving Scheme, we recommended “that the Government give consideration at an early stage in implementation of an NPSS or any comparable measure to the design and availability of generic advice to those considering participation in the scheme as well as to scheme members”.²³⁵

126. The Resolution Foundation has completed research into the potential benefits to individuals, the State and the financial services industry that could result from improved access to generic financial advice.²³⁶ A report arising from the Foundation’s research found that, for young people, receiving and acting on financial advice could increase annual retirement income by up to £1,500 and reduce the numbers of people experiencing financial stress. The Foundation also concluded that delivering financial advice would support public policy objectives such as improved financial capability, pension reform and

231 Ev 447

232 Ev 428

233 Ev 319

234 Ev 506

235 HC (2005–06) 1074–I, para 51

236 Resolution Foundation, *A National Dividend: The economic impact of financial advice*, September 2005

tackling debt and that if people acted on the advice it could deliver annual savings in expenditure on the Pension Credit could reach £50–100 million each year.²³⁷

127. A key facet of promoting financial inclusion lies in ensuring that consumers have access to appropriate financial advice. We note evidence suggesting that 8 million consumers who earn between £10,000 and £22,000 find it difficult to access generic financial advice, separate from the sales process. It is clear that improving access to financial advice would have benefits for individuals, the Government and the financial services industry. All too often in pronouncements from Government and regulators, consumers are told to seek advice, but with little consideration as to where they should turn. The implementation of a National Pension Savings Scheme and moves to make individuals more responsible for their retirement planning will increase the need for many consumers to access generic advice and support in order to plan for their retirement.

Possible delivery mechanisms

128. A considerable amount of work has been done on possible delivery mechanisms for generic advice. The Resolution Foundation has sought to develop proposals for delivering a national financial advice resource targeted at consumers currently excluded from accessing financial advice. Mr Clive Cowdery, Chairman of the Foundation, referred to potential delivery models such as the “National Debt Helpline ... a high quality organisation working off the telephone” and NHS Direct, which “in a brief conversation, is able to work out what your next step should be and make a referral”. He argued that a new generic financial advice service should aspire to help all “who may come forward with a question and that probably means the best way to be national is to be on the telephone from day one”.²³⁸ For those who expressed a preference for a face-to-face conversation, he thought that there was the possibility of involving existing infrastructure such as the Citizens Advice Bureaux.²³⁹

129. Research published by the Resolution Foundation has identified four potential service delivery models for generic financial advice:

- Model 1: Advice Net: A comprehensive web-based service, including information, interactive tools and access to self-help packs. It would be backed by a telephone helpline to assist people in navigating the web-site, respond to requests for information and help with referrals, although it would not offer advice as such. Annual operating costs would be around £10–15 million, with set-up costs of £6–8 million.
- Model 2: Advice Line: The core service would be delivered via a telephone advice line. Estimated annual running costs would be in the region of £25–35 million.
- Model 3: Advice hubs: Similar to model 2, but augmented by a limited amount of face-to-face advice. Working in partnership with local services could deliver suitable

237 Ibid

238 Q 429

239 Q 419

locations for scheduled advice sessions without new premises having to be found. Depending on the number of people served set-up costs would be £15–30 million, with annual running costs of £35–65 million.

- **Model 4: National advice:** This would offer an all-encompassing service providing web-based information, a telephone advice line and a comprehensive network of face-to-face advisers operating from 350 to 400 locations across the United Kingdom. Under this model, local centres could offer scheduled meetings as well as drop-in clinics and seminars. Partnerships could be established to deliver these sessions from a range of locations. This model would need considerably more face-to-face advisers and the cost, at £90–110 million per annum with £30–40 million in set-up costs, would be significantly higher.²⁴⁰

130. We looked at some current examples of Government and privately-funded services offering advice and how those advice services were coordinated:

- The **Community Legal Service** was set up to help people find the right legal advice. It provides legal information through its web-site, including comprehensive links to other web-sites for advice about specific topics. It offers a telephone helpline and a directory of local organisations that can provide face-to-face legal advice including Citizens Advice Bureaux, law centres, independent advice centres and thousands of high-street solicitors. All these services meet quality standards set by the Legal Services Commission. Many of the organisations offer some or all of their services for free, but those who cannot afford to pay for advice may be eligible for financial support through the Community Legal Service Fund (legal aid).²⁴¹
- **Consumer Direct** was established by the DTI to “provide clear, practical advice for consumers who want to: sort out problems with suppliers of goods and services; know their rights as consumers; report scams and find out how to avoid them; receive advice on how to seek out reputable traders”.²⁴² Annual expenditure on Consumer Direct was projected to be £11 million in 2004–05, £16 million in 2005–06 and £19 million in 2006–07 and 2007–08.²⁴³
- **NHS Direct** provides advice and information about health and the NHS so that people are better able to care for themselves and their families. The service aims to provide clinical advice to support self-care and appropriate self-referral to NHS services, as well as access to more general advice and information. It is projected to cost around £165 million in 2006–07.²⁴⁴
- **National Debtline** is a national telephone helpline for people with debt problems in England, Scotland and Wales. It advised around 100,000 people in 2005, although it is in the process of expansion with an aim to double its

240 The Resolution Foundation, *Closing the advice gap, providing financial advice to people on low incomes*, May 2006

241 For more information, see Community Legal Service Direct’s website, www.clsdirect.org.uk

242 www.consumerdirect.gov.uk

243 Department of Trade and Industry, 2005 Departmental report, p 113

244 NHS Direct financial framework, 2006–07, Paper for NHS Direct Board meeting, 5 July 2006, www.nhsdirect.nhs.uk

reach. National Debtline is part of the Money Advice Trust which receives donations from the Government (through the DTI) and private sector financial institutions. For National Debtline, around 40% of the costs are covered by Government with the remaining 60% from private sector sources. Predicted expenditure in 2006 is around £3.9 million, although a proportion of this expenditure related to recruitment and training of new money advisors.²⁴⁵

131. Mr McAteer argued that there was no point in re-creating providers because

there is already a huge infrastructure of providers out there like advice centres and specialist charities but ... the delivery and funding of that advice is too fragmented at the moment ... It would be better done if it was branded under a single entity [such as] National Financial Advice in the same way as the Community Legal Service is branded for delivery of access to free legal advice, but the important point is [that] it needs to be properly resourced.²⁴⁶

132. The ABI agreed that “current developments in the generic financial advice area represent a piecemeal and fragmented approach that risks confusing consumers. There is a strong case for bringing the current plethora of generic information and advice together to make it easier to access, although developing such a resource will need the clear support of all the regulatory authorities.”²⁴⁷ The Economic Secretary to the Treasury told us that the Treasury had actively encouraged the Financial Inclusion Taskforce to examine various ideas for the delivery of generic advice:

While one part of my responsibility for the spending review will be about financial inclusion, there is a separate ... overlapping responsibility which is how we take forward more generally in Government the financial capability agenda and work with the FSA to make sure that in our discussions with DfES on the curricula or with the Child Trust Fund or with Sure start or with the Social Fund we take more forward some of these financial capability issues. It is an important part of my job to make sure that happens in an effective and proper way for the spending review.²⁴⁸

133. The FSA has established a working group on Generic advice. That working group published a paper in August 2005 entitled Financial Capability: Developing the role of generic financial advice. This focused on elaborating the definition of generic financial advice, developing quality assurance standard for provision.²⁴⁹ The FSA has also commissioned a review of delivery of advice services to help understand more about what works best for consumers. The Financial Services Consumer Panel believed that “generic advice is one of the most important aspects of the FSA’s work on financial capability. Yet we have been concerned at the painfully slow development of the work on this topic.”²⁵⁰ In

245 www.nationaldebtline.co.uk

246 Q 105

247 Ev 192

248 Q 1015

249 FSA, Financial Capability: developing the role of the generic advice, August 2005

250 Financial Services Consumer Panel, Annual Report 2005/06, p 24

May 2006, Mr Tiner admitted to us that progress had been slower than it should have been over the last year or two on generic advice and thought that “we need to address the pace of that”.²⁵¹ He went on to identify some of the barriers to developing such advice:

there is not a supply chain, there is not a brand, a trusted brand to deal with ... [for] forms of everyday [generic] financial advice ... For example, how people get advice on whether to opt out of the second state pension or not and that is very difficult because there are so few people providing advice ... It is an area that we have been worried about.²⁵²

134. Mr Tiner noted in May 2006 that the FSA was not in a position to build a network of providers for generic advice and thought that between the Government, the industry, the voluntary sector and the FSA there needed to be “more meaningful and rapid initiatives to fill that gap”.²⁵³ More recently, Mr Tiner told us that he was sceptical about the case for a new central point for the provision of generic advice, preferring to build on the capacity of existing mechanisms.²⁵⁴

135. Citizens Advice told us that they would like to expand their role from their traditional role of emergency help with debt to a more preventative role. They felt that

provision of free generic financial advice to low and middle income groups would assist consumers to be more confident with their finances. Our vision for the CAB service is to have sufficient resources to deliver a holistic financial service giving financial literacy, financial and debt advice to low and middle income groups, in partnership with others where appropriate ... There may be potential for CABx, if properly resourced to develop generic financial advice services for their clients.²⁵⁵

Ms Perchard noted that Citizens Advice Bureaux had over 3,000 locations and 16,000 trained volunteers and that over 90% of the population recognised the Citizens Advice brand. She thought that CABs would be keen to do more preventative work on delivering generic financial advice but

they do not want to take it on without the training, the backup specialist support, and in some cases we would need paid advisers to give the competent face-to-face advice ... If [CAB] were going to be a delivery channel we would need the investment to bring this in ... a lot of our money advice services which deal with debt after the event are on very short-term funding. There is no funding to deliver that kind of [generic financial] advice service. Citizens Advice had been involved in a pilot project working with IFAs on a pro-bono basis to deliver free Generic financial advice to people on low and middle incomes ... The pilot has demonstrated beyond

251 Q 736

252 Ibid

253 Q 741

254 Treasury Committee, Minutes of Evidence taken before the Committee on 24 October 2006, *FSA annual report scrutiny*, HC (2005–06) 1594–ii, Q 148

255 Ev 248

doubt that there is a real need for generic financial advice amongst this group that current provision had failed to meet.²⁵⁶

She went on to observe that the majority of clients were low-income homeowners with many older and reliant on pension income. The biggest area of enquiry was endowment shortfall, and pension advice came second.²⁵⁷

136. The Money Advice Trust echoed Citizens Advice by stating that “in looking at how generic advice might be delivered, it needs to be recognised that the voluntary sector money advice agencies are struggling to cope with demand for debt advice and do not currently have the capacity to move into the provision of generic financial advice without additional funding and resources”.²⁵⁸

137. Citizens Advice Bureaux and other advice centres will have a valuable role to play in any national network of financial advice centres. We welcome their willingness to expand their role into the provision of generic financial advice, but note that for them to take up additional roles in this area will require additional investment and funding. We recommend that the pilot project of Citizens Advice working with IFAs on a pro bono basis to deliver generic financial advice is expanded. In the short term, this could be accomplished by additional money from the industry, combined with any remaining resources from the Financial Inclusion Fund.

138. With regard to the wider question of the form in which generic financial advice is provided, there are clearly different views on whether the case for an entirely new delivery mechanism has been established. We are not ourselves in a position to come to a definite conclusion on this matter. However, we are concerned that consideration of this issue by the FSA has not been as rapid as we believe the issue warrants. The Economic Secretary recently said that:

too often at present financial planning remains the preserve of the better off—as the Resolution Foundation was highlighted. I believe there is a growing consensus that there is a gap here, needing to be filled—and that we should be aiming for a more comprehensive and preventative approach to advice.

He believed that the Government’s ten-year strategy to improve financial capability “must move this debate forward and identify clear options that would allow all players—industry and the voluntary sector in partnership with Government—to make the right contributions to filling the advice gap”.²⁵⁹

139. We recommend that the Treasury assumes lead responsibility for taking forward discussions on the provision of generic financial advice and brokering an agreement between the FSA, the financial services industry and other interested parties on the way forward in terms of the most appropriate organisational framework to deliver and coordinate a national financial advice network and the issues of funding and charges

256 Ev 248

257 Q 111

258 Ev 381

259 Economic Secretary to the Treasury, speech at the Financial Capability conference, 18 October 2006

that we consider next. We further recommend that this network target especially generic financial advice for people on lower incomes.

Funding and charges

140. The Financial Services Consumer Panel believed that “the biggest issue with the provision of generic advice is funding. Thus far, no real solution has been proposed as to how such a scheme will be funded, and without this, the initiative is unlikely to be implemented.”²⁶⁰ Mr Cowdery believed that

it would be sensible for industry bodies and government bodies to begin a debate over whether the size and scope [of the national financial advice resource] looks an appropriate and proportionate response to the problem and, if so, what the funding options are ... It does strike me that the more far sighted banks, insurers and credit providers will see that you cannot have a situation going forward in perpetuity in which very large numbers of people ... are completely locked out of an understanding of what is available in the financial services system and that some small proportion of what they currently spend on marketing their products to the middle classes ... should perhaps be diverted towards providing some contact points for people on lower earnings.²⁶¹

141. Mr Cowdery noted that the industry was already spending tens of millions of pounds on different initiatives to provide advice, but that “unfortunately none of it in sufficient ... concentration or joined up together to have any holistic or national impact”.²⁶² He believed that there was a case to be made for 100% of such a national generic financial advice service to be funded solely by Government and that there is a case to be made for such a service being provided and funded 100% by industry. This gave him hope that a compromise could be reached.²⁶³ The NCC believed that “there is a strong case for the financial services industry to be required, at least in part, to subsidise generic advice services as they will, ultimately, benefit from a better informed, more confident customer base”.²⁶⁴

142. The desirability of developing generic financial advice services is not in doubt. The major issue that needs to be resolved is how such services might be funded. Increased provision of generic advice will lead to benefits not only for the financial services industry, through a better informed and more engaged customer base, but also for the public sector, if consumers increase provision for retirement or reduce their reliance on the State benefit system. We therefore believe that increased provision could be funded through a partnership between the public and private sectors, although the proportion of funding provided would need to be discussed. As a first step, we would expect the Government to take forward discussions with the private sector on possible funding options and, as part of those discussions, to indicate the extent to which Government funding might be available for such services.

260 Ev 320

261 Q 483

262 Q 439

263 Q 440

264 Ev 401

143. The NCC believed that “decisions about charging for generic financial advice must be taken in the context of overall funding and delivery of the service. If, in practice, offering a free service would constrain the scope of the service—including the numbers of people served, waiting times, consultation times, or the quality/professionalism of staff—this could seriously undermine its success.”²⁶⁵ They suggested the possibility of a sliding scale of charges as occurs with other charitable services such as Relate, but which would be free to those on the lowest incomes.²⁶⁶ Mr Cowdery believed that the generic financial advice should be “free at the point of use” because he did not think “any kind of income that could be generated through the sort of charges [the targeted group] can afford to pay would be worth the offsetting loss of confidence in the organisation that would come from the fact that it appears to be charging for its services”.²⁶⁷ He also noted that any charges would dissuade people from using the service.²⁶⁸ **Charges for using any service for generic financial advice would increase the available funding, but would decrease consumer confidence in the network, could be complex to administer and could make consumers more reluctant to seek advice. There are strong arguments for any resources targeted at those groups that are currently excluded remaining free at the point of use. Those consumers who were willing to pay a fee for financial advice could continue to do so through Independent Financial Advisers.**

Regulatory barriers

144. As with any advice relating to financial products and services, the provision of generic financial advice faces potential regulatory barriers. In 2004, as part of the Financial Services and Markets Act (FSMA) two-year review, the Government announced its intention to give exemptions from the FSMA financial promotions regime to advice centres such as Citizens Advice Bureaux giving generic financial advice.²⁶⁹ Mr Cowdery told us that “the FSA had gone far in carving out a definition of basic or generic advice that falls short of selecting an individual product provider”.²⁷⁰ He explained that

in order to sit on the right side of non-regulated advice, [it] will not recommend where you buy your product, but it will tell you that the type [of product] you are seeking are made available in the following areas ...[The service] will not seek to select where they go for their [product purchase].²⁷¹

Norwich Union believed that “Generic Advice needs a clear definition and boundary to ensure it does not fall into the realms and associated liability of regulated advice”, arguing that generic advice needs to be simple generic information clearly distinct from advice and the selling process.²⁷² They felt that the FSA’s proposed model for generic advice “bore too

265 Ibid

266 Ibid

267 Q 425

268 Q 426

269 HM Treasury, Financial Services and Markets Act, two year review, changes to secondary legislation, Government response, December 2004

270 Q 416

271 Q 445

272 Ev 410

much resemblance to the existing regulated process in terms of the attached liability, cost and associated time commitments”.²⁷³ The NCC believed that “those offering generic financial advice should be accredited to increase consumer confidence and reflect the important skills necessary to deliver such a service”.²⁷⁴ Mr Cowdery agreed that some standard around how that advice is given would be essential and thought that there might be a standard-setting role for Government.²⁷⁵ **We expect the FSA to accord a high priority to its work on developing a clear definition of generic financial advice and how it differs from product-related advice. In particular, the point at which advice ceases to be generic and becomes part of regulated, sales advice needs further consideration. Particularly careful consideration needs to be given to the extent to which information gathered during the generic advice process can be relied upon by the regulated adviser. We would welcome accredited courses for generic financial advisers, combined with a set of quality assurance standards. These should be developed by the FSA, in partnership with the Financial Services Skills Council.**

273 Ev 411

274 Ev 400

275 Q 418

6 Access to Insurance

145. Insurance is one of the many financial services products that the vast majority of people take for granted. Insurance services do not feature prominently in Government documentation on financial inclusion. However, problems in accessing insurance can create real hardship for those concerned. A person without contents insurance may have to replace essential household items if they are a victim of crime, or suffer damage from a fire or flood. Half of the poorest 20% of households are uninsured, whereas only one in five households on average incomes are uninsured.²⁷⁶

146. The ABI told us that their work was designed to address three core obstacles to providing a service to low income consumers.²⁷⁷ These obstacles were:

- **Cost:** some people just did not have money to spare for insurance, at any price. Because of the degree of risk many poor people faced from crime and other causes, getting the cost low enough for them to purchase insurance, whilst also maintaining commercial viability, might be impossible.
- **Payment systems:** insurers could not collect payments efficiently from people without bank accounts. This added to the cost of the service and reduced its availability.
- **Understanding:** Those with low levels of financial education could find insurance services hard to understand and might be deterred by the documentation. Some appeared to have fundamental misconceptions, believing, for example, that the service had not been worth having if there had been no reason to claim, and that therefore cover need not be renewed.

147. In terms of cost, the ABI noted that home insurance was now approximately 23% cheaper in real terms than ten years earlier, a reduction largely achieved through increased efficiency in distribution and administration. However, the ABI accepted that

unfortunately, the other major element of insurance costs is associated with the risks insured. Insurers have long been involved in working with other organisations to give practical advice in areas such as fire safety and burglary prevention, but risk premiums inevitably reflect crime rates and accidental fire risks, issues beyond the direct control of the industry. The industry would welcome a closer partnership with government departments and police authorities to tackle problems such as high crime rates. Such an approach, with the industry working closely with the Environment Agency and DEFRA, has already worked well in tackling problems connected with flooding.²⁷⁸

148. Lowering the cost of insurance is substantially based on lowering risk. We recommend that the insurance industry and the Government examine the potential for pilot schemes focused on risk reduction.

276 Joseph Rowntree Foundation, Monitoring poverty and social exclusion 2005, p 108

277 Ev 188

278 Ev 190–191

149. For those households who do not have access to a bank account and cannot pay by cheque or cash, the industry, in partnership with local authorities, has developed 'Insurance with Rent schemes'. These give social housing tenants the option to take out standard contents insurance (arranged through their landlord) and pay the premiums alongside their rent payments. The Joseph Rowntree Foundation concluded that such schemes were an ideal way of providing low-cost insurance to people on low incomes in that they offered lower levels of minimum cover and in most (though not all) high-risk areas offered lower premiums per £1,000 insured than can be found in the direct market.²⁷⁹ The ABI indicated that such schemes were available in around half of local authorities in England and Wales and 75% of local authorities in Scotland. In 1999, Melanie Johnson MP, the then Economic Secretary to the Treasury, expressed the hope that "the Government and the industry would be able to agree some challenging targets for extending insurance with rent schemes".²⁸⁰ We are not aware of any challenging targets being set, and, although some guidance has been developed by the ABI, there is no reliable data on whether this led to an increased number of local authorities offering the scheme. Recent research of insurance with rent schemes in Scotland has also found that, despite the "easy availability of competitively priced, good policy cover, we find that the take-up rates by tenants are low".²⁸¹ **Insurance with rent schemes can reduce the cost of insurance and ensure easier access for low-income households. We recommend that the Government establish a stretching target to ensure that such schemes are available in more local authorities and housing associations. We further recommend that local authorities take action to promote the take-up of these schemes amongst uninsured households.**

150. The ABI told us that "When local authority housing stock is transferred to small housing associations, there can sometimes be problems arising from a lack of infrastructure to administer the schemes. One way of tackling this problems is through consortiums such as the Northern Housing Consortium (which has over 170 members representing local authorities, housing associations and other social landlords)".²⁸² **The Government must ensure that transfers of local authority housing to Arms Length Management Organisations (ALMOs) or to a housing association do not disrupt the administration of successful insurance with rent schemes.**

279 C Whyley, L McCormick, and E Kempson (1998) *Paying for peace of mind: access to home contents insurance for low-income households*, London: Policy Studies Institute

280 HM Treasury, Policy Action Team 14 report, Access to financial services, Foreword

281 J Hood, W Stein, C McCann, *Insurance with Rent schemes: An empirical study of market provision and consumer demand*, April 2005

282 Ev 191

Conclusions and recommendations

The challenges of financial inclusion

1. Poor people end up paying proportionally more for their money. Promoting financial inclusion is crucial to the fight against poverty. An effective Government strategy to combat financial exclusion has a crucial role to play in enabling those on low incomes and others who are financially excluded to take their own steps away from poverty. (Paragraph 19)

Access to affordable credit

Tackling high cost credit

2. We have received evidence suggesting that illegal and unlicensed lending represent real causes for concern. It is essential that measures we consider later to promote affordable credit are matched by effective action against the blight of illegal lending. We welcome the Government's emphasis on putting additional resources into enforcement, but we also expect the Government to galvanise enforcement action against illegal lenders by stressing the high priority which it attaches to this matter, by stronger enforcement action by the DTI against illegal lending, and by extending the DTI's pilot projects throughout the United Kingdom. (Paragraph 27)
3. Promoting competition amongst providers of high cost credit can play an important role in reducing interest rate charges. We note the provisional findings of the Competition Commission that a lack of competition in the market means that home credit customers are being overcharged by up to £100 million a year. We expect due consideration of the full range of possible remedies followed by rapid implementation of measures to increase competition and benefit consumers. (Paragraph 30)
4. We welcome the provisions of the Consumer Credit Act 2006 covering the unfair credit relationship test and the introduction of additional powers for the OFT. It is vital that the OFT exercises these additional powers in order to address persistent bad practice and excessive or unfair charges in the consumer credit market. We note the possible drawbacks of introducing an interest rate ceiling for credit, including the possibility that it could lead to increasing charges that would not be included in the APR and that a lack of sufficient alternatives could lead to people turning to unlicensed lenders. At this stage, we believe the Government should continue to encourage the development of measures to promote alternatives to high cost credit and assess the suitability of the new powers in the Consumer Credit Act 2006 before considering whether to impose an interest rate ceiling. (Paragraph 33)
5. Our current inquiry has demonstrated both the importance of effective data-sharing in enhancing access to affordable credit and the potential benefits of data-sharing beyond the traditional lending industries. We are disappointed that there is insufficient evidence as yet of concrete progress arising out of the proposals of our predecessors for increased data-sharing. We recommend that the DTI and the

Financial Inclusion Taskforce investigate as a matter of urgency the benefits of wider data-sharing in increasing access to affordable credit and the barriers to such data-sharing. We further recommend that the DTI actively promote measures involving lenders and non-financial services organisations such as housing associations and local authorities to ensure the development of more comprehensive data-sharing. (Paragraph 35)

Credit unions and CDFIs

6. Third sector lenders—credit unions and Community Development Finance Institutions—have a vital role to play in increasing access to affordable credit and promoting financial inclusion. They also help by providing opportunities to save and to access money and budgeting advice. We welcome continued efforts to increase the professionalism of third sector lenders to enhance their sustainability. However, the coverage of third sector lenders remains limited, and the Government and the organisations themselves need to take continued action to improve their ability to grow and attract additional capital. (Paragraph 44)
7. We welcome support from the Government for third sector lenders in the form of the £36 million Growth Fund. We note that such support at present is only short-term in nature, and will only scratch the surface in terms of the overall need for affordable credit. We recommend that the Government consider how best to provide longer term funding for third sector lenders, and in particular how to maximise the ability of Government funding to act a lever to bring in private capital. The Government must also ensure that, as well as supporting established third sector lenders, additional money is provided to build capacity in financially excluded areas that currently lack established third sector lenders. To ensure value for money from the Growth Fund, we recommend that the Government consider providing technical support through programmes that enable third sector lenders to improve their lending practices and upgrade their IT infrastructure. (Paragraph 48)
8. We note the consultation being undertaken by the Commission on Unclaimed Assets on the possible use of money from unclaimed assets in banks and building societies to establish a Social Investment Bank which in part could provide funding and technical support for CDFIs and credit unions. We expect to return to this issue as part of an inquiry into unclaimed financial assets early in 2007. (Paragraph 49)
9. Credit unions in Northern Ireland are well-developed and play an important role in promoting financial inclusion and access to affordable credit. The regulatory environment is currently preventing credit unions in Northern Ireland from expanding into areas such as insurance, mortgages and the provision of Child Trust Funds. We recommend that the Government take action to ensure that the regulatory regime supports the expansion of credit unions in Northern Ireland. We also note that credit unions in Northern Ireland have been unable to apply for Government support through the Growth Fund for third sector lenders. We recommend that the Government and the Northern Ireland Executive give consideration to the most appropriate ways to provide additional Government funding and support to credit unions in Northern Ireland. (Paragraph 54)

10. We welcome support from the banks for third sector lenders through the provision of capital and expertise. However, the level of support remains far lower than that provided in the United States. We recommend that the Treasury and the banks collectively give consideration to common ways of measuring and reporting on the extent of the provision of capital and support to third sector lenders by individual banks. (Paragraph 56)
11. We welcome the introduction of Community Investment Tax Relief, although we note that the additional investment secured is still a very long way from the original target for such a scheme set by the Social Investment Taskforce. To promote the availability of affordable credit, we support the extension of the tax relief to investments made in personal lending by CDFIs and to credit unions seeking subordinated capital. We recommend that the Government also consider the introduction of a matched funding scheme to provide incentives for housing associations and other charities to invest in CDFIs. More generally, there is a need for the Treasury to review the operation of the scheme to ensure that its potential for securing long-term investment is maximised. In particular, the Treasury should examine the treatment of commitments to lend and the overall cap on the size of loans. To promote long-term and sustainable investment, we further recommend that investors should be able to continue to receive the benefit of the tax relief if they retain their investment in the same CDFI for a second period of five years. (Paragraph 61)
12. Credit unions are playing a significant if limited role in combating the problems of high cost credit. Credit unions have the potential to play a far greater role in the future. Although the Government has made some welcome steps in recent years, we have received evidence that credit unions are being limited in their capacity to grow and develop by an outdated legal framework that has not changed in its essentials for 27 years. It is time for the Government to act in order to release the potential of credit unions. New legislation is needed to enable credit unions to accept organisational deposits, to support their ability to raise capital and to reduce their costs of operation. We recommend that the Treasury consult credit unions and other interested parties on a new Credit Unions Act to enshrine such measures as a matter of priority with a view to introducing such legislation in the course of the current Parliament. (Paragraph 64)
13. Evidence provided by credit unions and CDFIs indicates that the FSA has been successful in applying a risk-based and proportionate regulatory regime to third sector providers of affordable credit. FSA regulation of credit unions has delivered significant benefits in terms of increased professionalism and investor confidence. We welcome the approach of the FSA in this area and recommend that it continue to offer targeted support and guidance for credit unions and CDFIs to help them comply with regulatory requirements. (Paragraph 67)

Direct deduction of repayment from benefits

14. Cutting the cost and risk associated with lending to the financially excluded can reduce the interest rate paid by the borrower and improve the sustainability of third sector lenders. The evidence we have received indicates that direct deduction of

repayments from benefits could be attractive, but principally when it is an active choice by the borrower rather than a mechanism of enforcing debt collection. We believe that the Government should explore this issue further. Such exploration should accompany a review of the wider application of the third party deduction scheme. We are not convinced that the Government's current proposals represent value for money and include appropriate safeguards. We recommend that the Government, in its response to this Report, publish a full breakdown of the planned expenditure of £10 million on the scheme, alongside details of the safeguards that will be in place to protect borrowers and evidence that such investment will improve the availability of affordable credit and the sustainability of third sector lenders. (Paragraph 72)

The Social Fund

15. The Social Fund plays a vital role in helping those on low incomes to access affordable loans to meet one-off items of expenditure. However, we note the comments of the relevant Minister in evidence to us that the “Social Fund does not punch its weight in terms of the financial resources the Government puts behind it”. The funding for the Social Fund should more clearly match the needs of those on low incomes. We have received evidence to suggest that the Social Fund is failing in its mission to assist those most in need of credit. It is essential that the Social Fund becomes more fully integrated with other provision of affordable credit for people on low incomes. Given that many people rejected by the Social Fund turn to unlicensed lenders, we recommend that the Government instigate arrangements to refer unsuccessful applicants to local credit unions and CDFIs where appropriate or other providers of affordable credit. We note calls for eligibility for the Social Fund to be expanded and believe that the Government should keep the funding of Social Fund lending activities under review, in particular if the intention to transfer some recipients of income support and jobseeker's allowance to the tax credit system goes ahead. The DWP needs to instigate an open debate on reform of the Social Fund to ensure that the Social Fund can make a better contribution to improving access to affordable credit and become a more positive source of assistance for people on low incomes. We recommend that the DWP conduct a review to explore how the Social Fund's contact with the financially excluded could be made more productive in order to make a longer term difference to the capabilities and inclusion of users. (Paragraph 81)

Secured lending

16. Increasing levels of home ownership mean that improving access to secured lending needs to be addressed as part of the Government's financial inclusion strategy. There are cases where low-income homeowners face real financial difficulty. We note that progress has so far been slow in attracting lenders to provide home improvement loans to low-income owner-occupiers to help meet the Government's Decent Home standards. The provision of such lending could be an important role for CDFIs and other third sector lenders. We recommend accordingly that the Government consult on ways to expand the ability of such organisations to provide secured loans. (Paragraph 85)

Right to Buy lending

17. Citizens Advice has presented evidence of abuses in the Right to Buy market. We recommend that the FSA view this as a priority area for examination as part of its enforcement of mortgage regulation. We further recommend that the Government clarify, in its response to this Report, what additional consumer protection stems from the system of specifying Approved Lending Institutions for the purpose of the right to buy scheme and whether the Department for Communities and Local Government is undertaking any monitoring of the record of these lenders or the number of complaints made. Finally, we recommend that the Government explore the possibility of transferring responsibility for approving and monitoring Approved Lending Institutions from the Department for Communities and Local Government to the FSA. (Paragraph 87)

Saving for all

The basic advice regime

18. The restricted range of products available under the basic advice regime, combined with the perception that the scheme has not been as light touch as expected, has led to a low number of major providers introducing the basic advice regime. We recommend that the FSA conduct a full review of the basic advice regime to examine what factors have led to such a low take-up of the scheme by the financial services industry and how the regime can be reformed to increase take-up. In making this recommendation, we do not wish to imply that the problems lie solely with the design of the regime. Problems with basic advice are inseparable from issues relating to the structure of the industry itself. (Paragraph 96)

A market-led solution?

19. We are not concerned in the current Report with the general viability of the long-term savings industry, although this is a matter to which we may well return. We are concerned with the narrower question of whether it is fit for purpose in terms of providing appropriate savings opportunities for the less well-off. Our inescapable conclusion is that it is not fit for purpose. The market may change in the future, but until it does, it is likely that non-market-led solutions will also be necessary to solve the problems of savings incentives and opportunities for the less well-off. (Paragraph 102)

The Saving Gateway

20. There is evidence from abroad and from the emerging findings of the Saving Gateway pilots that matched savings accounts such as those piloted as part of the Saving Gateway provide a clear and understandable framework of support for savers. They also provide clear incentives for those on low incomes who often cannot benefit from tax relief. The first pilot phase of the Saving Gateway showed that matching can encourage genuinely new savers and increased savings. We are concerned that the valuable lessons from the first pilot phase of the Saving Gateway

must not be overlooked and that the Gateway must be promoted nationwide at an early stage as a framework for savings for all, although we recognise that in any national roll-out the Government will need to consider the overall match rate, which income levels the scheme should be focused on and the overall cost of the scheme. We recommend that the Government examine ways to encourage the development of matched savings accounts with contributions from the private and charitable sectors. (Paragraph 111)

Capital limits for benefits

21. We welcome the increase in the capital allowances for benefits. We recommend that the Government review the rules on tariff income to ensure that the withdrawal rates for additional saving above capital allowances continue to encourage households on benefits to accrue additional saving. (Paragraph 113)

Housing associations savings with rent accounts

22. We recommend that the Government consult on the case for an exemption for Registered Social Landlords from the FSMA requirements to register as a deposit-taker. The Government should consider whether the appropriate degree of regulation could be accomplished through other bodies such as the Housing Corporation. (Paragraph 114)

Conclusions

23. Saving is not accorded the same priority in the Government's strategy for promoting financial inclusion as credit, advice and banking. The evidence we have received suggests that savings, and the problems of making saving worthwhile and beneficial for those on lower incomes, are integral to any effective strategy on financial inclusion. In our subsequent Report on the roles of the Government and the Financial Inclusion Taskforce and the overall strategy, we will consider further whether the terms of reference of the Taskforce ought to be amended to include access to savings and the role of savings clubs. In the present Report, we have set out a series of recommendations designed to ensure that saving is accorded a higher priority in the context of financial inclusion and that the particular needs of savers and potential savers are at the heart of Government actions to combat poverty and financial exclusion. (Paragraph 118)

Access to financial advice

Debt advice

24. We commend the work of the Consumer Credit Counselling Service, Money Advice Trust, AdviceUK and Citizens Advice Bureaux in providing debt advice. We welcome the additional £45 million of funding up to 2007–08 for debt advice allocated as part of the Financial Inclusion Fund, which will allow the recruitment of over 450 debt advisers and provide help for over 100,000 people. However, the short-term nature of the funding offered so far places those debt advisers at risk of

redundancy almost as soon as they have developed their expertise. We understand the constraints placed upon long-term commitments by the nature of the spending cycle. However, the Government could go a considerable way to assuaging concerns about funding by demonstrating its belief in the fundamental importance of, and necessity for, debt advice and by committing to assuming a leadership role in securing funding from its own resources and from the financial services industry to ensure that the necessary increase in debt advice is sustained. (Paragraph 123)

Generic financial advice

25. A key facet of promoting financial inclusion lies in ensuring that consumers have access to appropriate financial advice. We note evidence suggesting that 8 million consumers who earn between £10,000 and £22,000 find it difficult to access generic financial advice, separate from the sales process. It is clear that improving access to financial advice would have benefits for individuals, the Government and the financial services industry. All too often in pronouncements from Government and regulators, consumers are told to seek advice, but with little consideration as to where they should turn. The implementation of a National Pension Savings Scheme and moves to make individuals more responsible for their retirement planning will increase the need for many consumers to access generic advice and support in order to plan for their retirement. (Paragraph 127)
26. Citizens Advice Bureaux and other advice centres will have a valuable role to play in any national network of financial advice centres. We welcome their willingness to expand their role into the provision of generic financial advice, but note that for them to take up additional roles in this area will require additional investment and funding. We recommend that the pilot project of Citizens Advice working with IFAs on a pro bono basis to deliver generic financial advice is expanded. In the short term, this could be accomplished by additional money from the industry, combined with any remaining resources from the Financial Inclusion Fund. (Paragraph 137)
27. We recommend that the Treasury assumes lead responsibility for taking forward discussions on the provision of generic financial advice and brokering an agreement between the FSA, the financial services industry and other interested parties on the way forward in terms of the most appropriate organisational framework to deliver and coordinate a national financial advice network and the issues of funding and charges that we consider next. We further recommend that this network target especially generic financial advice for people on lower incomes. (Paragraph 139)
28. The desirability of developing generic financial advice services is not in doubt. The major issue that needs to be resolved is how such services might be funded. Increased provision of generic advice will lead to benefits not only for the financial services industry, through a better informed and more engaged customer base, but also for the public sector, if consumers increase provision for retirement or reduce their reliance on the State benefit system. We therefore believe that increased provision could be funded through a partnership between the public and private sectors, although the proportion of funding provided would need to be discussed. As a first step, we would expect the Government to take forward discussions with the private sector on possible funding options and, as part of those discussions, to indicate the

extent to which Government funding might be available for such services. (Paragraph 142)

29. Charges for using any service for generic financial advice would increase the available funding, but would decrease consumer confidence in the network, could be complex to administer and could make consumers more reluctant to seek advice. There are strong arguments for any resources targeted at those groups that are currently excluded remaining free at the point of use. Those consumers who were willing to pay a fee for financial advice could continue to do so through Independent Financial Advisers. (Paragraph 143)
30. We expect the FSA to accord a high priority to its work on developing a clear definition of generic financial advice and how it differs from product-related advice. In particular, the point at which advice ceases to be generic and becomes part of regulated, sales advice needs further consideration. Particularly careful consideration needs to be given to the extent to which information gathered during the generic advice process can be relied upon by the regulated adviser. We would welcome accredited courses for generic financial advisers, combined with a set of quality assurance standards. These should be developed by the FSA, in partnership with the Financial Services Skills Council. (Paragraph 144)

Access to Insurance

31. Lowering the cost of insurance is substantially based on lowering risk. We recommend that the insurance industry and the Government examine the potential for pilot schemes focused on risk reduction. (Paragraph 148)
32. Insurance with rent schemes can reduce the cost of insurance and ensure easier access for low-income households. We recommend that the Government establish a stretching target to ensure that such schemes are available in more local authorities and housing associations. We further recommend that local authorities take action to promote the take-up of these schemes amongst uninsured households. (Paragraph 149)
33. The Government must ensure that transfers of local authority housing to Arms Length Management Organisations (ALMOs) or to a housing association do not disrupt the administration of successful insurance with rent schemes. (Paragraph 150)

Formal minutes

Tuesday 7 November 2006

Members present:

Mr John McFall, in the Chair

Jim Cousins

Mr Michael Fallon

Mr David Gauke

Sally Keeble

Mr Andrew Love

Kerry McCarthy

Mr George Mudie

Mr Brooks Newmark

John Thurso

Mr Mark Todd

Peter Viggers

Financial inclusion: credit, savings, advice and insurance

The Committee considered this matter.

Draft Report (Financial inclusion: credit, savings, advice and insurance), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 and 2 read and agreed to.

Paragraph 3 read, amended and agreed to.

Paragraphs 4 to 11 read and agreed to.

Paragraph 12 read, amended and agreed to.

Paragraphs 13 to 15 read and agreed to.

Paragraph 16 read, amended and agreed to.

Paragraphs 17 and 18 read and agreed to.

Paragraph 19 read, amended and agreed to.

Paragraphs 20 to 26 read and agreed to.

Paragraph 27 read, amended and agreed to.

Paragraphs 28 and 29 read and agreed to.

Paragraph 30 read, amended and agreed to.

Paragraphs 31 to 34 read and agreed to.

Paragraph 35 read, amended and agreed to.

Paragraphs 36 to 39 read and agreed to.

Paragraph 40 read, amended and agreed to.

Paragraphs 41 to 43 read and agreed to.

Paragraph 44 read, amended and agreed to.

Paragraphs 45 to 53 read and agreed to.

Paragraph 54 read, amended and agreed to.

Paragraph 55 read and agreed to.

Paragraph 56 read, amended and agreed to.

Paragraphs 57 to 71 read and agreed to.

Paragraph 72 read, amended and agreed to.

Paragraphs 73 to 80 read and agreed to.

Paragraph 81 read, amended and agreed to.

Paragraphs 82 to 86 read and agreed to.

Paragraph 87 read, amended and agreed to.

Paragraphs 88 to 101 read and agreed to.

Paragraph 102 read, amended and agreed to.

Paragraphs 103 to 110 read and agreed to.

Paragraph 111 read, amended and agreed to.

Paragraphs 112 to 117 read and agreed to.

Paragraph 118 read, amended and agreed to.

Paragraphs 119 to 137 read and agreed to.

Paragraphs 138 and 139 read, amended and agreed to.

Paragraphs 140 to 147 read and agreed to.

A paragraph—(*Mr Mark Todd*)—brought up, read the first and second time, and added (now paragraph 148).

Paragraphs 148 and 149 (now paragraphs 149 and 150) read and agreed to.

Summary read, amended and agreed to.

Resolved, That the Report, as amended, be the Twelfth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134 (Select committees (reports)).

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

Several papers were ordered to be reported to the House.

* * * * *

[Adjourned till Tuesday 21 November at 10.00 am.]

List of witnesses

Tuesday 24 January 2006

Mr Mike McAteer, Which?, **Ms Teresa Perchard**, Director of Policy, Citizens Advice, **Mr Mike Barry**, Debt Project Supervisor, Blackpool Citizens Advice, and **Ms Claire Whyley**, Director of Policy, National Consumer Council Ev 1

Tuesday 14 February 2006

Mr Mark Lovell, Group Chief Executive Officer, **Mr Jon Trigg**, Project Development Director, and **Mr Steve Hart**, Practitioner, Financial Inclusion Services, Action 4 Employment Ev 26

Tuesday 28 February 2006

Mr Mark Lyonette, Chief Executive, Association of British Credit Unions, **Ms Susan Davenport**, Chief Executive, Leeds City Credit Union, and **Mr Lakshman Chandrasekera**, Chief Executive, Southwark Credit Union Ev 45

Ms Bernie Morgan, Chief Executive, Community Development Finance Association, **Ms Sarah McGeehan**, Deputy Chief Executive, CDFFA, **Mr Andrew Baker**, Chief Executive, Derbyloans, and **Mr Simon Frost**, Director, South-coast Moneyline Ev 56

Tuesday 14 March 2006

Mr Gerard Lemos, Chairman, and **Mr Seymour Fortescue**, Chief Executive, the Banking Code Standards Board Ev 63

Mr Clive Cowdery, Chairman, and **Mr Patrick South**, Director of External Affairs, The Resolution Fund Ev 73

Tuesday 9 May 2006

Mr Brian Pomeroy, Chair, Financial Inclusion Taskforce Ev 84

Mr Alan Cook, Managing Director, and **Mr Graham Halliday**, Director of Banking and Financial Services, Post Office Limited Ev 96

Tuesday 16 May 2006

Mr John Tiner, Chief Executive, **Mr Clive Briault**, Managing Director, Retail Markets, and **Mr Vernon Everitt**, Director, Retail Themes Division, Financial Services Authority Ev 109

Tuesday 18 May 2006

Mr Dyfrig John, Chief Executive Office, HSBC, **Mr Gary Hoffman**, Chairman UK Banking and Barclaycard, Barclays Bank, **Mr James Crosby**, Chief Executive, HBOS, **Mr Mike Fairey**, Deputy Group Chief Executive, Lloyds TSB, and **Sir Fred Goodwin**, Chief Executive, Royal Bank of Scotland Ev 127

Monday 22 May 2006

Mr James Plaskitt MP, Parliamentary Under-Secretary, Department for Work and Pensions Ev 146

Ms Fiona Price, Director of Cross-Market Interventions, Department of Trade and Industry Ev 153

Ed Balls MP, Economic Secretary to the Treasury, **Mr Clive Maxwell**, Director, Financial Services, and **Ms Sue Catchpole**, Team Leader, Financial Services, HM Treasury Ev 156

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8 Association of British Insurers (ABI)	Ev 188
9 Association of Chartered Certified Accountants	Ev 195
10 Association of Investment Trust Companies	Ev 198
11 Banking Code Standards Board	Ev 201
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13 Barclays	Ev 205
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29 Contact a Family	Ev 266
30 Council of Mortgage Lenders	Ev 269
31 Debt Managers Standards Association (DEMOSA)	Ev 271
32 Department for Education and Skills	Ev 273
33 Department for Work and Pensions	Ev 275
34 Derbyloans	Ev 279
35 Anne Besley, District of Canterbury Credit Union (DCCU)	Ev 281
36 JW Cross, District of Canterbury Credit Union (DCCU)	Ev 283
37 East Lancashire Moneyline	Ev 287
38 energywatch	Ev 288
39 Engage Mutual Assurance	Ev 290
40 Fair Money Ltd	Ev 292
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55	Help the Aged	Ev 328
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97	Services Against Financial Exclusion (SAFE)	Ev 463
98	SAFE, supplementary memorandum	Ev 469
99	Tax Aid	Ev 470
100	UK Money Transmitters Association	Ev 480
101	Andrew Leyson, Paola Signoretta and Shaun French, School of Geography, University of Nottingham	Ev 487
102	WaterUK	Ev 497
103	Welsh Assembly Government	Ev 498
104	Which?	Ev 500
105	Which?, supplementary memorandum	Ev 513
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List of unprinted written evidence

Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1. (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Memoranda received from Citizens Advice, Northern Ireland, General Consumer Council for Northern Ireland, and the Irish League of Credit Unions.

Correspondence received from Councillor John Bevan, Church Action on Poverty, Enterprise Credit Union, Joseph Rowntree Foundation and Mrs C J Gaskin.

List of Reports from the Treasury Committee during the current Parliament

Session 2005–06		Report
First Report	The Monetary Policy Committee of the Bank of England: appointment hearings	HC 525
Second Report	The 2005 Pre-Budget Report	HC 739
Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
Fourth Report	The 2006 Budget	HC 994
Fifth Report	The design of a National Pension Savings Scheme and the role of financial services regulation	HC 1074
Sixth Report	The administration of tax credits	HC 811
Seventh Report	European financial services regulation	HC 778
Eighth Report	Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower	HC 1121
Ninth Report	Globalisation: the role of the IMF	HC 875
Tenth Report	Independence for statistics	HC 1111
Eleventh Report	The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	HC 1595