Financial Inclusion Commission

Fixing Financial Exclusion across the Four Nations

The case for prioritising a new National Financial Inclusion Strategy

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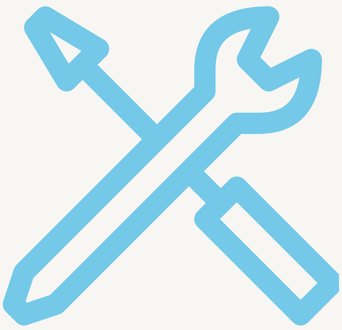
Contents



Introduction

Following new research conducted across the four nations of the UK, the Financial Inclusion Commission (FIC) is calling on all political parties to commit to a government-led **National Financial Inclusion Strategy**.

The research, commissioned by FIC and conducted by the University of Birmingham's Centre on Household Assets and Savings Management (CHASM), provides the most up-to-date snapshot on how millions of people are still under-served and denied access to the financial services they need to secure their wellbeing and to play a full part in the UK economy.

The research collated the most recent data on the nature and extent of financial exclusion in the UK. This was under-pinned by conversations with people with lived experience of the issues faced and those at the front-line services supporting them in England, Wales, Scotland and Northern Ireland. The result is a deep understanding of the size and nature of the problem, as well as workable solutions.

An opportunity for inclusive growth

All political parties are stressing the importance of economic growth as the only way in which improvements in living standards can be made without increasing taxes and borrowing or cutting spending. This report underlines that closing the financial inclusion gap provides an opportunity to unlock inclusive economic growth:

1.
Financial inclusion underpins household financial resilience.
Without access to appropriate products or support, and by paying a 'Poverty Premium' [1], millions of people already struggling with a cost of living crisis face barriers to balancing their budget and building savings. More money in families' pockets will mean less reliance on credit and more money spent or invested in the local economy.

2.
Financial inclusion can prevent people from falling into financial distress which can lead in some cases to related mental health issues. Scams, fraud and illegal money lending can all drag people down into a vicious whirlpool of problem debt, affecting not only themselves and their families but also costing the NHS and social care services billions of pounds. Prevention is better, and cheaper, than a cure.

3.
Investing in financial inclusion will lead to a more prosperous financial services ecosystem.
While a multi-disciplinary response is essential, as financial services alone cannot solve the problem, there is a huge opportunity to innovate. We can use technology, design and research to create products and services shaped to people's needs, ensuring that the UK maintains its international lead in this sector.

[1] Campaigners Fair by Design define the Poverty Premium as the extra costs people on low incomes and in poverty pay for essential products and services.

Introduction cont.

The need for a government-led intervention

In recent years we have seen progress towards a more inclusive financial services system.

The FIC recognises that the financial services industry has been actively working to combat exclusion through innovative products and services, community engagement, and collaborative efforts with non-profit organisations. However, industry efforts alone cannot solve these complex problems.

Initiatives such as the FCA's new Consumer Duty are an important step forward but, even so, the needs of consumers are not always being met. For example, the Consumer Duty does not cover how firms interact with people who are not current customers, nor does it address the lack of products that are not yet available in the market but would be suitable for lower income and vulnerable groups, thereby failing to fill significant gaps in access to products and services. A secondary duty for the FCA to 'have regard' for financial inclusion, as part of a wider financial inclusion strategy, is one solution proposed by the FIC.

The causes of financial exclusion are multifaceted, stemming not only from industry practices but also from policy gaps, regulatory shortcomings, and insufficient cross-sector coordination. Addressing these complexities requires a comprehensive approach that changes the behaviour of both the providers of financial products and consumers. While the development and regulation of inclusive financial products and services are crucial, it is equally important to focus on helping consumers to make better choices, for example by enhancing financial literacy and implementing good solutions which they can opt out of if they choose. This balanced strategy is essential to achieve true financial inclusion.

To achieve change we need a new National Financial Inclusion Strategy led by government, unlocking collaboration across nations and between industry, policy makers, charities, and the public sector.

Introduction cont.

From the Chair

“*Financial exclusion hits the UK twice over. First, because people who get unsuitable financial services – or no services at all – can’t play their full part in society. Secondly, because financial distress doesn’t just harm them and their families – it can cost our health and social services billions.*

That’s why we are calling for all political parties to commit to a government-led National Financial Inclusion Strategy. Financial inclusion could give a double boost to the UK by healing the scars which financial exclusion inflicts on people and on the economy.

Chris Pond, Chair of the FIC

About the Financial Inclusion Commission (FIC)

We are an independent body of experts from financial services, business and consumer representatives, the charity sector, policy experts and parliamentarians from the major parties.

The Commission’s vision is one where everyone has access to their own transaction account, affordable credit, appropriate insurance and necessary advice. Where they are encouraged and empowered to save both for precautionary reasons and for retirement, and receive financial education in school and throughout life.

The case for prioritising a new National Financial Inclusion Strategy

Improving access to affordable credit

22% of adults have started or increased their borrowing because of the cost of living (ONS)

Maintaining access to cash and face-to-face banking

14% of transactions are made with cash (UK Finance)

50% of those aged 75+ used a bank branch in the last year (FCA)

Offering fairer products and services

5% of households have no current account (DWP)

"There needs to be policy to protect people in debt, because debt kills.

Helping people out of debt

15% of UK adults (8.1 million people) need debt advice (MaPS)

Enabling digital inclusion

73% **were aged 65 or over**

of the 7% of UK adults who were digitally excluded in 2022, 73% of those were aged 65 or over (FCA)

Promoting ways to save

18% of families in the UK had no savings in 2021-2022 (DWP)

Regional stats

Scotland

More than

3 in 10

of those in the most deprived areas of Scotland are experiencing serious financial difficulties (Evans et al., 2024)

Northern Ireland

8%

of households in Northern Ireland have no current account (vs. 5% average in UK) (DWP)

Wales

Wales has the highest percentage experiencing financial difficulties, at

21%

(Evans et al., 2024)

England

28%

of households in the North East of England experience the Poverty Premium (vs 24% average) (Fair By Design)

Profiles of those experiencing financial exclusion

The FIC and CHASM spoke to around 60 people with lived experience of financial exclusion in Birmingham, Cardiff, Glasgow and Belfast. We asked people to share their stories anonymously, and so we do not refer to any identifiable information here.

To illustrate the intersectional nature of financial exclusion, here are four fictitious profiles, drawn from the experiences of the people we spoke to.

Maya, a single mother on a variable income

Age: 34 | **Occupation:** Part-time retail worker | **Location:** Urban area, Birmingham

Maya often finds it difficult to make ends meet. She relies on Buy Now Pay Later to cover unexpected expenses. Despite working part-time, her income barely covers essentials, leaving no room for savings. Her lack of financial literacy and limited knowledge of where to turn for help exacerbates her financial insecurity.

Financial challenges:

- **Limited savings:** Struggles to save due to low income and high living expenses.
- **Debt:** Still paying off debt from her relationship breakdown.
- **Credit access:** Denied affordable credit options due to a poor credit score.

Excluded because of:

- **Single parenthood:** Additional financial strain from raising children alone.
- **Employment status:** Part-time work limits income and access to benefits.
- **Education:** Limited financial literacy prevents effective management of finances.

Kenneth, a pensioner living in a rural area

Age: 70 | **Occupation:** Retired | **Location:** Rural area, Northern Ireland

Kenneth has always managed his finances in-person at his local bank. With recent branch closures, he now travels long distances for basic banking needs. His lack of digital skills prevents him from transitioning to online banking, and he is also unable to use comparison sites to access the best deals for insurance. This financial exclusion makes it challenging to manage his limited pension income effectively.

Financial challenges:

- **Banking access:** Struggles with bank branch closures, relying on limited local services.
- **Digital exclusion:** Lacks the skills and infrastructure to use online banking and comparison sites.
- **Insurance costs:** Pays more for insurance because he cannot shop around.

Excluded because of:

- **Age:** Older people are often digitally excluded and face mobility issues.
- **Rural location:** Limited access to financial services and infrastructure.
- **Income:** Fixed pension income limits financial flexibility and resilience.

Profiles of those experiencing financial exclusion cont.

Priya, a young professional with ME

Age: 28 | **Occupation:** Freelance graphic designer | **Location:** Cardiff

Priya lives with ME and her energy fluctuates. This means she needs the flexibility of freelance work but struggles with income volatility. This inconsistency affects her ability to secure affordable housing and makes it challenging to build a stable credit history. She often resorts to high-cost credit options, further compounding her financial difficulties. Despite being educated and skilled, Priya finds herself excluded from mainstream financial services due to her employment status.

Financial challenges:

- **Income volatility:** Inconsistent freelance income affects financial stability.
- **Housing:** Difficulty securing affordable housing due to irregular income and poor credit history.
- **Credit access:** Limited access to affordable credit and high costs of borrowing.

Excluded because of:

- **Disability:** Disabled people need more accessible options and support.
- **Employment status:** Freelancers and self-employed individuals face unique financial challenges.
- **Age:** Young adults often lack credit history, affecting access to financial products.

Ali, a recent immigrant

Age: 45 | **Occupation:** Delivery driver | **Location:** Glasgow

Ali moved to Glasgow from Pakistan five years ago in search of better opportunities. Despite finding work as a delivery driver, he faces numerous financial challenges. Language barriers make it difficult for him to understand financial products and access support services. Ali has also struggled to access services as he lacks the required documentation and local credit history. He sends a significant portion of his income back to his family in Pakistan, incurring high remittance fees. This leaves him with little to save or invest in his own future.

Financial challenges:

- **Language barriers:** Struggles with understanding financial terms and accessing information in his native language.
- **Banking access:** Difficulty opening a bank account due to lack of local credit history and documentation.
- **Remittances:** High costs associated with sending money back home to support family.

Excluded because of:

- **Immigration status:** Challenges related to being a recent immigrant, including lack of local credit history and documentation.
- **Language:** Difficulty accessing financial services and information due to language barriers.
- **Income:** Low and unstable income as a delivery driver limits financial stability and growth.

Priorities across the Four Nations

By reviewing the latest research from CHASM, talking to local experts and advocates, and by co-hosting feedback sessions with people with lived experience of financial exclusion, FIC has agreed on these key themes that a new National Financial Inclusion Strategy would address to help build financial resilience across the UK:

Improving access to affordable credit

In early 2023, 22% of adults in Great Britain had started borrowing or increased their borrowing because of the cost of living (ONS)

Credit can provide people with a valuable tool to smooth income and expenditure but borrowing also comes with risks. Often those people who could most benefit from the opportunity to use credit to help them to manage on a low and variable income are excluded from affordable options for borrowing.

Concerns about the harm caused by a poor credit score are also discouraging people from seeking credit. Many of those with lived experience were extremely aware of the dangers of damaging their credit score, and some experts told researchers that some people are 'neither eating nor heating to protect their credit score'.

Commissioners were also told that credit histories, or the lack thereof, are affecting many people's ability to borrow money from more affordable lenders.

> *“ I applied for a loan and was denied due to zero credit history.*

When people turn to higher cost lenders, they are then less likely to access mainstream forms of credit later, even if their credit score is unaffected [2].

Where access to even high-cost lenders is limited, people are turning to illegal lending. Commissioners heard from front line support workers who explained that victims might be borrowing for anything from food to funeral costs, and that loan sharks are targeting more and more people in employment, particularly those on zero-hours contracts or flexible work.

Buy Now Pay Later (BNPL) options were mentioned by those with lived experience of financial exclusion as one way to help spread the cost of larger purchases, replacing catalogues and payday loans. But experts reported that BNPL users can find themselves incurring charges for late and missed payments, becoming over-indebted.

[2] Liberman et al., 2021.

Priorities across the Four Nations cont.

Maintaining access to cash and face-to-face banking

Over 5 million adults rely on cash in their day-to-day lives (Bank of England)

Millions of people in the UK still rely on cash for everyday payments. In fact, according to UK Finance, the number of transactions made in cash rose between 2021 to 2022, accounting for around 14% of all payments in the UK.

Commissioners heard that people experiencing financial exclusion saw using cash as the safest way to manage a tight budget on a low income.

> “ *Cash makes you aware of what you have. You lose control with constant card tapping.*

The Financial Conduct Authority (FCA) has plans to protect access to cash. But as some retailers and providers prefer digital payments, people who operate in cash still face less choice and potentially the higher cost of withdrawing cash from a fee-paying cashpoint, if they can find a cashpoint at all in their local area. To address these issues, the FCA’s new rules must protect access to cash, and a long-term solution to promote digital inclusion for those who still rely on cash must be found.

50% of adults aged 75+ with a day-to-day account carried out banking activities face-to-face in a branch in the 12 months to May 2022 (FCA)

Alongside access to cash, widespread closures of bank branches were frequently identified as a problem.

According to Which?, over 6,000 bank branches have closed in the past nine years, leaving only 5,745 open in 2023 (ONS). This situation leaves many consumers without access to face-to-face support from their bank, particularly impacting those with complex issues that they want to discuss in person. One story heard by FIC was from a man who wanted to talk to a bank manager in person about his debt issues. When he went into his local branch he was told he could only access support online, leaving him feeling dejected.

> “ *I wanted to speak to someone.*

Many vulnerable groups rely on face-to-face banking services such as basic current account transactions and services such as probate. This group includes older people, people living with disabilities and mental health problems and those living in rural areas who cannot access the internet reliably.

Priorities across the Four Nations cont.

Commissioners have seen that access to in-person support can be maintained when the last bank branch in town shuts down, either through mobile branches or through community banking hubs. Such solutions can protect vital services for vulnerable groups as well as provide regeneration support to the high streets in which they are located. However, plans to roll out banking hubs have been delayed.

A National Financial Inclusion Strategy must ensure a long-term solution to these problems, protecting access to cash, promoting digital inclusion and developing clear plans for face-to-face support, for example through a new national network of shared services such as banking hubs.

Offering fairer products and services

5% of UK households have no current account (DWP)

Financial products and services are not always designed with customer needs front-and-centre. In some cases, these issues might be addressed through the new FCA Consumer Duty, but in others, a more direct intervention is needed.

For example, commissioners heard that basic bank accounts were seen as inadequate both by those with experience of using them and by experts, not only because they were rarely offered, but also because they were seen as little more than a 'kiddy account', limiting how they could be used. Consumers for whom a traditional current account may not be appropriate or accessible need more choice. Efforts should also focus on helping people build financial resilience and credit scores so they can transition from basic bank accounts to more comprehensive ones. While fintechs are innovating in this space, a supportive policy and regulatory environment is needed to provide broader benefits to consumers.

The FIC and CHASM also uncovered stories of people paying the Poverty Premium because they needed to pay their car insurance monthly instead of in one annual lump sum. One single mother said she was paying 50% more because she could not afford to pay the whole amount upfront.

Insurance is not a market that's working for everyone. Moreover, policies that could protect people from financial shocks are not always appropriate, accessible or affordable. According to the FCA, by January 2023, 13% of people who had held insurance in May 2022 had cancelled or reduced cover specifically to save money due to the rising cost of living. In addition, consumers are frustrated by the lack of transparency in insurance quotes. Unclear premiums and hidden additional charges disproportionately impact those with lower incomes, who are most in need of coverage.

This is an area where changes to regulation could increase inclusion as well as offer opportunities for insurers to expand their offerings. One example

Priorities across the Four Nations cont.

is provision of contents insurance for social housing tenants with more affordable premiums collected with rent, a product that would require a change to regulation on 'bundling' but could potentially bolster financial resilience for those not currently covered by insurance.

Helping people out of debt

In 2023, 15% of UK adults (8.1 million people) needed debt advice (MaPS)

With the cost of living crisis still affecting millions, many UK households are now relying on credit to pay for unexpected costs, or even to keep on top of everyday bills. As debt racks up and circumstances change, repayments become harder to make, leading to a vicious cycle. This challenge is compounded by the fact that many consumers are managing multiple sources of debt, including products like Buy Now Pay Later.

For some of those talking to our commissioners, getting out of debt seemed to be a distant dream.

> *“There needs to be policy to protect people in debt, because debt kills.*

Debt advice is available, but demand often outweighs supply, and support is not always available at the time or place when someone needs it. The FIC and CHASM spoke to experts who highlighted successful programmes providing debt advice within GP surgeries, but which need more support to expand their reach.

Support is also needed by debt advice charities, which at the moment compete with private companies with large advertising budgets, targeting people online and elsewhere with commercial 'solutions' that may not be in their best interests. According to The Insolvency Service, debt charity StepChange registered just 1.1% of all Individual Voluntary Arrangements (IVAs) in 2023, while five private companies account for half of all registrations. StepChange estimates that using a debt management plan from a private company could cost an individual an additional £4,000.

Enabling digital inclusion

Of the 7% of UK adults who were digitally excluded in 2022, 73% of those were aged 65 or over (FCA)

When a bank branch shuts, it's possible to help people access their products and services online. But poor access to digital infrastructure, both broadband and affordable devices, can be a barrier to using digital in lieu of bank branch support. Other barriers to digital use include low levels of motivation, the cost of getting online, reluctance to share personal data and a fear of falling victim to scams and frauds.

86% of UK adults are using digital banking of some sort, 53% use mobile banking and 36% have at least one account with a 'challenger' online-only bank (Boyle & Pennarts, 2024)

Priorities across the Four Nations cont.

Digital services can offer huge opportunities to increase access and lower costs. Commissioners heard from people with lived experience of exclusion who appreciated the anonymity of apps, and who used challenger bank features like 'pots' or 'jars' to manage their money better.

There are new opportunities to reduce transaction costs and reach customers through digital technology or fintech. Better data and lower operating costs should produce compelling offers for consumers outside the mainstream.

At the same time, support is also needed to help the millions of people vulnerable to scams. In the feedback sessions, participants felt that telephone scams were more dangerous than online scams, and many were being targeted multiple times a day. Even so, fear of falling victim to scams and frauds can also make some people reluctant to access financial services through digital channels [3].

Gaining skills through financial education and support

While there is increasing reliance on digital tools to manage money, many experts and people with lived experience of financial exclusion wanted to see continued access to face-to-face support and education.

Financial education was also a common theme in feedback offered by experts and by those with lived experience of exclusion. Although, as one expert

reported, "*You cannot financially educate yourself out of debt*", there was a real hunger from those with lived experience to learn more about the types of products available, and limited knowledge of where to go to find information or guidance.

Where financial education and support is available, more awareness is needed. Examples reported by commissioners are the poor take-up of free pension guidance through the government service 'Pension Wise', despite it being free for consumers to access, as well as the relatively new 'Midlife MOT'.

FIC also heard many calls for improved financial education in schools to help children navigate financial services.

Promoting ways to save, both short- and long-term

18% of families in the UK had no savings in 2021-2022 (DWP)

Building financial resilience should mean that families can put money aside regularly, both for emergencies and for the future. A financial safety net can stop people from needing to rely on credit, yet with the current cost of living pressures many of the people the FIC and CHASM spoke to felt they were unable to prioritise savings.

[3] Devine & Milner, 2021.

Priorities across the Four Nations cont.

Some people felt they were completely unable to save, or disincentivised to save, because of their situation. People with debt problems were not able to save while their available income was going to repay debts, which means that when they came out of a debt management plan, they had no reserves to provide essential resilience. The need to claim Universal Credit also put people off saving. While the cap on savings is set at £16,000, all savings over £250 are counted as notional 'income', and these caps have not been increased for over ten years.

Pensions and long-term savings were not seen as priorities by those with lived experience of financial exclusion, mainly because they felt they did not have the income to save. While initial results from initiatives such as NEST's 'sidecar savings' trials may show that many employees are able to save more than they think, commissioners heard time and time again that people felt savings are not a priority.

> *"You may not make pension age so why pay into it, especially where we live. A lot of people live for the day!*

Short-term financial pressures were making auto-enrolment feel obtrusive for some groups of people with lived experience of exclusion, as they were unclear how they could opt-out even though they felt they needed the extra income today.

For others, auto-enrolment also falls short. Self-employed people are not included in the scheme, and those working multiple low paid jobs see a lower percentage of their income paid into pensions as the threshold applies to each employer.

The need for a cross-cutting national strategy

Black and South Asian people paid at least £280 more for car insurance than those living in areas where the population is largely White (Citizens Advice)

Genuine financial inclusion requires addressing many complex and overlapping needs of various groups. The research found that factors such as ethnicity, disability, gender, age, housing tenure, variable or low income, health and geography all played roles in exclusion.

Priorities across the Four Nations cont.

The complex causes of financial exclusion, along with the many routes to financial inclusion, necessitate a cross-cutting national approach, led by government.

To tackle these issues with the urgency they require, FIC is asking all political parties to commit to creating a National Financial Inclusion Strategy, prioritising:

1.
Better access to essential financial services, including bank accounts, digital inclusion, physical cash and face-to-face services for those who need them.

2.
Building people's financial resilience, with households saving for a rainy day and having essential insurance to help them through life's ups and downs.

3.
Affordable and well-regulated credit, reducing the number of people in unaffordable debt or turning to illegal lenders.

4.
Better support for those at risk of financial problems, including people at risk of scams or unaffordable debt.

5.
Promotion of saving for retirement and social care as the age profile and needs of our population change over the coming years.

CHASM's research, commissioned by FIC, will be released in full in Autumn 2024.

Acknowledgements

The Financial Inclusion Commission (FIC) would like to thank everyone who gave up their time to offer insights across Birmingham, Glasgow, Belfast and Cardiff. The commissioners were thrilled by the diverse range of individuals and organisations that participated, offering both insightful and compelling evidence.

Our gratitude also goes to the University of Birmingham's Centre on Household Assets and Savings Management (CHASM) team for leading the research on which this paper is based. CHASM is an interdisciplinary research centre which investigates the causes and consequences of financial risk and insecurity, and promotes policies to foster financial wellbeing.

They have a diverse and inclusive research agenda, covering topics such as precarity, savings, debt, inequality, assets, and financial inclusion. More information about CHASM can be found at **birmingham.ac.uk/research/chasm**

CHASM's research reports detailing this FIC project will be released in full in Autumn 2024.

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This paper was written by commissioner Bailey Kursar with input from other commissioners and from CHASM.

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Financial Inclusion Commission

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