

Providing financial services and preventing financial exclusion in the UK

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What is financial exclusion? Does it matter?

- Needs of poor not met commercially
- Problem more serious as numbers reduce
- Operate in an unregulated financial services world
- Prevention better than cure

Financial inclusion in the UK: Policy development

- Late 1990s: Emerged as policy issue
- 1999: Policy Action Team report *Access to financial services*
- 2004: *Promoting financial inclusion*
- 2005 Financial Inclusion Taskforce established
- 2007: *Financial inclusion: the way forward*
- Preventing financial **ex**clusion to promoting financial **in**clusion

Financial Inclusion Taskforce

- Set up in 2005, will run to 2011
- Initial priorities: banking, credit, money advice
 - Recent extension to cover savings and insurance
- Advises and reports to HM Treasury Ministers
- Promotes dialogue and development
- Commissions research and consultancy
- Monitors spending of Financial Inclusion Fund
 - \$240 million 2005-7; \$260 million 2008-11
- Ministerial Group established 2007

Access to banking

- Need for simple, low cost account
- Remittances
- Barriers
 - Identity requirements
 - Charging structures
 - Mistrust

Access to banking

Basic bank accounts

- Universal banking
- Banking Code commitment
- ‘Shared goal’ between government and banks to promote banking inclusion
- Attention now moving to *use* of accounts

Need for credit

- Small sums for short periods
- Fixed term loans
- Risk of default

- Market responses
 - High cost sub-prime
 - Illegal lenders

Affordable credit

- The Social Fund
- Not-for-profit lenders
 - Credit Unions
 - Community Development Finance Institutions
- Growth Fund for third sector lenders
- Working group on affordable credit
- Tackling illegal lenders

Savings

- Poor often save, but informally
- Barriers to using banks
 - Identity requirements
 - Mistrust
 - Incentives inappropriate
- Cash savings at risk

Savings

- Saving Gateway
 - Matched funding, targeted at people on low income
- Child Trust Fund
 - Government payments at birth and age 7
 - Higher payments for low-income families
 - Access at 18
- Christmas savings clubs

Insurance

- Products inappropriate
 - High minimum amounts
 - Annual premiums
- High risk of claims so cost high

Insurance

- Focus on home contents insurance
- Insurance-with-rent schemes
 - Pooled risk scheme, lower levels of minimum cover, lower premiums
- Guidance issued but developments have stalled

Stimulating demand

- Take-up of services requires consumer demand
- *Now let's talk money* campaign

Conclusion

- Well-established policy framework
- Broad-based approach
- Significant funding commitment
- Led and co-ordinated by government
- Partnership approach
- Increasing focus on demand-side as well as supply-side barriers to inclusion

Challenges ahead

- Banking inclusion is about **use** as well as **access**
- How can we best meet needs of high-risk, low-income borrowers?
- Longer-term sustainability
- Mainstreaming
- New forms of exclusion and marginalisation

Lessons we have learnt

- Poor have needs commercial providers can't meet
- Can meet these if:
 - Have the political will
 - All key players work in partnership

Prevention is better than cure