Providing financial services and preventing financial exclusion: Experience from the United Kingdom

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Financial exclusion has been part of the Labour government's policy agenda since its election in 1997, and public debate has largely been shaped by the government's priorities in this area.

Developments have involved a broad range of organisations. New partnerships have emerged and organisations have taken on new roles and responsibilities

The policy framework

The first review of the problems of financial exclusion in 1999 stimulated both debate and development. The government set out its strategy, *Promoting financial inclusion*, in 2004, identifying three priority areas – access to banking, access to affordable credit, and access to free face-to-face money advice for people who are financially excluded.

In 2005, the government set up an independent Financial Inclusion Taskforce to monitor progress and to make recommendations on what more needed to be done. Their remit has recently been expanded to include savings and insurance.

To implement its strategy, the government also established a Financial Inclusion Fund of $240 million (Rs9.6billion) for the 2005-08 period. In March 2007, the government published *Financial Inclusion: The Way Forward*, which re-stated the government's commitment to promoting financial inclusion and set out its plans for the period from 2008 to 2011. A further $260 million has been allocated to the Fund

The focus of the policy debate in the UK has shifted from preventing financial **ex**clusion to promoting financial **in**clusion. Also, to ensure that policy is translated into practice, the UK government has acted as both facilitator and direct service provider, often in partnership with other organisations, including the private sector. It has not, on the whole, intervened with legislation.

Banking

The government has worked with the banking industry to promote access to banking through **basic bank accounts**. To stimulate wider availability of these accounts, the Chancellor issued an ultimatum that all the major banks should have a basic bank account by October 2002. All met the ultimatum. At the same time, **Universal Banking** was established by the joint action of three partners: the Treasury, the Post Office and the banks. This opened up access to bank accounts from local post offices.

In 2005, the Government agreed a shared goal of halving the number of people living in a household without a bank account. The Taskforce is monitoring this and the latest figures show that there has been a substantial fall in the numbers of unbanked and the people most likely to have benefited are those who are most financially excluded

Affordable credit

People on low incomes need access to affordable credit. The government's **Social Fund** offers interest-free loans to people claiming social assistance.

There are also currently around 560 registered **credit unions** in Britain, with half a million members and a small number of community development finance institutions. Not all members, however, are on low incomes. The government, through the Financial Inclusion Fund, has allocated $72 million (Rs2.9 billion) to a Growth Fund to enhance the coverage, capacity and sustainability of not-for-profit lenders including credit unions and community development finance institutions.

In 2007, the government set up a working group on affordable credit, with membership from the Financial Inclusion Taskforce and banks to identify ways that banks can support the development of a national network of no-for-profit lenders offering affordable credit.

A national programme to tackle illegal lending was also announced in 2007, following successful pilots in two parts of Britain.

Savings

There are two government initiatives to tackle financial exclusion by stimulating saving among low-income people. The **Saving Gateway** is a matched savings scheme targeted at people with low incomes – with the government matching the savings made by participants.

The second saving initiative, the **Child Trust Fund**, aims to tackle wealth inequality and encourage saving by parents and children. From April 2005, every child born in the UK receives vouchers for $500 (Rs20,000) which can only be paid into a special Child Trust Fund. A further $500 will be paid when the child is aged seven.

Insurance

For some years, UK insurance companies have had arrangements with local social housing providers to provide low-cost home contents insurance to tenants. These are run as a partnership, with the housing provider effectively acting as a broker selling policies to their tenants and collecting repayments.

Money advice

The provision of good, face-to-face advice on money and debt was one of the three key priority areas that the government identified in 2004. Through the Financial Inclusion Fund the government is supporting two initiatives: one to develop face-to-face debt advice($90 million); the other to develop outreach services ($12 million).

Stimulating demand

The Financial Inclusion Taskforce asked for part of the Financial Inclusion Fund to be allocated to addressing the problem of lack of demand for financial services among people on low-incomes. The result was the *Now let's talk* *money* campaign, which is designed to promote the use of financial services by people who are excluded altogether or make little use of financial services.

Conclusion

A great deal has happened in the last ten years to overcome financial exclusion. A framework of policy has emerged from an inclusive process of discussion and debate. Initiatives and experimental services have been launched to put the policies into effect. These have been monitored and evaluated and the results have been used to establish continuing provision and to ensure that previously-excluded people are making beneficial use of financial services.

But there is still a lot more to do: stimulating use of financial services as well as access; ensuring long-term sustainability of current initiatives and tackling new forms of exclusion and marginalisation as they arise.