Community Investment Coalition

Call to evidence by the Financial Inclusion Commission 12th December 2014

About the Community Investment Coalition

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The Community Investment Coalition is a partnership of national organisations including financial providers, charities, trade associations and academic bodies. Our mission is to promote access to affordable finance for families, businesses and communities.

CIC campaigns for:

- Increased transparency and public accountability of financial service providers to support consumer choice and allow effective intervention in under-served markets.
- Increasing diversity of providers and choice for consumers in the financial services sector, with more providers offering a wider range of fair and affordable products to households, individuals, communities and businesses.
- More innovation in the financial services sector so that affordable financial products are delivered accessibly to all communities.
- Sustainable local economic growth with a greater share of locally generated income remaining within communities.
- Improvements in financial literacy for all sections of the community.

CfRC centre for responsible credit · Local Trust creating lasting change · CCLA · cdfa · community development foundation

General

1. **What policy change would most support increased financial inclusion for the client group you represent?**

   Financial exclusion exists for a range of complicated reasons. Combinations of falling real incomes and increases in basic living costs, banks withdrawal from some communities, most clearly evidenced through bank branch closure, the rise of easy access to high cost credit and poor financial literacy and capability skills are just some of the reasons why people become and remain financially excluded. There is no silver bullet to solve this. Tackling financial inclusion will require a range of policy, regulatory and political responses. CIC launched a Community Banking Charter in June this year. This sets out just some of the steps required to tackle financial inclusion. More detail about the Charter is set out below.

2. **What do you see as the role of the regulator, government, and financial services in promoting inclusion?**

   When introducing any new legislation or regulation, the Government should have an obligation to set out how any changes will impact on financial inclusion. Equally any competition-related regulation must ensure that the benefits of competition and diversity reach all markets and not those already financially included.

   CIC suggests that fines levied against banks are ring-fenced and used for investment in a range of financial inclusion activity, including the scaling up the community finance sector and financial capability provision for adults.

   The Government should also consider ways to incentivise the main large retail banks to work with alternative financial service providers to innovate and develop appropriate financial services (with a particular emphasis on digital innovations) that better suit the need of underserved communities. There is also a need for better partnership work between the mainstream banks and alternative financial service providers, such as Community Development Finance Institutions (CDFIs), credit unions and peer-to-peer lenders. CIC welcomes the Small Business, Enterprise and Employment Bill[1] that is currently being debated in the Parliament. If passed, the Bill would require banks (which meet a certain market share threshold) to share information on small and medium sized businesses that they reject for finance (where businesses their consent) with online platforms could provide finance.

There are also many ways that the mainstream financial service providers can assist in promoting financial inclusion. By far the most significant way they can do this is improving lending transparency. As a recent report has shown, the existing framework for voluntary disclosure of lending data is not sufficient to support effective intervention in under-served markets.

The Financial Conduct Authority (FCA) and Competition and Markets Authority (CMA) need to continue to investigate and take action in markets that are clearly not working in the interests of all consumers, for example regulating high cost lenders, investigating competition within the business bank account sector. It would be helpful if regulators could increase engagement with civil society groups to identify and understand the nature of emerging problems so that early action can be taken.

3. Do you have any practical examples of financial inclusion initiatives that have been successful?

The Community Development Foundation (CDF) is one of the Community Investment Coalition's partners. It runs the Community First (CF) programme[2]: a four year £80million government-funded initiative that helps communities come together to identify their strengths and local priorities in order to plan for their future and become more resilient.

In 2012, the Foxhill and Parson Cross Advice Service in the Sheffield district of Southey, used their £2,500 CF grant to deal with problems of financial exclusion and debt in North Sheffield, where many people struggle with debt and are vulnerable to predatory doorstep lenders. The project aimed to address the causes of financial exclusion as well as reactively through crisis management. In doing this, it addressed the wider social impacts of debt, which include depression and anxiety and barriers to employment. The project successfully increased the take up of tax credit and benefits, particularly among hard to reach groups in the Southey Green ward and provided the community with access to savings accounts and affordable credit.

Similarly, bMoney Wize, a community group In Barking and Dagenham, are using their £2,500 grant to increase the knowledge, confidence and skills of young people in money management. Money Wize Teens Club is a programme where teens will be learning key money savings tips that will improve their ability to make educated and informed financial decisions and plan for the future.

CIC can provide many more case studies of where communities are directly taking on and tackling the challenge of financial inclusion, if that is helpful.

Digitisation, squeezed budgets and welfare reform

4. What impact, positive or negative, does the increasingly digital delivery of financial services (e.g. prepaid cards, online banking) have on financial inclusion?

Ofcom data[3] suggests that more people have access to mobile and internet services than ever before. In 2014, 93 per cent of adults personally own and/or use a mobile phone in the UK. Furthermore, 61 per cent of UK adults have a smart phone – up from a half last year. With 57 per cent of British people who own a mobile phone using it to access the internet (up from 49 per cent the previous year) and 77 per cent with access to broadband in the UK, the provision of online banking has undoubtedly made it easier than it otherwise would to access financial services.

Most of the innovation in mobile and alternative payment systems are aimed at existing banks users. There is little innovation taking place in using new approaches and technology to improve access to financial services for low income communities and the under banked (if you exclude innovation in the high cost credit market). Some thought should be given to what incentives can be offered to encourage players to innovate to serve lower income communities.

The use of prepaid cards have also been shown to have positive impacts on financial inclusion. For example, the London Borough of Merton[4] supported 30% of its clients to receive a personal budget. Merton found that prepaid cards can help to manage client's care budgets as they keep individual budgets and transactions separate, meaning there is no need to reconcile large accounts to make sense of a mass of transactions. The separate accounts allow such easy monitoring of client care budgets that the council can flag up those clients who do not seem to be receiving the services they require. Indeed, prepaid cards can be a useful tool to help individuals with low levels of financial literacy manage their money more effectively so that they do not fall into debt, and are at risk of having to turn to high cost credit lenders.

5. What opportunities are there to use technology to facilitate financial inclusion?

The UK is now the fastest-growing region for financial technology (Fintech) investment.[5] Deal volumes here have been growing at 74 per cent a year since 2008, compared with 27 per cent globally and 13 per cent in Silicon Valley. There is clearly a lot of scope for financial institutions to use technology to provide access to financial products to underserved communities.

There are many examples of how this could be done from abroad. **M-Pesa**[6] is a mobile-phone based money transfer and microfinancing service, launched in 2007 by Vodafone for Safaricom and Vodacom, the largest mobile network operators in Kenya and Tanzania. It has since expanded to Afghanistan, South Africa, and India, as well as in 2014 to Eastern Europe. M-Pesa allows users with a national ID card or passport to deposit, withdraw, and transfer money easily with a mobile device.

Zain Group[7], a pioneer of mobile telecommunications in eight markets across the Middle East and Africa, announced that its mobile operation in Sudan has launched the country's first ever mobile financial service called 'Hassa', in partnership with the Bank of Khartoum. The easy, instant and secure service allows all Zain customers in Sudan to complete a wide range of financial transactions and operations, including money transfers and various other transactions, including paying bills and withdrawal of cash from Automated Teller Machines (ATM) without the requirement of opening a bank account.

6. How has the financial downturn changed the nature of financial exclusion?

The financial crash of 2007/2008 resulted in a number of negative effects, which, in turn, have exacerbated the magnitude of financial exclusion in the UK. While overall poverty rates are falling - the 21 per cent rate this year is the lowest since 2004/05 - the nature of poverty is changing dramatically. For the first time, there are now more people in working poverty than out-of-work poverty. 6.7 million of the 13 million people in poverty in the UK are in a family where someone works. .[8]

The UK household debt has quadrupled since 1990.[9] Britons owed £1.459 trillion at the end of September 2014. This is up from £1.430 trillion at the end of September 2013 – an extra £572 per UK adult. The average total debt per household – including mortgages – was £55,223 in September. Per adult in the UK that's an average debt of £28,884 in September – around 116% of average earnings.

This is up from a revised £28,810 in August.[10] This combined with the fact that levels of disposable income are at a record lows[11] - one in 11 people (4.5 million British adults) having less than £10 a month disposable income, and one in four having less than £50 per month[12] - has meant that financially excluded households and communities have been left with little to no protection or support to help in addressing theses chronic levels of debt.

7. What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?

According to the Department for Work and Pensions (DWP), approximately 1.4 million people in the UK do not have a bank account[13]. This includes 13 per cent of housing association residents, and 15 per cent of council residents, who do not have a bank account. Successful delivery of Universal Credit is dependent on people having access to basic financial tools, such as bank accounts. The Government is due to make an announcement on how access to a bank account for all citizens will be provided and we look forward to seeing the detail of this.

DWP must take appropriate provisions to assist prospective Universal Credit claimants in opening a fully transactional bank account so that they obtain their payments. Similarly, DWP should partner, or enable, alternative financial service providers such as credit unions to supply innovate products such as jam jar accounts so that individuals are able to manage their money more effectively.

Similarly, DWP should also facilitate more effective financial literacy provision for those claiming Universal Credit. The combination of pressure on incomes, susceptibility to debt and increasing personal responsibility for financial management makes it critical that everyone has basic financial literacy skills. At the moment this just isn't the case. Research for the Money Advice Service[14] in 2013 found that 16% of people are unable to identify the balance on a bank statement. Nine million people are in need of urgent help with managing their money. Another 14 million, spanning young and old, are focused on the now rather than the future. It should be commonplace that provision of financial services comes with an offer of independent money management advice.

There should be better provision of financial support and advice at different life stages, in different environments and with greater range of independent, trustworthy providers. For example, encouraging large employers such as supermarkets could offer financial literacy training with other forms of staff training and universities to offer it as a core module during under graduate degrees.

Transactional banking services

8. What transactional services do households on low or unpredictable incomes, or who have experienced a life shock, need and want?

In June 2014, the Community Investment Coalition launched its Community Banking Charter, which champions a fresh approach to banking in the UK so that every household, adult and business has access to basic financial tools. Road-tested by community groups in low income communities, the Charter calls for everyone to have access to a basic package of financial tools. A video regarding financial exclusion by CIC partner Local Trust can also be found here.

In discussion with civil society groups operating at a UK and European level, this charter has gained significant support. Equally, there is a growing global consensus surrounding the principles underpinning the Charter, typified by the work of the Bill & Melinda Gates Foundation.

9. What improvements are needed to make basic banking fit for purpose?

Access to a basic package of financial tools: There is extensive global support for every adult and business to have access to a basic package of financial tools to enable economic participation and reduce financial exclusion.

Physical access to versatile ATMs: There is also a need for those who are unable to obtain a basic bank account to have access to free-of-charge ATMs. Indeed, research by the UK-based Citizens Advice Bureau found that people who were basic bank account holders were more likely to find accessing free cash difficult (8 per cent said so) than those with standard current accounts (4 per cent). Equally, among those who had a basic bank account with a bank that restricts access to cash to its own machines, 12 per cent found accessing cash for free difficult.[15]

With access to basic banking facilities an increasingly essential part of modern life, as employers and government agencies move away from cash and cheques towards electronic payments, communities need access to credit and insurance products to fully participate effectively in the economy. Portugal leads the way in versatile ATMs. In addition to their standard usage, customers are also able to pay utility bills, Income and Value Added Tax bills, as well as purchase concert and cinema tickets. Thus

CIC would like to see the Financial Inclusion Commission encourage investment in free-of-charge, multi-functional ATMs.

10. Can technology help deliver better transactional banking services for people on low or unpredictable incomes?

High levels of mobile phone ownership and internet access means that there is a significant opportunity for effectively harnessing of easy-to-use technology services to deliver financial services for people on low or unpredictable incomes. Facebook, Google and Paypal are all developing various types of financial services. In doing so, they could be encouraged to make sure that these support financial inclusion goals. ATMs could also be developed to provide a broader range of services than they do at the moment. As banks continue with a rapid programme of bank branch closure they should consider how the can either leave behind or introduce multi-functional ATMs.

Affordable and fair credit

11. Is there scope to bring people into mainstream credit who are currently excluded, while also ensuring that this does not risk financial difficulty?

Credit Unions already play a role in doing this, although they do not currently have sufficient reach to meet demand. Scaling up alternative finance providers, such as credit unions, could help to address this issue.

12. For people who are unlikely to qualify for mainstream credit, what might affordable alternatives be? Should banks, building societies and others play a role in provision?

There are many different alternative finance providers that can provide adults, communities and businesses with appropriate, fair and affordable financial products to that they can participate fully in the economy. Community Development Finance Institutions (CDFIs) have proven their ability to operate effectively in underserved communities. In 2014, CDFIs lent £173 million to over 56,000 businesses, individuals and homeowners. This continues the positive trend in lending by the CDFI sector in the years following the financial crisis.

Similarly, CIC believes that credit unions play a key role in providing alternative financial services to people who would otherwise struggle to access basic financial services.

There is growing consensus that expansion of the credit union (and community development finance institution sector) can play a critical role in providing appropriate and affordable financial services to individuals and businesses, helping them to participate economically and so play a role in economic growth. However credit unions vary significantly in size, reach and scope. They range from professionally-managed financial institutions with the capacity to offer a range of financial services, to traditional, community organisations often serving a smaller membership base. There is room within the community finance sector for larger credit unions which are looking to become more like banks and smaller ones wishing to maintain a more limited range of services to a smaller membership.

CIC advocates that the Financial Inclusion Commission promotes the growth of the community finance sector, in the form of CDFIs, credit unions, peer-to-peer lenders and other community finance providers. Community finance can play a critical role in supporting access to finance in poorer communities, especially those communities that the main high street banks no longer serve. This access to finance can help to stimulate sustainable local economic growth. It is critical that EU regulation and action support this sector to grow and develop rather than create new barriers to its expansion.

13. How does credit scoring contribute to financial exclusion, and are there viable alternatives to traditional credit scoring?

There are a number of ways that credit scoring can contribute to credit scoring. Whilst, in theory, the principle of credit scoring is sound – by accessing a diverse range of data, lenders are able to make more rational assessment as to how much they allow a customer to borrow – this can inadvertently have negative impacts.

First, if asymmetric information exists – that is where one party has more or better information than the other – then lenders will be forced to either raise the price of credit to cover the high chance of bad debt or to ration access to credit. Clearly this can lead to financial exclusion because, in the first instance, the high cost of credit will put off consumers who do not see themselves as high risk and so lead to only those borrowers with the highest risks of default applying. This will inevitably lead to prices spiralling upwards, as lenders attempt to cover the ever-increasing risks of default of those prepared to apply.[16] Alternatively the higher restriction to access to credit (known as credit rationing) means that many consumers turn to other sources of credit – often high cost and unregulated lenders.

14. What reforms could be considered to ensure consumers getting into financial difficulty are protected including those who become insolvent?

In his book 'Britain's Personal Debt Crisis', Damon Gibbons of the Centre for Responsible Credit sets out a clear manifesto that details the necessary steps needed to ensure that consumers getting into financial difficulty, including those who become insolvent, are protected. Among the measures proposed are to adequately fund agencies to deliver a standardised debt management plan for households in financial difficulty. This would involve the freezing of interest and discharge from debts after a reasonable period and must protect people's homes. Furthermore, it is proposed for funds to be provided by government to write down and restructure household debts, for example buying up debts from banks and debt collection companies at reduced liabilities to households.

Insurance

15. What role should the state and the insurance sector play in providing a financial safety net in the event of an unexpected life event? e.g. bereavement, family breakdown, unemployment and illness

As set out in our Charter, insurance is critical to helping people deal with and recover from the financial bumps in life. However there are three key issues in encouraging take up of insurance in low income communities**: trust in insurance companies**, **higher premiums for people living in low income communities**; and **a lack of financial capability** meaning that people do not see insurance as an integral part of financial management but a 'nice to have'.

For example, Ernst & Young's Global Insurance Survey[17] revealed that just 7 per cent of UK consumers had complete trust in their insurance providers. Indeed, communication between customers and their insurers in the UK was very low, with just three in ten people claiming to have had interaction with their insurance company in the last year and a half. Insurance providers must do more to engage with their customers so that trust can be rebuilt. Furthermore the practice of general insurance, whereby consumers are nudged into purchasing additional forms of insurance alongside a purchase, such as a car or a holiday, only serves to foster a culture of consumer mistrust

towards insurance companies. CIC welcomes the FCA has investigation into this and proposed measures to ban the selling of general insurance, which costs consumers £1 billion a year.
It is critical that regulators and insurance companies work together to drive up levels of trust through regulated insurance products that are transparenct and appropriate to people's differing circumstances.

Insurance is also simply financially out of reach for many low income households. A report[18] by PSE UK found that 12 per cent of households – approximately three million – cannot afford household insurance. Households with no home contents insurance are more than three times as likely to be burgled as those with insurance, but half of the poorest households do not have home contents insurance, compared with one in five for households on average incomes. This means that low income households are punished twice over.[19]

Despite the fact that insurance is growing in importance as a financial tool and the UK is a significant player in the global insurance market, there is limited research into and understanding of what measures are required to ensure greater take up of insurance. CIC recommends that the FCA facilities a dialogue between insurance companies and civil society groups to explore solutions to this.

16. Is the insurance market functioning appropriately and competitively?

Clearly not given various misselling scandals and its failure to serve all markets.

17. How can we ensure that people on low incomes, especially private tenants, have access to appropriate and attractive insurance products for their possessions and property?

See comments above.

18. Will pension reforms enable inclusion, and what further improvements could be made?

No comment.

Savings Products

19. Should policymakers enable and encourage people on low incomes to save, particularly in the economic downturn?

Building a successful savings culture will require input from communities, charities, banks and the government. Encouraging savings across all income groups is important, but even more so with the poor as a lack of savings and assets often leads to the use of expensive moneylenders.[20] There is a wide range of evidence that not only do low income communities across cultural backgrounds have the propensity to save, but that there is a significant desire for them to do so. Many barriers exist to people investing for savings, for example lack of access to saving products that allow small but regular deposits to be made. Government action, such as tax breaks and matched schemes would also help to encourage people to save.

20. To what extent can savings act as a preventative measure, helping people to avoid debt?

In its 2011 report 'A Vicious Cycle'[21], Barnardo's have found that one year of saving less than £5 per week can replace up to two years of payments to rent-to-own credit companies. Similarly, Barnardo's looked at four common household goods and compared, with exactly the same weekly payments, how long it would take to save for these goods, compared to how long it would take to purchase using rent-to-own credit. Across the goods looked at, saving reduced the amount of time needed to purchase the goods by between 12 and 24 months each. For some people who are able to set aside a small amount each week, saving could change their financial position dramatically.

21. What incentives to save work best for people on low incomes, and how might the costs of these incentives be met?

CIC notes that the Savings Gateway, which was specifically designed to match the savings of low-income earners with 50p for every £1 they saved, was scrapped in July 2010. The scheme cost just £310 million, yet was deemed superfluous by the Government. It can be argued that it spends far more on tax relief for Isas and pensions – estimated to costs around £15 billion a year, with around 70% of that benefit going to people earning more than £50k. CIC advocates the reintroduction of locally based match savings schemes, modelled on the Savings Gateway Model. The roll out of

Universal Credit, as part of the changes to Welfare Reform, is an ideal opportunity to develop a saving product to meet the needs of low income families, potentially through the Post Office.

22. What practical steps could be taken to foster a savings culture in the UK?

As mentioned above, a model similar to the Savings Gateway could be re-established to encourage a savings culture in the UK. Moreover, the UK Government could incentivise and enable credit unions and community banks to participate in payroll deduction schemes. This is where an individual signs an instruction to their company's payroll department to deduct a discrete sum from their weekly or monthly pay, which is then forwarded through to the individual's credit union savings account. The individual can choose how this sum is allocated (for example, a rainy day fund or for Christmas). The financial stability established by the availability of savings would be highly beneficial for employees using the service. This in turn can reduce stress caused by financial problems, reducing staff turnover, sickness levels, and absenteeism.

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[2] http://cdf.org.uk/content/funding-programmes/community-first

[3] http://media.ofcom.org.uk/facts/

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[8] http://www.jrf.org.uk/sites/files/jrf/MPSE2013.pdf

[9] http://www.verum-research.com/#!consumer-credit/cdvj

[10] http://themoneycharity.org.uk/media/November-2014-Money-Statistics-summary.pdf

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[13] http://webarchive.nationalarchives.gov.uk/20130102224139/http:/www.dwp.gov.uk/docs/credit-union-feasibility-study-report.pdf

[14] http://www.nationalnumeracy.org.uk/resources/96/index.html

[15] http://www.link.co.uk/SiteCollectionDocuments/CAB_Access_to_cash.pdf

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[19] http://www.jrf.org.uk/sites/files/jrf/2222-financial-exclusion-policy.pdf

[20] http://www.theguardian.com/society/2010/sep/22/saving-schemes-low-income-poor-people

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