

FINANCIAL  
INCLUSION  
TASKFORCE

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**Treasury Committee Inquiry on Financial Inclusion: Submission from the Financial Inclusion Taskforce**

This submission sets out the Financial Inclusion Taskforce's evidence to the Select Committee Inquiry into financial inclusion. The submission covers the background to, and Terms of Reference of the Taskforce and sets out the Taskforce's progress, next steps and the key questions it will be seeking to address going forward.

**Background**

The Financial Inclusion Taskforce was set up by HM Treasury following the publication of 'Promoting financial inclusion' in December 2004. It was established to advise Government and others on progress towards tackling financial exclusion and was launched in February 2005.

2. The Taskforce's terms of reference, defined by HM Treasury, cover three priority areas identified by the Government:
  - access to banking;
  - access to affordable credit; and
  - access to free face-to-face money advice.
3. The Taskforce's role is one of monitoring progress and advising the Government and others on what more needs to be done. In particular, the Taskforce will monitor and report on progress towards the goal to halve the number of adults in households with no bank account of any kind<sup>1</sup>, and will advise the relevant government departments on the administration of the £120 million Financial Inclusion Fund<sup>2</sup>, although the Taskforce has no formal responsibility for the Fund. The full terms of reference are at annex 1.
4. The Taskforce's terms of reference are narrower than those identified by the Committee for this enquiry. However, the Taskforce has noted the link

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<sup>1</sup> The goal was published in the Pre-Budget Report 2004 (Pre-Budget Report, HM Treasury, December 2004). The terms of the goal were agreed between the five biggest retail banks, the BBA and the Treasury.

<sup>2</sup> Promoting financial inclusion, HM Treasury, December 2004. Details of the breakdown of the Fund can be found at [http://www.hm-treasury.gov.uk/documents/financial\\_services/financial\\_inclusion/Financial\\_inclusion\\_index.cfm](http://www.hm-treasury.gov.uk/documents/financial_services/financial_inclusion/Financial_inclusion_index.cfm)

between its three priority areas and wider issues such as financial capability, financial advice and savings. The Taskforce will continue to examine wider issues where they impact upon the financially excluded in line with its remit to report to Government and others on what further steps need to be taken.

5. The Taskforce recognises that the barriers to financial inclusion are complex, relating to markets, consumer attitudes and legal constraints. It is also recognised that solutions to these barriers are best reached by consensus and in consultation with stakeholders, industry and Government.
6. The Taskforce members are drawn from a wide range of stakeholders and bring with them considerable knowledge and experience of different elements of financial inclusion. Between them, they have extensive experience of the banking industry, consumer representation, money advice, research, front line service provision and the voluntary sector. A full list of members can be found at annex 2.
7. The Taskforce has met four times since its launch to progress its terms of reference and has convened specialist subgroups to take forward specific actions. Work will continue to be taken forward in this way in 2006.
8. In the first months of its work, the Taskforce has focused on developing a clear and coherent definition of the problem in order to provide a framework within which to consider solutions in the priority areas identified by the Government. The following sections set out these definitions together with a summary of the progress that has been made by the Taskforce so far, planned future activities and key issues that have been identified for further consideration.

## **Banking**

### **Terms of Reference**

9. The Taskforce's terms of reference under this heading are to:
  - report to HM Treasury and the banking industry on progress towards the shared goal of halving the number of adults in households without a bank account, and of having made significant progress in that direction within two years; and
  - monitor provision of banking services to the financially excluded, including access, and report to the banks and HM Treasury on findings.

### **Defining the Problem**

10. The Taskforce recognises that operating without a bank account can lead to significant costs for individuals and families. It recognises the progress made by the banks over recent years, but considers that there remains more to be done to ensure that appropriate mainstream banking services

are available and that these services meet the needs of low-income groups. It would like to see everyone who could reasonably benefit from transactional banking services able to do so. These are accepted by the majority of people as a basic service of everyday living. The Taskforce wants to ensure that everyone has the option of accessing such services and the appropriate information to make an informed decision on whether or not to do so.

### **Progress**

11. In order to monitor progress towards the shared goal, the Taskforce has commissioned a series of questions to be asked quarterly in the ONS omnibus survey. Comparisons between this and the 2002-3 FRS survey, on which the goal to halve the number of unbanked was based, will need to be drawn with care since the surveys are not directly comparable. However, this interim survey will provide an indication of the direction and speed of progress, and has the advantage of allowing progress to be tracked more regularly. The commissioning of survey work has been necessary as the FRS data for the years 2003-4 and 2004-5 has been collected in such a way that data directly comparable to the 2002-03 results is not available. This problem has been addressed for subsequent surveys.
12. In recognition of the fact that the objective is not only to improve access to bank accounts, but also to ensure individuals are able to make effective use of them, the Taskforce, via Treasury and HMRC, has also commissioned research into how low income groups access cash and transmit money. This research covers all households and contains a booster sample for those on low incomes. Amongst other things, the results of this work will provide objective data on the extent to which fee-charging ATMs are used by the financially excluded.
13. In addition to monitoring progress towards the goal to halve the number of adults in households with no bank account, the Taskforce wishes to pursue with the banks their strategies to ensure this goal is met. These discussions are underway with retail banking representatives of the banks. The Taskforce wishes to work with the banks in order to identify the barriers to opening accounts, drawing on available evidence such as the recent Banking Code Standards Board report. This report highlighted that, despite progress, problems remain in ensuring that the banks' corporate commitment to opening basic bank accounts is reflected in what customers actually experience when they attempt to do so. In addition, Taskforce members have offered to share their practical experiences of working with financially excluded consumers in order to give banks deeper insights into the problems actually experienced by these individuals.

### **Activities and deliverables in 2006**

14. In line with its remit to report annually on progress towards the goal to halve the number of adults in households with no bank account, the Taskforce will make its first report in March 2006. In addition, the results of

the research into how low income groups access cash and transmit money are due by mid 2006.

15. The Taskforce will pursue its discussions with the banks about progress towards the goal and their strategies to ensure it is met. Discussion will also focus on how barriers to opening new accounts can be removed. The Taskforce will report as appropriate to the banks and the government.

### **Key issues for consideration**

16. As well as examining existing barriers to opening accounts, the Taskforce will be exploring with the banks how some of the demand-side barriers can be reduced by looking at the appropriateness of the products currently on offer. The Taskforce will also draw on the findings of the survey into how low income groups access and transmit their money to inform this work.
17. In addition, the Taskforce is interested in working with the Government, the banks and others to ensure that an appropriate balance is struck between on the one hand ensuring anti-money laundering regulations are effective and, on the other, allowing reasonable access to banking for those who are currently excluded. The Taskforce responded to the recent Joint Money Laundering Steering Group consultation on this issue and continues to consider this to be an important challenge.
18. The focus of this work is on the short-term achievement of the goal to halve the unbanked. However, whilst the Taskforce recognises that this is an essential first step, it is also looking further ahead to other opportunities that may arise to encourage individuals to open bank accounts, for example the ending of the contract to provide Post Office Card Accounts in 2010.
19. In the context of this longer-term work, the Taskforce will be considering whether, for the future, market solutions are likely to result in effective removal of the problem of financial exclusion in the long term or whether additional measures by government or others are needed.

### **Affordable credit**

#### **Terms of Reference**

20. The Taskforce's terms of reference under this heading are to:
  - monitor the increase in provision of affordable credit by third sector institutions. This information could then be used by HM Treasury and the DWP to inform the distribution of financial support to third sector lenders and evaluate outcomes;
  - monitor the scheme whereby, under certain circumstances, loan repayments could be made by deduction from benefits and make recommendations to HM Treasury and the DWP following the outcome of the evaluation of the scheme;

- consider ways in which the capacity and skills of volunteers and staff within third sector lenders can be enhanced.

### **Defining the problem**

21. The Taskforce recognises that, for people on low incomes, credit can often be necessary for day-to-day financial management. It would like to see a range of accessible credit products supplied in a competitive market, at fair and transparent rates, where consumers have the appropriate information and capability to make informed borrowing decisions. The Taskforce recognises that, even when these conditions are met, providing low-value loans to low-income groups may result in higher costs and therefore higher prices for some. It is investigating additional measures, whether by government or by providers of credit products, that may reduce these costs.

### **Progress**

22. The Taskforce's work on affordable credit has, in the first instance, focussed on giving advice to the DWP on how to design the 'growth fund' of £36million<sup>3</sup>, so as best to achieve the objective of increasing the coverage and capacity of third sector lenders (credit unions and community development finance institutions) whilst recognising that EU state aid requirements constrain the design of the fund to a certain extent<sup>4</sup>. The Taskforce has made available the experience and views of its members who represent the sector (as well as those with wider, eg banking, experience). This work will continue as the DWP finalises the eligibility and administrative arrangements of the scheme.

### **Activities and deliverables in 2006**

23. The Taskforce will be monitoring the effectiveness of the Government's measures to improve access to affordable credit, through not-for-profit organisations, by commissioning a bespoke survey of how low-income households use credit in areas of deprivation. Given that the growth fund will not begin to flow until June 2006, the intention is to begin the monitoring work at that time and to report later in the year. In addition, the Taskforce will monitor the progress of the DWP's affordable credit scheme through which loan repayments could be made by deduction from benefit under certain circumstances, and will report following the implementation of the scheme expected in late 2006.

24. The Taskforce has begun to consider how it can facilitate the development and sharing of skills between third sector lenders, including the role of formal training and how to capitalise on current training arrangements.

25. In pursuing additional measures to reduce the cost of lending to people on low incomes, the Taskforce has begun to explore with BACS<sup>5</sup> whether

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<sup>3</sup> [http://www.hm-treasury.gov.uk/documents/financial\\_services/financial\\_inclusion/Financial\\_inclusion\\_index.cfm](http://www.hm-treasury.gov.uk/documents/financial_services/financial_inclusion/Financial_inclusion_index.cfm)

<sup>4</sup> <http://www.dwp.gov.uk/advisers/growthfund/>

steps could be taken, within the payment system, to increase the certainty of repayment and will continue to pursue this.

### **Key issues for consideration**

26. As the monitoring of the effect of the Government's affordable credit measures goes forward, the Taskforce will be considering how much of the demand for affordable forms of credit amongst low income groups can be addressed by the third sector. (The Taskforce welcomes the Government's recent announcement of the intention to increase the cap on interest credit unions can charge on loans; this decision is in line with the Taskforce's response to the consultation on the matter and it allows the flexibility for credit unions to increase their capacity to lend to low income groups.) In addition, work is underway to assess whether other types of organisation, for example mainstream banks or sub-prime lenders, could play a greater role in providing affordable credit, or in reducing the cost of credit available.

### **Face-to-face advice**

#### **Terms of Reference**

27. The Taskforce's terms of reference under this heading are to:

- identify areas of best practice, and gaps, in the provision of free face-to-face money advice. This information could then be used by HM Treasury and the DTI to inform the distribution of financial support for face-to-face money advice and evaluate outcomes; and
- monitor the progress of the debt outreach pilots, and consider the outcomes of the evaluation of the scheme.

#### **Defining the problem**

28. The Taskforce recognises that, for many people on low incomes, credit can be a useful tool in managing household expenditure, and that most people are able to keep borrowing under control. However, some people have difficulty managing their borrowings and encounter problems meeting credit commitments or paying households bills. The Taskforce notes that people at the lower end of the income scale are more likely to be over-indebted. Those at the bottom end of the income scale are also more likely to experience difficulties accessing mainstream products such as bank accounts and mainstream credit. The Taskforce would like to see money advice available to all those who seek it and delivered in ways that meet their needs.

#### **Progress**

29. The Taskforce's work on money advice has initially focussed on advising the Legal Services Commission and the DTI on the design of their

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<sup>5</sup> BACS Payment Schemes Limited (BPSL) administers the payment scheme for low-value, high-volume payments in the UK. These payments include direct credits, direct debits, standing orders and telephone and internet payments.

respective Financial Inclusion Fund schemes, the £6m for outreach pilots<sup>6</sup> and the £45m face-to-face advice project<sup>7</sup>. This has ensured the LSC benefited from the experience of Taskforce members in designing its proposals to pilot different money advice outreach services that meet the needs of those who do not normally present themselves to free face-to-face money advice services. Additionally, the Taskforce has provided advice to the DTI on its guidance to bidders for the element of the Financial Inclusion Fund that is being devoted to increasing the supply of face-to-face money advice; this is to ensure that the funding achieves its objectives effectively and that the DTI's proposed bidding arrangements are feasible and appropriate.

### **Activities and deliverables in 2006**

30. The Taskforce will monitor the evaluation of the Government's measures to increase the availability of money advice. The Taskforce will start monitoring these schemes when funding begins to flow from early 2006 and will make recommendations to Government following the outcome.
31. The Taskforce is also undertaking work to identify gaps in the provision of money advice and examples of best practice. Following a consultation exercise, it has identified a shortage of comprehensive information about the current range of provision, and sources of funding, of money advice and will be undertaking a study, as early as possible in 2006, to build a fuller picture of the sector before presenting recommendations.

### **Key issues for consideration**

32. Although outside the Taskforce terms of reference, the issue of financial education and capability building before the point of crisis is closely linked to that of money advice. The Taskforce has had discussions with the Financial Services Authority and has encouraged it to ensure that its capability strategy addresses the needs of the financially excluded. The Taskforce will seek to remain informed of progress here and will consider whether it should look more closely at this issue.

## **Facilitating access**

### **Defining the problem**

33. In the course of considering the three priority areas identified in its terms of reference, the Taskforce has concluded that the problem of financial exclusion is not solely one of availability of products or practices of providers. There is also a need to stimulate demand for appropriate banking services and credit products amongst financially excluded groups, and to motivate action by intermediaries in order to equip individuals to make the most appropriate choice for themselves. The Taskforce recognises that in order to do this, individuals may benefit from assistance with understanding the options available to them, the potential benefits of

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<sup>6</sup> <http://www.legalservices.gov.uk/aboutus/jobs/appointments.asp>

<sup>7</sup> <http://www.dti.gov.uk/ccp/topics1/debtadvice.htm>

different products, and the requirements for accessing products. Practical assistance in, for example, applying for a bank account may also be appropriate. This kind of ‘informed choice’ process may be usefully facilitated through organisations such as:

- those with which individuals are already in touch, such as housing associations or Job Centre Plus;
- others which individuals already trust, such as voluntary sector organisations or community groups; or
- central or local government.

### **Progress**

34. As part of its approach to this, the Taskforce wishes to hear and understand, at first hand, the views and concerns of those experiencing financial exclusion. For this purpose, it proposes to run a series of deliberative workshops<sup>8</sup> involving financially excluded people directly.

35. Initial consideration of demand side barriers suggests that it would be valuable to use trusted organisations such as housing associations, local authorities, community groups, voluntary sector organisations and advice providers to deliver consistent and objective information and advice about the choices available to individuals and to offer practical assistance with making them, including help with overcoming any misgivings about financial services products. The Taskforce has been researching existing initiatives in this area and is considering how to generate further support and action. It is exploring a range of possible options to raise awareness and promote action, including establishing a financial inclusion alliance of key stakeholders and running a financial inclusion campaign. The Taskforce will report to Treasury on its proposed approach in due course.

### **Conclusion**

36. The Financial Inclusion Taskforce is in the early stages of its work. However, it believes that good progress has been made, in particular to put in place a framework for monitoring progress towards tackling financial exclusion and in advising government on the administration of its £120 million Financial Inclusion Fund. Work is underway with the banks and others to ensure that the supply-side issues that result in individuals being excluded are effectively addressed. In addition, thought is being given to demand-side measures that will facilitate excluded groups’ access to mainstream financial services. Key questions have been identified that will become the focus of the Taskforce’s work over the coming months.

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<sup>8</sup> Deliberative workshops are similar to focus groups but are held over a longer period of time and with a larger group of people, allowing participants to develop their opinions through discussion. This method reveals whether and how views change, and what arguments and information have most impact.

### **Taskforce Terms of Reference**

The Financial Inclusion Taskforce will monitor progress towards tackling financial exclusion. In particular it will:

- report to HM Treasury and the banking industry on progress towards the shared goal of halving the number of adults in households without a bank account, and of having made significant progress in that direction within two years;
- monitor provision of banking services to the financially excluded, including access, and report to the banks and HM Treasury on findings;
- consider ways in which the capacity and skills of volunteers and staff within third sector lenders can be enhanced;
- Monitor the increase in provision of affordable credit by third sector institutions. This information could then be used by HM Treasury and the DWP to inform the distribution of financial support to third sector lenders and evaluate outcomes;
- monitor the scheme whereby, under certain circumstances, loan repayments could be made by deduction from benefits and make recommendations to HM Treasury and the DWP following the outcome of the evaluation of the scheme;
- identify areas of best practice, and gaps, in the provision of free face-to-face money advice. This information could then be used by HM Treasury and the DTI to inform the distribution of financial support for face-to-face money advice and evaluate outcomes;
- monitor the progress of the debt outreach pilots, and consider the outcomes of the evaluation of the scheme;
- make recommendations to HM Treasury on tackling financial exclusion in areas not covered by PBR proposals.

**Financial Inclusion Taskforce membership**

<b>Brian Pomeroy</b>	Chair
<b>Geoffrey Cooke</b>	former Chief Executive of the British Cheque Cashers Association
<b>Benny Higgins</b>	Chief Executive Retail Banking at RBS
<b>Elaine Kempson</b>	Professor of personal finance at Bristol University
<b>Chris Lendrum</b>	former Vice Chairman of Barclays plc
<b>Mark Lyonette</b>	Chief Executive of the Association of British Credit Unions
<b>Bernie Morgan</b>	Chief Executive of the Community Development Finance Association
<b>Nick Pearson</b>	National debt advice coordinator at Advice UK
<b>Teresa Perchard</b>	Director of Policy at Citizens Advice
<b>Faith Reynolds</b>	established Services Against Financial Exclusion (SAFE)
<b>Susan Rice</b>	Chief Executive of Lloyds TSB Scotland plc
<b>Claire Whyley</b>	Deputy Director of Policy at the National Consumer Council