

FINANCIAL  
**INCLUSION**  
TASKFORCE

**Update to the Economic Secretary to the Treasury**  
**from the Financial Inclusion Taskforce**

**5 December 2006**

## Executive summary

- Recent data supports the conclusion of our March report that steady progress is being made towards the shared goal for banking. We look forward to the definitive assessment that the next Family Resources Survey – published in the Spring – will allow us to make.
- Engagement with the banks has been positive, and we are particularly pleased by the recent changes to the Banking Code Guidance relating to basic bank accounts.
- The Taskforce has conducted a number of research projects into access (and barriers to access) to financial services; the findings support the need for a campaign to assist financially excluded people to access mainstream financial services.
- Looking ahead, the Taskforce is interested in a range of banking issues, particularly the question of how people actually use their bank accounts once they have opened them.
- The Growth Fund projects to boost the supply of affordable credit have now been in operation for five months, and lending activity is starting to grow. So far, more than £1.3 million has been advanced through more than 3,000 loans.
- The Taskforce is looking forward to continuing its monitoring of the Growth Fund, and to considering the question of how partnership between the third sector, the private sector, and Government might facilitate a step change in the provision of third sector credit.
- The DTI and LSC money advice projects have also gone live, and are now serving clients. Over 300 new advisers have been recruited and trained by the face-to-face money advice projects, while the outreach pilots are taking advice to new locations with over 40 experienced money advisers.
- Implementation of the “facilitating access” initiative is also progressing well, and we are looking forward to the “hard” launch of this campaign in the new year.

## Banking

### *Progress on the shared goal*

1. The Taskforce continued with the National Statistics module measuring numbers of unbanked households (benefit units<sup>1</sup>) until June of this year. We now have five data points from this source, which have shown fluctuating numbers of unbanked over time, with no clear trend. However, these figures are based on relatively small samples, and much of the variation could be due to sampling error.
2. Consequently, the Taskforce commissioned the ONS to analyse the aggregated data across the period May 2005 to March 2006. This analysis showed that the number of unbanked households (benefit units) across this period was **1.5 million**.
3. The baseline for the shared goal against which progress is measured, taken from the 2002-03 Family Resources Survey (FRS), is the figure of 2.8 million adults living in 1.9 million households without access to a bank account. To provide a comparison with the Taskforce's NS data, we have had the FRS baseline figure for households restated in terms of benefit units, yielding **a restated baseline of 2.9 million benefit units**.
4. Therefore, the Taskforce's finding from NS data that there were 1.5 million benefit units without access to a bank account across the period May 2005 to March 2006 suggests that significant progress has been made, when compared to the 2002-03 FRS baseline of 2.9 million unbanked benefit units. However, it should be noted that these data are not strictly comparable as they are based on different surveys, and do not allow a definitive conclusion to be drawn at this time.
5. The clear appearance of progress is, however, supported by data provided by the banking sector through the BBA, which indicate that since June 2003, 2 million new basic bank accounts (net i.e. accounting for closures) have been opened. Based on research that indicates that around 50% of basic bank accounts are opened by the unbanked, this suggests that **1 million** people have become banked through opening a basic bank account. This may understate progress because it is a net figure and because some will have become banked directly via a current account.
6. On the basis of these two sources of data, the Taskforce feels able to support the conclusion of its March 2006 report that steady progress is being made. However, the issue can only be definitively resolved by release of the 2005-06 FRS data, which is now only a few months away.

### *Other banking issues*

7. The Taskforce has also been engaging with the banks and their trade bodies in order to find out more about the ways that products for the financially excluded are being developed and promoted. Recent changes to the Banking Code Guidance for Subscribers include the following requirements:

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<sup>1</sup> A benefit unit is defined as an adult and their partner, if they have one, and any dependent children.

- that basic bank account literature be made available in all branches;
- that basic bank account applications be processed within 10 working days once identification and verification procedures have been completed; and
- that identification and verification procedures be processed in-branch, so that customers do not have to surrender valuable documents (such as a letter of entitlement to benefits) to be sent to central processing centres.

8. These changes are a positive step, and we look forward to the BCSB mystery shopping exercise next spring which will show the extent to which these are being implemented by banks. We will also be interested to see the outcome of the full review of the Banking Code, which has now begun and will continue over the coming year. The Taskforce will consider whether to make its own contribution to the Review.

9. In our bilateral meetings with banks, there has generally been a high level of corporate commitment to the basic bank account displayed, ranging from those who see it primarily as a part of their social and corporate responsibility to those banks who also view the basic account as being part of a viable commercial strategy.

10. The Taskforce has conducted a number of research projects to investigate usage and attitudes of financially excluded individuals to banks and banking products. Our qualitative research has shown that awareness of the basic bank account amongst excluded people is low, but also that the features of this product do appeal when prompted.<sup>2</sup> Quantitative research has backed up the finding that existing awareness is low, showing that a half (49%) of excluded respondents were aware of the existence of the basic bank account. At the same time only one third (33%) said they were interested in opening one.<sup>3</sup> These findings support the rationale for the campaign to assist financially excluded people to access mainstream banking and credit products (discussed below), and suggest that demand stimulation and support has a significant role to play going forward.

11. Other areas of interest for the Taskforce in banking have included:

- beyond the quantitative target of the shared goal, the Taskforce is increasingly interested in understanding whether people are making full use of their bank accounts, and we will be analysing the findings from our own, and other, research to consider this issue;
- bill payment, in particular ways of promoting direct debit to the financially excluded in ways that are appropriate for their needs;
- the entry into the market of credit unions, through a partnership with the Co-operative Bank to provide processing services;
- alternative banking business models, especially driven by technological innovations; and

<sup>2</sup> 'Opinion Leader Research report on deliberative workshops with financially excluded people'. This research can be found at [www.financialinclusion-taskforce.org.uk](http://www.financialinclusion-taskforce.org.uk)

<sup>3</sup> 'BMRB research into access to financial services by those on the margins of banking', also accessible at [www.financialinclusion-taskforce.org.uk](http://www.financialinclusion-taskforce.org.uk)

- the POCA, and the opportunity that the end of the POCA contract represents to move more unbanked people into mainstream banking.

## **Affordable Credit**

### ***The Growth Fund***

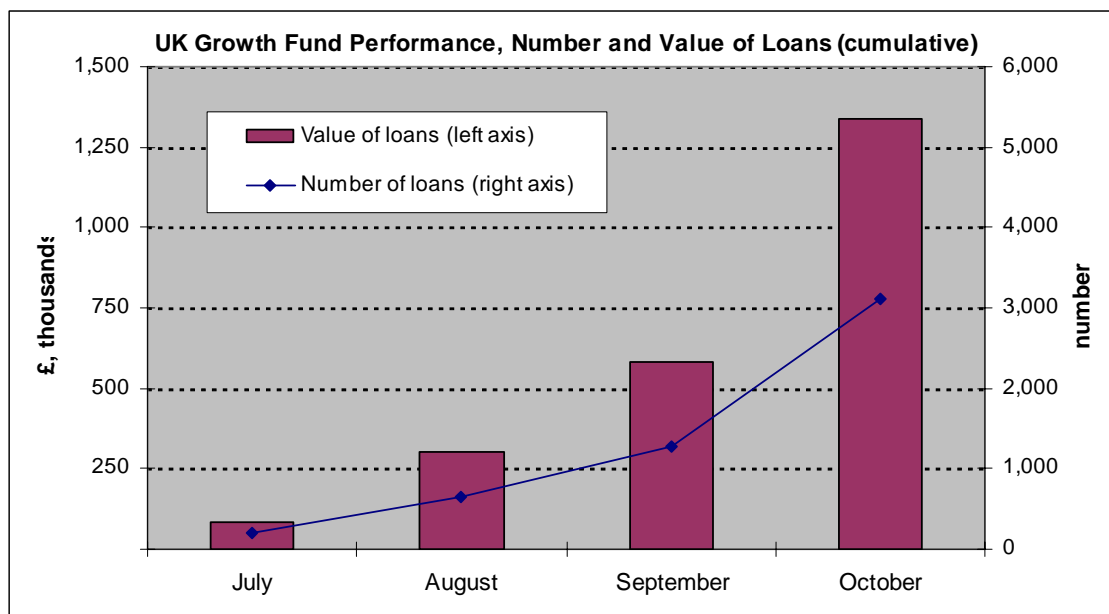
12. The last six months have seen operation of the DWP Growth Fund begin in earnest, with contractual arrangements being finalised with lenders, and the first loans being made. The first quarter (July-September) demonstrated a cautious start by the 30 providers that commenced lending during this period. During this period, both the volume and value of loans were at around 50% of the target level for the first quarter.

13. However, from October, a further 41 credit union and community development finance institutions (CDFIs) had completed contracts and begun lending. By the end of October, key Growth Fund indicators were as follows:

- 71 contracts with Growth Fund lenders finalised;
- 3,113 new loans (65% of target); and
- a total of over £1.3 million loaned (62% of target).

14. Due to the cautious start made by some providers and the time taken to complete contract negotiations, initial loan numbers and volumes are below target. However, these figures now appear to be increasing sharply, and we will monitor the trend closely over the coming months.

*Figure 1: UK Growth Fund performance, July-October 2006*



15. 56% of these loans have been made to new, financially excluded customers (just below the target rate of 60%) indicating that the initiative is being well-targeted at those who need it most. The average value of loans was within the DWP’s £300 to £600 target range, which has been set at a low level (compared to normal third sector average loan size) as another control to ensure that loans are going to financially excluded people.

16. We understand that the DWP has asked participating lenders to support Farepak customers wherever possible. DWP will provide additional capital, from within the £36m, to lenders where demand from Farepak customers exceeds the amount of Growth Funding they have available to lend. This should support the general upward trend in Growth Fund performance seen over the first four months of its operation. We recognise that this funding stream is at a very early stage and we will continue to monitor its impact closely.

**Baseline credit survey**

17. The Taskforce has also commissioned a baseline survey to provide an assessment of awareness and usage of different forms of credit, by those on low incomes, in areas where there are lenders in receipt of Growth Fund money. The baseline will provide a point of comparison for future surveys, allowing us more effectively to evaluate the overall impact of the Growth Fund on the supply of additional affordable credit, and the extent to which it is targeted at those who have been excluded in the past.

**Competition Commission home credit inquiry**

18. Another area of interest relating to the affordable credit agenda has been the inquiry into the home credit market (so-called “doorstep lending”) that has now been finalised by the Competition Commission. As you will be aware, the Commission has found that the operation of the home credit market has resulted in an adverse effect on competition. Their proposed remedies have focused largely on the role of increased information in promoting efficiency in the market, with price caps held in

reserve. The Taskforce is broadly supportive of the Commission's proposed package of remedies.

19. In particular, the Taskforce will be interested to see if a requirement on home credit providers to share both positive and negative data relating to their clients' repayment behaviour – for example, through the major credit rating agencies – will result in different forms of credit becoming available to home-credit users, particularly those with strong repayment histories. Research has also been commissioned by the Joseph Rowntree Foundation to examine the potential for a “not-for-profit” home credit model.

### ***The role of mainstream lenders***

20. In a similar vein, the Taskforce has been exploring the extent to which mainstream lenders (such as banks and credit card providers) might move into the market for low value loans. Overall, the response has been fairly negative, with all of the lenders approached saying that the reputational risk associated with charging a cost-reflective interest rate to the affordable credit sector is too significant (given the projected returns) for major banks to be prepared to get involved in the market, even through sub-branded subsidiaries. The third sector is seen by these lenders as the channel through which the supply of affordable credit can most viably be increased, and a number have expressed interest in working in partnership with the third sector.

21. The Taskforce intends to pursue and promote these opportunities, to see if a significant step change (for example, a doubling) in the coverage and capacity of the third sector can be achieved.

### ***Pilots to tackle illegal lending***

22. The Taskforce strongly supports the recent announcement that the Government will provide funding to enable an extension, and further rollout, of pilots to tackle illegal lending. Action against illegal lenders is an important complement to the measures taken to increase the supply of appropriate and affordable credit products. The new funding presents an opportunity to develop even stronger linkages between these projects and the financial inclusion agenda, in particular by providing support to victims in accessing mainstream alternatives.

## **Money Advice**

### ***Face-to-face project***

23. In the money advice sector, both the DTI projects for the provision of free face-to-face money advice and the LSC outreach pilots have gone live, and monitoring data and initial evaluations of these projects are now available.

24. Recent feedback from the Project Managers of the Face-to-Face Project has reported strong progress towards the objective of securing a step-change increase in the provision of face-to-face advice for the financially excluded:

- Over 300 new money advisers, the majority of whom joined as new trainees, have now been recruited and trained. It is anticipated that there will be more than 350 by the end of the year.
- The new advisers have so far served over 6,500 clients, and this number will now rise rapidly as the ratio of qualified to trainee advisers increases.

25. There are also reports from project managers of good progress being made in achieving waiting time reductions, which can be critical for clients struggling with debt and in need of urgent assistance.

26. The Taskforce is aware that the funding for the DTI projects is, under the terms of the Financial Inclusion Fund, time-limited to the current spending period. We are also aware that decisions on future funding of these initiatives will be made in the context of next year's Comprehensive Spending Review, and that the DTI will be submitting a bid for these projects as part of its overall CSR requirements. Recognising that this process cannot be pre-empted, the Taskforce would nevertheless like to express strong support for sustaining progress made in the supply of advice through the DTI projects into the future.

### ***Outreach pilots***

27. The LSC has received funding to pilot different methods of money advice outreach across England and Wales, in order to reach potential clients who would not normally present themselves to money advice services. Twenty-two projects are being run in total, with the majority up and running by mid-April 2006. The locations selected for the pilots have been:

- Family and children centres;
- Credit unions;
- Housing advice centres;
- Community centres; and
- Prisons.

28. Monthly monitoring reports, and quarterly qualitative reports, provided by organisations involved in the pilot, indicate that overall the pilots are delivering positive results, with a good take-up by clients. Key indicators are that:

- Contracts have been awarded covering 43.5 experienced advisers;
- there has been rapid growth in the uptake of the services provided with over 6000 clients seen since the start of the pilot.

29. Agencies and outreach services providing qualitative feedback indicate that the pilots are progressing well, despite some initial recruitment difficulties in several outreach locations.

30. The first phase of the evaluation of the outreach pilots is now complete. The evaluation has yielded generally positive results, suggesting that the outreach

method can be an effective way of delivering money advice to harder-to-reach groups of financially excluded people. Specific findings from this research include the following:

- all five outreach locations generally served considerably higher proportions of people whose demographics were associated with indicators of financial exclusion; prisons and credit unions had the highest proportion of financially excluded interviewees;
- interviewees in all locations thought the location in question was a good place to provide advice (86% across all locations), with only 3% considering that the locations were not an appropriate place for a money advice service;
- 82% of interviewees said they were likely or fairly likely to utilise the advice to be provided under the pilot projects;
- the flow of visitors through outreach locations had specific peaks at certain times of the day, suggesting debt advisers need to focus their efforts on particular times when the outreach location is busy.

### ***Taskforce Research***

31. As with the affordable credit agenda, the Taskforce has also commissioned research to collect baseline information on the current provision and funding of free face-to-face advice. This study will allow a better assessment of the impact of the DTI projects, and will also investigate the use of novel or innovative approaches to the provision of advice; we will update you with the findings when they are available next spring.

### **Facilitating Access**

32. As you will be aware, the Taskforce has been a strong supporter of the idea of initiatives to stimulate demand for financial products and services. We are pleased that the Government has recognised the need for a campaign working with trusted intermediaries to complement an increase in the supply of appropriate banking and credit products. We understand that the DWP delivery unit for the campaign have recruited ten stakeholder managers across England, Wales and Scotland, with a further eight appointments planned.

33. In addition, a series of events to launch the campaign are planned for January. These will focus on engaging key sectors, including:

- the housing sector;
- charities and voluntary organisations; and
- local government.

34. These sectoral events will be followed by a full national launch. We understand that an advisory group consisting of key high-level stakeholders will also be appointed and begin meeting in the new year. The Taskforce welcomes progress so far and will monitor the development of the campaign with interest.

## Annex: Banking Data

### Households' measured in benefit units

	NS Omnibus survey 2005-06*				
	May 05	August 05	Dec 05	March 06	June 06
No account of any kind	1.69 million	1.48 million	1.26 million	1.62 million	1.41 million
No current account	2.36 million	2.28 million	2.10 million	2.33 million	1.98 million

\*For our purposes, 'household' is defined as an adult and their partner, if they have one, and any dependent children (i.e. benefit unit).

This households data equates to the following figures for adults in households:

### Adults in 'households' measured in benefit units

	NS Omnibus survey 2005-06*				
	May 05	August 05	Dec 05	March 06	June 06
No account of any kind	2.54 million	2.22 million	1.89 million	2.43 million	2.12 million
No current account	3.54 million	3.42 million	3.15 million	3.50 million	2.97 million

\*For our purposes, 'household' is defined as an adult and their partner, if they have one, and any dependent children (i.e. benefit unit).

Aggregated ONS 2005-06	Benefit units	Adults in benefit units
No account of any kind	1.49 million	2.24 million
No current account	2.21 million	3.32 million