HOUSE OF LORDS

Select Committee on Financial Exclusion

Corrected oral evidence: Financial Exclusion

Tuesday 8 November 2016

10.40 am

Watch the meeting

Members present: Baroness Tyler of Enfield (Chairman); Viscount Brookeborough; Lord Empey; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Kirkwood of Kirkhope; Lord McKenzie of Luton; Lord Northbrook; Baroness Primarolo; Lord Shinkwin.

Evidence Session No. 14 Heard in Public Questions 142 - 149

Witnesses

I: Martin Lewis OBE, Founder and Chair, MoneySavingExpert.com; Polly Mackenzie, Chief Executive, Money and Mental Health Policy Institute.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Martin Lewis OBE and Polly Mackenzie.

Q142 **The Chairman:** Thank you very much indeed for coming along to this evidence-giving session. We very much appreciate your being here. You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website, and you will be given the opportunity to make any corrections to it that you feel are necessary.

The focus of this session is on mental health in particular, but we may go broader. Given that focus, I declare that I have the role of the lead Liberal Democrat spokesperson in the Lords on mental health. Would you like to start by introducing yourselves, saying who you are and what you do for the record, please?

Martin Lewis: I am Martin Lewis, founder and executive chair of MoneySavingExpert.com and founder of the Money and Mental Health Policy Institute.

Polly Mackenzie: I am Polly Mackenzie and I am director of the Money and Mental Health Policy Institute.

Q143 **The Chairman:** Thank you. I will kick off with the first question. We have had a lot of evidence so far about the effectiveness or otherwise of the Government's role in leading and co-ordinating on financial exclusion in the UK, so I would welcome your views on how effectively you think that role is currently being undertaken, and indeed how leadership and co-ordination could be improved. In particular, what in your view is the role for government in addressing the link between financial exclusion and mental health?

Martin Lewis: From my perspective, we are still recovering from the damage done by the wasted money of the original Money Advice Service. While financial capability was its broader remit, financial exclusion is an obvious subset. What is truly needed, and what is perhaps the most important government role in all this, is simple: assessing the financial capability of the nation and assessing where there are inclusion problems. Before we even get to the point of trying to fix that, we need to know what the problems are. That is one of the most important things that we should focus on early on. While the original Money Advice Service had the ability and the potential to do a lot of good, frankly it focused on rent-seeking and low-hanging fruit to try to be successful with its own remit, replicating services that were already out there where there was no lack of inclusion and no gap in provision.

For me, part of the big picture of what the Government need to do on financial capability—you will forgive me for flicking from one to the other, but it is because the two are so innately interlinked—is, first, to assess financial capability and where those needs are being addressed; and, where the needs are not being addressed, to plug the gaps. There has been general confusion in the Money Advice Service and more widely that the Government should be meeting the financial capability needs of the nation as opposed to the Government making sure, as I think is the case, that the financial capability needs of the nation are met. I think that was the overall confusion in the policy. It is too big a subject for the Government. They will not put the necessary funds in. We are still desperately short of funds and financial education.

There was a pyrrhic victory. I campaigned to get this on the national curriculum; it is an important part of inclusion. It was a long campaign. We got the box ticked that financial education was on the national curriculum. We have since seen no resources put into teaching it, and no resources put into training teachers how to teach it. I hear things such as that banks and financial services companies should be footing the bill. We do not ask GlaxoSmithKline to pay for chemistry. This is on the national curriculum. Why are we asking banks to pay for it? It should be taught.

We have a real problem too with the academisation of schools, because, of course, they do not have to follow the national curriculum, so now we have a secondary battle. We once persuaded government to put it on the national curriculum. Now, frankly, that is a trivial issue. We need to go around and persuade each head teacher that they need to resource it. Financial education is one of the keys to financial inclusion.

The Chairman: That makes sense, but could I just stop you at that point? We will return later specifically to financial education and the role of schools. For the same setting, how do you think the work of the Treasury, the DWP, the DfE and other departments such as the Home Office and Health could be better co-ordinated?

Martin Lewis: I do not need to tell any of you that the problem with all government is lack of co-ordination. You meet one Minister who tells you one thing. The next will say, "I can't do that, because half of the subject you're discussing with me is under the control of somebody else who has a different priority at the moment". Certainly co-ordination right across the system would be very welcome. You will forgive me for being somewhat sceptical that that is actually possible.

I think the bigger picture—this is very important, so let me mention a positive—is that attitudes are changing. If nothing else, changing attitudes are always a precursor to delivery changing and starting to consider financial inclusion. I think we feel this more in the mental health world, and Polly will talk more about that in a moment. The doors are open. I do not think that much is being done yet to great success, and we need to be honest about the fact that some public policies such as benefits sanctioning are themselves detrimental to financial inclusion, and quite substantially so.

We can look at the drivers of the lack of financial inclusion. Education is one, of course; the operations of corporate Britain are another; and the behaviour of government is a third. It is difficult. On one hand, we want government to fix it. On the other, government is one of the causes of the problems. I campaign for breathing space for when someone is in terrible debt. That is an issue of financial inclusion, yet the worst practices of debt behaviour all tend to be in the public sector. That is probably why breathing space has not come in.

I am somewhat concerned about government, as a big picture, being the one that looks after all this when it is a contributor to the problem in some ways. You have a declaration of interests in front of you, and I think we have a declaration of interests problem for government when it comes to financial inclusion.

The Chairman: Thanks very much. Polly, would you like to say anything, particularly about the role of government in addressing the link between financial exclusion and mental health?

Polly Mackenzie: I think one of the problems is that the focus has been on financial capability across the board, which means that the people whose financial capability is most limited, and also therefore most difficult to address—those who are financially excluded—get slightly left behind in favour of helping people like me understand my pension 5% better and other such interventions. What we see in people with mental health problems, who very often have huge barriers to interacting with the complicated consumer markets that we have, is that the products and services that are available simply do not fit their needs. That is why they often find themselves financially excluded.

The drive for basic bank accounts is very interesting. It is a positive intervention because it recognises that there is a product gap and a reason for people's financial exclusion and that it is not just about giving them lots of lists and explanations of, for example, what an APR is. It is that the market is somehow flawed—it does not have the right kind of product for a group of people. Building on the understanding that a product intervention, not mandated by the Government but encouraged by the Government through universal credit and by leaning very heavily on the BBA, will help with financial inclusion.

People with mental health problems are much more likely to struggle with budgeting and shopping around, often because of impaired memory. They may struggle with impulse control or have reduced planning capacity. All those impairments can be addressed with things such as product innovation, which the Government can encourage and support and that the market will not necessarily deliver. In my view, that is likely to be more effective than across-the-board information campaigns.

Martin Lewis: The issue of the basic bank account is totemic of some of the major problems and things that are wrong with the system. I am not sure it is deliberate, but there are two problems for people getting bank accounts. Number one has existed for years, although it is improving. People go in and ask for a basic bank account but are given the current account application form and rejected from that. They are then told that they have been rejected. I say that at the point of rejection bank staff should be mandated to say that there is a basic bank account that may be suitable. I wish they did not give them the form in the first place that credit scores them and puts another mark on their credit file. That is one of the problems, and it is purely a systemic organisational problem.

The other problem, which happens all the time, is that there is friction between two policies. We have real problems with ID. One of the big problems with basic bank accounts is not lack of availability but the need for identification with which to open them. It is a side issue, but we have a real ID problem across the market, in that we are all encouraged to be paperless these days but all our banks want paper statements. I have ID problems for that reason alone, and generally I do not. We have a lack of joined-up thinking: we want people to open bank accounts, but if they do not have ID they cannot, and money-laundering regulations impose that. There is friction between the two different policies.

The Chairman: We are going to come back and explore both basic bank accounts and ID later on.

Martin Lewis: I keep jumping ahead. I am sorry.

The Chairman: As you say, these are very important points.

Viscount Brookeborough: I want to ask one question about ID cards. I come from Northern Ireland and we have always have the equivalent because we have had photographs on our driving licences since 40 years ago, as Lord Empey will know. Great Britain has always been very anti ID cards. Are you saying that if ID cards were the norm, that would help overall with a colossal problem, never mind the fact that when you find somebody dying in the street you will know who they are? Would that solve the problem with bank accounts?

Martin Lewis: You suggest having driving licences as photographic ID, but that is part of the problem—the people we are talking about do not have driving licences and they do not have passports. That is where we are starting from.

Viscount Brookeborough: But what if everybody had an ID card, which is an issue that has come up several times?

Martin Lewis: I recognise the need for people to have the ability to gain an ID card, as opposed to mandating that everybody have an ID card, but that is a thorny area that I do not want to involve myself in. In general, I recognise the need for everyone who is a citizen or resident of this country to be able to have a standard form of ID that does nothing other than give you ID, and at a very cheap price. But we have to think again, because the problem is: what ID do you need to get your ID? I do not like the phrase "lowest level", but people who are dealing with those right at the bottom of society, who are struggling to put anything together, will tell you that just getting them ID is a difficult challenge.

Q144 **Lord Fellowes:** My question is for Polly in the first instance. Between you, you have given us an idea of the obstacles that people with poor mental health have in accessing financial services. Would you like to expand a little on the policies and practices that financial institutions should put in place to mitigate the exclusion?

Polly Mackenzie: Often people with mental health problems fit into the group of people who are self-excluded from financial services. Rather than not being able to get ID, they have been in the system before but it has gone wrong—they may have incurred a lot of fees and charges and thought, "This is not for me". We know that people with mental health problems are very likely to be on low incomes. If you have a severe and enduring mental health problem, you have only a 10% chance of being employed. There are also common mental health disorders such as anxiety and depression that are associated often with an income shock such as a loss of earnings or a relationship breakdown. People can go through a very difficult financial period where they struggle to maintain their financial position.

In our research with consumers with mental health problems, we found that people would like support with budgeting, such as the jam-jar accounts that the Government were looking at. These accounts make sure that money goes through tramlines into people's rent and bills so that they can be paid easily without people having to focus on them. Often people will go through a period of depression whereby the simple administrative tasks of keeping up with their financial commitments are far too much. If you go through a three-month period of depression and do not pay any of your bills, that will have a huge impact on your credit rating. You will have salted the earth for your future financial position because you cannot even refinance. Supporting people to complete those administrative tasks, help with budgeting and more flexible direct debits are important. Often people with fluctuating incomes, such as somebody with a mental health problem, do not use direct debits because they are afraid of fees and charges. That means that if they are suddenly in hospital, their bills do not get paid.

The final group of issues that we are looking at, which are quite complicated, is where a third party—a trusted friend, a carer or a family member—can be included on somebody's account. Sometimes that will be simply to provide oversight and notice of when people are doing things; and sometimes it will be to take over and pay the bills when the person is unable to do so themselves. We have examples of somebody phoning an energy company to try to pay a bill but because they were not a known person on the account, they could not even find out how much the bill was and had to guess and hope that it would be enough. That is not to anybody's benefit. People with bipolar disorder talk about wanting to nominate a trusted friend to be able to block their account and close things down to limit their financial behaviour during a period of extreme poor mental health. Sometimes people will take out tens of thousands of pounds worth of loans, crash their life savings, sell the house or give all their money to charity—there is a variety of quite extreme behaviours that, once their health is recovered, they wish they had been prevented from doing by a carer or, sometimes, by the courts.

Martin Lewis: We have thought about the way to brand that, which is very important. Obviously you do not want to call it a "mental health option"; that would be the worst thing in the world. The branding has bigger ramifications than just for those with clinical conditions, and that is for control options. What level of control do you want put in place on your account? You can have a strong control option that would give you a cut-off at certain levels of expenditure or allow somebody else to come in. I do not think that the financial services institutions are yet in a position to be able to do that under the regulations that we have. This is one thing that the policy institute is there to do: to look at what regulatory and legislative change we need to enable people to protect themselves from themselves.

Lord Fellowes: Do you think that the Government should regulate this?

Martin Lewis: I am sure you all know that the FCA has an innovation fund under which it allows innovative products to come in. It would be good if we could expand that innovative system to allow products to be altered in such a way that people can have a control on them to see whether it operates without the company being liable and then being sued later for disfranchising someone from their credit when they select one of these options. For the past eight months Polly has been doing a brilliant job looking at this through the policy institute, but we are still very new. Some of these things will require substantive change, both legislative and regulatory, because even if people want to do them, they cannot.

Q145 **Lord Northbrook:** The Money and Mental Health Policy Institute wrote recently about a predatory retail environment in which the online gambling and shopping industries seem to target especially vulnerable customers. Can you expand on this, and do you think the same can be said of other parts of the financial services sector in their relationship to vulnerable people and those in poor mental health? What can be done to tackle such practices?

Martin Lewis: I will let Polly talk about predatory behaviour, if you will forgive me, because that is in her report.

Across the financial services industry as a whole—I do not normally do this, but I want to speak up here for banks and lenders in general—over the past decade we have seen much better processes on the curative side for dealing with people with mental health issues. When someone calls up and says, "I have bad debts and I have a mental health problem", certainly the big institutions, which have specialised teams, are far better at dealing with that than they were a decade ago. However, there are still systemic problems with the way they operate, and not enough work is done on prevention, which was the aim of setting up the institution in the first place. You are five times more likely to be in debt crisis if you have a mental health problem. That is a horrendous statistic, and we need to prevent that rather than just treat sympathetically those who get into that position.

I certainly think that we have issues at the bottom end of the market, with door-step lending and payday loans. Once we start getting into that type of market, I think it is predatory. When you have a product that most people would not get because it is really expensive, it tends to be vulnerable consumers and less well-educated people with fewer options who get it. So, by definition, that end of the financial services market is predatory and preys on vulnerable people.

I will leave retail to Polly.

Polly Mackenzie: This observation came out of some research that we did back in April. In a survey of 5,500 consumers with mental health problems, when we asked them what kind of self-harming behaviour they had had financially during periods of poor mental health, 93% said that they spent more, 59% had taken out a loan that they would not have taken out during a period of good mental health, and 74% had put off paying bills. Those numbers are incredibly high.

On the question of why people are spending more, a surprisingly small element of that relates to the extra costs, which we know are an issue for those with physical disabilities, associated with being at home and having the heating on. Actually, psychologically motivated overspending seems to be incredibly prevalent.

In a series of focus groups, we homed in on the question of night-time advertising. This did not come out of the survey or out of our own policy institute but from consumers themselves saying that they were targeted by emails from Amazon, eBay, Matalan and lastminute.com, which seem to email repeatedly during the small hours between midnight and 5 am when most people are asleep. My phone is turned off, so it is not going to bother me—I get an email from Amazon every night at 1 am, slightly bizarrely—but if you are suffering from insomnia or are struggling from impulse control, you are totally alone at that time because everyone else is asleep. You may be captivated by anxiety or depression, which might make you feel that only buying something will make you feel better. Sometimes, people just want to see the delivery driver, because they will see nobody otherwise. We had an example of someone who buys every day just to see a delivery driver, which breaks my heart.

We limit what is shown before the watershed to protect children, but if you look at the Ofcom regulations and the way that the gambling industry operates, you can see that people are often targeted in the middle of the night. If you turn on your TV at 3 am, pretty much all that you will find is gaming. Ofcom takes the view that hardly anybody is watching between midnight and 6 am, so even the public sector broadcasters are allowed to broadcast gaming. But who is watching between midnight and 6 am? Of course, there will be some shift workers, but there will also be people suffering from insomnia, people who are drunk, people who are alone—actually, quite a vulnerable consumer group. We need to think carefully, I think, about how we might restrict TV shopping and gaming that is targeted specifically at people who are at their most vulnerable.

Q146 **Lord Empey:** We are all, I am sure, familiar with the term "poverty premium", but could you elaborate—this question is initially directed to Polly—on the "precarity premium", which you have written about and explain what that is? What initiatives could be pursued to mitigate that? How might new financial technology help to address this premium?

Polly Mackenzie: Again, something that has come out of our research is that the simple administrative burden of managing personal finances is incredibly challenging for people with mental health problems, who are often at the lower end of the labour market.

We know that structurally a lot is changing in the labour market, with the huge growth in self-employment, zero-hours contracts and the rise of the so-called "gig economy". That means that an increasing number of people have fluctuating incomes. We all know the Micawber principle, that your outgoings should not be higher than your incomings, but if your incomings change every month and your outgoings do not, trying to keep on top of that and juggle your finances is intellectually challenging. Some research suggests that that has a cognitive impact on your ability to manage other things, but it also appears to have costs associated with it.

I have already mentioned direct debits, which people with fluctuating incomes choose not to use, which means that they are excluded from the available discounts. If you have a very variable income, you may choose to be on a pre-pay meter, which we all know comes with a cost that is often referred to as the poverty premium.

The poorest people often do not access high-cost, short-term credit because they cannot secure even that kind of credit—

Lord Empey: Do you mean payday loans?

Polly Mackenzie: Yes, the FCA calls them high-cost, short-term credit, because it sounds more technical, I presume.

The market for those is often people with fluctuating incomes, because they have this challenge of trying to smooth their income and expenditure. Therefore, the costs of that—these 1,200% loans—fall on that group of people. If you have a bad week or a bad month, you will often incur fees and charges, which then subsidise the financial services of everyone else—people like Martin and me, who are lucky enough to have a stable income. Through our consumer research, we have identified that as an area on which we want to do more work to put some numbers on those concerns.

As this group of people with fluctuating incomes grows—we know that universal credit, because it is based on your last month's earnings, will be pro-cyclical for the people with the most variable incomes—the financial services industry needs to start to provide products that can help people to smooth their income. We know of a few: Wollit helps you to shift your pay packet, if you are on a zero-hours contract, from this month to that month, although it obviously comes with a cost; Squirrel helps you to break up your monthly pay cheque into weekly amounts to help you to budget over the course of time; and, in the US, Plum and Chip help you to smooth your income.

Lord Empey: Do the banks have the technology to work around the direct debit issue? We know that missing a payment provokes charges, and we get that. Is there sufficient technology to find a mechanism for smoothing that aspect?

Polly Mackenzie: There are two issues. One is the payment cycle where, if you are paid fortnightly or four-weekly and you have a monthly direct debit, you can often find that it goes in and out of sync over the course of the year and causes you trouble. They could change that to make it more flexible to allow people to choose their own direct debit payment cycle, but that requires a lot of technology build and investment, which would need to be pushed through by the payment services authority.

There is also the question of more flexible direct debits, where people could choose the minimum amount—with smart meters this ought to be possible in the energy market—which would allow them to have the direct debit discount while still paying only for what they use. From a policy perspective, it is worth looking at whether those kinds of innovations could be copied across other sectors.

The Chairman: Before I invite Martin to add his comments, I want to ask about the three types of mechanisms that you mentioned. A couple of the Members, myself included, did not quite catch the third. I think you mentioned Wollit, Squirrel and another one.

Polly Mackenzie: Plum—I cannot say anything for their branding. I do not why it is called Plum. There is also another called Chip.

The Chairman: Is Squirrel a form of jam-jarring, or is that different?

Polly Mackenzie: It is a form of jam-jarring, but it is more acorn storing.

Martin Lewis: I have always called it piggy-banking, which has been my technique for 12 years.

There is a very simple problem with these budgeting apps. First, while they are good fintech solutions, they are fintech solutions, and that does not suit everybody—it certainly does not suit certain groups of the older generation. Secondly, they cost.

I had someone pitch to me as a social enterprise recently a really rather good scheme, but between us—I will not say which one it is—it had a £5 a month cost. When most people bank, their banking is free—we all understand that that is a cross-subsidy from people who are overdrawn; everybody in the room gets that. So when we start to say that the most vulnerable consumers out there who need help with budgeting are going to have to pay £5 a month for a bank account that is suitable for them, we have a problem. That problem is perfectly understandable from a cost basis. It costs more because these people do not have the ability to go overdrawn; there will be no cross-subsidy, so it will be ring-fenced. However, as a society, we really have to think about that.

As for the move to universal credit, if I am honest I think that the idea of paying monthly people who struggle to manage their own money is potentially disastrous and a terrible move for financial inclusion. It is a ticking time bomb. One solution would have been piggy-banking or jam-jar accounts, and in that case probably the Government should be paying for them. If they want people to budget well and to learn to manage their own money, they need to start funding this. Otherwise, there will be a real breach in the nation's budgeting hole with the advent of universal payment monthly payments and no way to budget for it. I have said this before and I suspect that many people in the room agree with me. I do not see that any change will happen.

Q147 **Viscount Brookeborough:** You have already started to answer my question about children and schooling. What I do not understand is that children are not introduced to money as a game in primary school and the issue is just not taken on. Schooling is the one forum where you can get to everybody at some stage in their lives. Therefore, you could have a base to work from. I am horrified because, although we have not had teachers in here, we have been told on a number of occasions that teachers do not feel confident answering children's questions. To me, and this is a trade union answer, that is simply because it is not in the curriculum and they do not have to do it. In some of the devolved areas, of which Northern Ireland is one, it appears to be slightly better. I wonder whether you have any new initiatives that could work to improve the delivery of financial education in the school system. What is required to ensure that activities are targeted, co-ordinated and adequately funded? I realise that it is easy enough to say, "Put it on the curriculum", but sadly we know that, because of the diversity of the schools, they find that impossible.

Martin Lewis: Putting it on the curriculum does help because it provides an easier argument for teachers in non-curriculum schools, if I can phrase it that way, to say that it is on the curriculum and therefore should be taught. It is not on the primary curriculum; it is only on the secondary curriculum. Frankly, its implementation on the secondary curriculum has been very poor.

It seems to me self-evident that when you launch a new area on a curriculum, existing teachers need to be trained and it needs to be added to new teacher training. That is pretty obvious, but that has not been done. We also need to have budgets and paid-for materials. A charity that I am heavily involved with, the Personal Finance Education Group, which is part of Young Enterprise, does that, and I am funding my Money Week for the next three years in schools because we want to try to get the message out there. But it does get a little annoying that I am doing it. There has to be a point when we ask: why is this not being done properly by the Government?

Putting it on the primary curriculum would help. Many schools and teachers are doing a good job—there are a hundred centres of excellence in financial education. However, ultimately what this comes down to when you talk to head teachers—and I suspect that the unions are singing from the same song sheet—is that have stuff they have to do and they have limited budgets. They have to deliver what they have to do and they have to use their budgets to do that—anything else, they cannot do it. That is pretty much where we are stuck.

We have to properly prioritise this. The all-party parliamentary group has been very good and very successful, and is still lobbying for change on this. I slightly regret in some ways the pyrrhic victory we had of getting it on the national curriculum, which made everyone feel that we were done. That was only the start. There is a long way to go and we know what we need to do.

Viscount Brookeborough: They talk about the points of contact at which we should be able to pick things up and too many of them start when you leave school. It is a bit late then, given that we had them all in the classroom. How highly do you rate the importance of all the things that could make a big difference?

Martin Lewis: People often say that parents should teach this, which is nonsense because many parents have problems themselves. We are trying to break the cycle, not perpetuate it, which is why it works the other way. Understanding the basic language of money in primary schools is important. What are notes and coins? What are cards and how do they work? What is a bank? What is the job of a shop? A shop's job is to make money from you. There is nothing wrong with that, but your job is to know that it is not necessary to listen to the adverts. The only education that kids under the age of 10 get is three minutes during breaks in TV programmes. That is the wrong education and not what we want.

How big a priority is it? It frustrates me that PPI mis-selling is worth £20 billion. The budget that we could do with in schools is £20 million to £30 million—that would make such a difference to financial education. A better educated populace could reduce PPI mis-selling by 10% or lower the amount of debt that people get into. It is not just about financial inclusion. The understanding of how student finance works is woeful. People from non-traditional backgrounds are not going to university due to misunderstandings rather than a systemic problem in the way it operates. All those things could be improved by financial education. For me, it is an absolute priority that every child in one of the world's most competitive consumer economies gets some basic education in finance.

Viscount Brookeborough: I have one more very quick question. The other day I was discussing this with somebody from another country. They said that a major problem is student loans, not because they are borrowing but because students are coming out of university with too big a loan, and in that country they then cannot get a loan or get credit. Do student loans have that effect in this country?

Martin Lewis: No. Because we have income-contingent loans in this country, it is basically a reduction of income and does not go on your credit file. It does not work in that way. However, if you were to ask me what simple change I would make to improve the financial life of Britain—there are lots of big changes—I would say that I would change the name of "student loans" to a "graduate contribution". That is for two reasons. First, it is far more like a tax than it is a loan. Too many people are put off by debt aversion, which is not relevant. Secondly, for 25 years, since 1991, we have educated our youth into debt. We have given them a compulsory thing that we call a loan. That inures them to other types of borrowing. How can you tell them not to get a high-interest credit card or payday loan when the state mandates them to get a loan to go to university? That simple naming issue is so psychologically detrimental to the way our society now perceives debt. Mandating people into debt that is not a debt—that we could have called something else and that other countries call a graduate contribution—has been an absolute tragedy.

Lord Northbrook: Could a public service organisation such as the BBC have as part of its duty an educational role on financial matters to help teachers who do not feel qualified?

Martin Lewis: Obviously I have the "Martin Lewis Money Show" on ITV, so I shall be somewhat careful in recommending that. ITV has been very good on this, and it also has a public service remit. The BBC could have an educational role, and I think it does to an extent. I would support all ancillary and periphery moves from banks, financial services, people like me and the BBC to help. But none of that replaces kids sitting in a classroom being taught something. So I would welcome it, but it should be seen as ancillary and not core.

Baroness Primarolo: I have a brief question. It has been suggested to us, Martin, that since financial education has been on the curriculum, support from the wider finance industry to help that education has dried up. They were doing the same—ticking the box; job done. Is that your experience? Much as people hate ring-fenced funds, do you see a role for using orphaned funds from banks, or something like that, to at least try to kick-start funding in the schools?

Martin Lewis: The answer to your first question is that you are absolutely right. Banks especially have pulled out of funding financial education now that it is on the national curriculum. We have effectively had the worst of both worlds: we have had no real funding for training from the Government and the private funders have pulled out because they think it is now being done by somebody else. That has been awful, and it is the reason why the Personal Finance Education Group charity had to merge with Young Enterprise; it just did not have the funding. I am not self-aggrandising, but it is the reason I am paying for my Money Week. That is really not for an individual to do. I am in the fortunate position that I can do it for three years, but ultimately I do not think it is sustainable in the long term.

In terms of finding other money, we get into soft political arguments when we are talking about where funds should come from. I always think of mandated funds, which are taxpayer money anyway.

For me, the Money Advice Service is effectively a tax on the financial services industry, and we should try not to dress it up too much. That money would have been far better spent, certainly in the early days, on financial education, and I think that could still be done with some of that budget. The industry did not like it because it did not see that any good was being done with it. I think that the people paying for it would have a much softer attitude towards funding for financial education, because it needs to be remembered—purely from a self-interested point of view for the financial services industry—that the more educated you are, the more you engage with more products. So it is not a negative.

However, I would welcome funding for that wherever it comes from—even if you dug it out of a leprechaun's hole, quite frankly—so it does not matter to me. We just need to pay for it.

Q148 **Lord Shinkwin:** My question is in three parts. The first concerns an issue that Martin has already said is a problem and that government is a contributor to that problem. Notwithstanding that, I would be interested to know how you think government, businesses and the third sector could make financial guidance available to people at the key decision points in their lives? Secondly, what lessons would you draw from the successes and the challenges of the MoneySavingExpert website? Finally, what would you say are the particular challenges in reaching people who are experiencing mental health problems?

Martin Lewis: I will take the second question first, if you will forgive me. MoneySavingExpert has been phenomenally successful—far more than I ever thought it would—with now more than 15 million unique users a month and 11 million people getting the weekly email in the UK. The success of that has come, I think, from being separate from the financial services sector.

Going back to what we did differently—this is a problem that government has in replicating it—when I first started in personal finance journalism, personal finance journalism meant writing primarily about stocks and shares. It was seen as a little bit exciting if you diverged into mortgages. Personal finance journalism was primarily about getting quotes and balancing opinions. I did two things differently. First, I defined anything that you spend money on as a financial decision. In the early days, I got a lot of stick for writing in the personal finance column about buying DVD players, but more people were buying DVD players than stocks and shares. Surely, I explained to people, what they are looking at is also a financial decision and it should be seen from that perspective. That was one change.

When we talk about financial inclusion, one issue is that the FCA is the regulatory body that looks at finance, but it does not look at gas, electricity or water bills or at shopping and spending. So in the governance we have a problem of silos, as each silo is regulated in a different way. I could give many examples, but just take the ombudsmen. The financial services ombudsman is statute based with a strict operating procedure and has real power. The communications ombudsman and the energy ombudsman are not statute based, but they can mandate any company to come to them to give evidence and, in some circumstances, they can mandate a solution. There are then the lesser ombudsmen, who can get companies to come to them but cannot mandate a solution, so they have to take them to court to get the solution applied. And then there are private companies that are ombudsmen. That type of cross-sector confusion—I am just giving it as an example rather than anything that is too relevant here—is one of the big problems that we have with silos. Understanding that finance is not about financial services is lesson number one.

Lesson number two—the thing that I did differently—is to give people answers. You would be amazed, but people just want the answer. Sometimes, if they trust you, they do not even want to know why it is the answer. This is the one of the biggest things that worry me, but people tell me all the time, "I don't understand it, but you told me to do it, so I did it", whereas I feel that understanding should be pre-eminent. If we look at the energy market, the truth is that people do not want energy comparisons; they want to be told which company to switch to by somebody whom they trust.

Those two things are very difficult for official institutions to replicate. Whenever I have worked with government on web tools, I ask, "Can't you do this?", and I am told, "Oh no, we can't do that. That is a bit too much like telling people what to do". But do you know what? Sometimes people want to be told what to do, and that is a big friction in the delivery. Pension freedom is great for people who understand it, but 60% of people just got their annuity from their pension provider. People do not want choice necessarily, and they do not know how to deal with it in some circumstances, so we have to be careful.

The issue with MoneySavingExpert is really simple. Our user base tends to be slightly more affluent than the average internet user. Our users are above 18. On debt levels, we stretch right across from people who have really serious money to those with absolutely nothing who are substantially in debt. But it is a self-selecting body of people who understand that they need to go and read; they are not necessarily savvy, and many of them are not savvy at all. But the first lesson that they have learnt is to go to someone they trust—and, hopefully, that trust is well placed—to get the answer. The problem that we have in inclusion terms is that, first, it is not even that people do not know what questions to ask, although that is an issue; they do not even engage in getting to the stage of asking questions.

One thing that we are working on at the moment—my giving strategy quite deliberately seeks to fill the gaps that I do not do in my work—is to work with the Trussell Trust on financial triage in food banks. That has been really successful. We have financial people at the food banks, at the point when people are at the level of desperation that they are asking for help with food. The person in the food bank can say, "Why don't you go and talk to them about your budgeting?" That has been remarkably successful as a project, because when people are open to help on one subject, they are open on another. At the next stage, we want to enable those people to call the benefits office, because so much of the issue is about the jobcentre and benefits—the Trussell Trust issued something on that yesterday.

So the first thing to do is to find the nodes of vulnerability, where people will engage and are ready and open to get help without feeling patronised or that it is being forced on them or that they do not care at the moment. That would be the first thing that I would address.

Secondly—and this is incredibly difficult for government to do—people want to be told what to do in most cases. They want to be told what to do. They do not want choice. It scares them. One of the big reasons why people do not switch energy provider is that they get 10 providers all within £2 of each other, and they say, "I don't know which one to go to". My answer is: "The sin of not doing anything is far worse than the sin of picking the wrong one of those 10". But that is a very difficult message. So we need to provide answers rather than guidance.

However, there is a whole regulatory problem on the back of that. There needs to be advice face to face and on the phone. The web—I may be rent seeking here, but I will declare it in advance—is pretty well covered, and not just by us. On the web, there is lots of good information about finances and on most things—not on benefits, which is not as good as it should be. So find the gaps where the web is not doing it—do not try to build big websites—and understand that people want to be spoken to when they are really scared.

Finally—sorry, I am going on—there was one thing that the Money Advice Service did really successfully. Sadly, it was turning the supertanker around just at the point it was canned. I had been very critical, but it was starting to do a good job. On our site, we experimented with something on ISA balance transfers, where the Money Advice Service helpline was available alongside the article. That enabled people to call the helpline, and the person answering the call would know the article—Money Advice is very reticent about giving product information. What we often found was that the difficulty is with the last jump, with just pressing the button. People will read everything, but then they just get stuck, whether they are dealing with gas and electricity or an ISA balance transfer. They could call the Money Advice Service and the person on the Money Advice Service line could answer their question. "Is it true that I can open only one ISA a year?" "Yes, that is true". "Should I be going for this product?" "Well, according to the MoneySavingExpert guide, based on what you have told me, you could go for this product". So Money Advice could defer the responsibility for product choice to us.

Effectively, what most people want is a savvy friend who gets this stuff, whom you can pass your thoughts to and who will guide you through the answer. That worked really well. We had an over 90% success rating or happiness rating from the people who tried that. So I think we can be clever in how we start to deliver for vulnerable customers and give them the advantage of the web-enabled information that is out there, but in more intelligent ways.

Lord Kirkwood of Kirkhope: How did you know that you had that success rate?

Martin Lewis: The Money Advice Service measured it through surveys on the people who had taken part. They were asked whether it helped them. It was the standard thing—I have forgotten the word—that all companies use. There was a standard customer recommendation-type thing. There is a word for it, but I have just blanked on it.

Polly Mackenzie: I will just say something about consumers with mental health problems.

Martin referred to nodes of vulnerability, but in behavioural economics you would call those the salient moments when people are open to advice that they might otherwise resist. We know that when they ought to seek debt advice, people often wait an average of 18 months before doing so because they go into a process of denial. Lots of people with mental health problems will experience financial difficulties as a result—often simply because they lose their job, have to take reduced hours or move on to statutory sick pay.

We know from academic literature that probably one in four people using mental health services are seriously behind on their payments. Yet there is no systematic support to refer people to any debt or financial advice, even though we know that consumers with financial difficulties are 4.2 times less likely to recover from an episode of depression within 18 months than consumers without financial difficulties. We published a report a couple of weeks ago looking at whether you could refer people to debt advice from the IAPT service. We think that if you could, and if you could resolve people's debt problems alongside their mental health problems, you would boost the IAPT recovery rate and lift it over its target of 50%.

The overarching objective is to look for those moments when people are open—they sometimes call them teachable moments—when you can get people to change their behaviour. They do not come along very often and so you need a laser-like focus as a policymaker on finding those moments, designing interventions and, crucially, testing them, which is what Martin does by reconfiguring his website all the time. That way, you can see what interventions actually get people to take up the advice.

Lord McKenzie of Luton: We use the term "mental health" very generically. It covers a whole spectrum of individuals. How do you particularise solutions and support in those circumstances?

Polly Mackenzie: You are right. It is strange: we never talk about physical health problems and pretend that asthma and diabetes are the same thing. But there is an assumption that schizophrenia and post-natal depression have similar behavioural outcomes.

Because we spoke to 5,500 people in our research, we were able to segment it according to condition. The figure for people who find themselves spending more money was very high, 97% or 98%, for people who are bipolar, and was lowest among people with post-natal depression, although it was still 72% or 73%. These behaviours may vary across condition when it comes to people's financial behaviour, but less than we would have necessarily predicted.

Something I did not necessarily expect is that eating disorders seem to be quite closely associated with financial difficulties. It feels like that is a transfer of psychological behaviour on to eating behaviour, but actually people also seem to have a comorbidity in their financial output. It is an area that needs a huge amount of research. People talk about manic spending in the context of being bipolar, and that is the area where self-harming financial behaviour has been most researched by academics. But our research suggests at least that it is certainly very prevalent across other conditions as well. There is not that manic phase of, "I can change the world. I am going to set up a new business. I am going to give all my money away to charity", but there is much more medicating of mood to cheer yourself up or buying things for other people to make up for being a "bad" mother, wife or husband.

Also, most of the things you can get addicted to are quite expensive and therefore come with financial detriment. The biggest obviously is gambling, which can lead people into enormous financial difficulty. Weirdly, gambling is not considered an addiction in how it is dealt with at the Department of Health. I understand that there is some sort of wrangle over whether it belongs to the substance misuse team or the mental health team, which means that nothing happens at all because they are too busy wrangling.

Martin Lewis: Just as a side note, and to go back to your question, one good bit of news is that although we are not in a position to do it yet, substantial companies have asked us to look over their mental health policies for how they deal with vulnerable consumers with money or payment issues. We are not doing that as a charity yet because we do not feel that we have done research to a level to be able to, but I suspect that in two or three years we may be in the position to start helping companies learn how to be better with their consumers with mental health problems. That is one of the longer-term aims we have.

Q149 **Lord Harrison:** Martin and Polly, you have both mentioned payday loans. Will you give us an assessment of the short-term lending market following the tighter regulations and the cap on interest rates and the charges of the sector, which happened in the last Parliament? We have since been told that the market for payday loans is shrinking. Where do you think that demand has gone, and do you think that other regulations should be added in this narrow area?

Martin Lewis: It is important to start by stating that I will answer this anecdotally rather than with statistical research. I have always believed that the payday loans industry created a need by marketing. I am not sure it was one of latent demand. Certainly the television advertising was aimed far more at a quick technological solution. To go back to what Polly said earlier, the nightmare scenario is people watching a payday loan advert at 11 pm while they are drunk and then a gambling advert. We know that happens: you press a button, you get the money and then you gamble it. That is horrendous. So I think that some of the demand is a marketed demand. The demise of the Social Fund loans is another problem and a tragedy that should not have been allowed to happen in the way it has.

Demand is reducing. I always wanted a lower cap on charges. I argued for 50% and the FCA came back and said that it thought that would be uneconomical for companies. I said, "Yes, that is why I would like it to be at 50%, because then we would have no more payday lenders". That is quite a simple solution. I do not think they are a net good. We would still be better off without them. The argument that people would then go to loan sharks has not been borne out in other countries. Closing that industry down does not mean that people would then go to dangerous lenders. Those who are going to go to dangerous lenders will do that anyway.

Credit unions are starting to fill the gap, and we need to encourage that sector far more strongly than we do. We are also starting to see community-based projects fill in the gaps in payday lending. They are very small, but I think they are going to grow. As fintech develops, there will be more solutions that way.

It is always interesting that the banks never got involved in this game, partly I think because they did not want to tarnish their brand by doing so. But in some ways really cheap additional short-term lending, which could be a function of a type of account, might be helpful—and of course bank charges for getting overdrawn are in some ways more expensive than payday lending. So has it improved? Yes, definitely. The regulations are good. A cap on costs was far better than a nonsensical cap on interest rates that does not really mean anything because it just depends on when you are borrowing.

I certainly get fewer complaints about it. We hear about it less often. They are less prevalent on the television, which is very good because we had normalised this. I think that over 50% of children could quote payday loan slogans, which was the normalising of the worst type of debt and all part of creating an industry.

Are we there yet? No, but I am very warm towards the changes. As somebody who would like the industry to go away it is very difficult for me to give you much more than that, but it is nowhere near the problem that it was.

Lord Harrison: Polly, I will put the same questions to you, but could you extend the example and, say, have a price cap on overdraft charges? Would that help the general approach to matters?

Polly Mackenzie: It is worth looking at, because, as Martin says, unarranged overdrafts can be more expensive. We think that people will also use forms of secured credit such as pawnbrokers or logbook loans, which are often problematic because they do not use credit reference agencies because they have security. The same will often be true of an overdraft. There is no process. It just happens. Some people with mental health problems will put a notice of correction on their credit file that says, "Please do not lend me money. I am bipolar", or whatever it might be. Of course, if someone secures credit without going through the credit reference agencies, you never see that self-exclusion.

We are therefore trying to explore how you might introduce a new kind of financial exclusion: positive financial exclusion. Consumers have told us that they would like to be able to block themselves from being able to access credit. People who have been through bankruptcy say that it was the best thing that ever happened to them, because they were forcibly tied to the mast and they could not yield to temptation. We think there ought to be a way for people to come forward and say for whatever reason—"For my own control"; "I don't trust myself"—that they do not want to be able to access credit of any kind". At the moment, there is no way to do that. The credit industry would say, "If you don't want it, don't apply for it".

Of course, from our perspective, people have periods particularly of poor mental health but also periods of just making mistakes during which willpower is not enough and they want to be able to constrain themselves from making what can be very damaging decisions. In the high-cost short-term credit sector, that is important. We already have, albeit not quite, a right to self-exclude from overdraft with a basic bank account, which some people like because of that; they recognise that that new product helps them not to go off the tracks. We ought to extend that principle to other kinds of risky credit.

Martin Lewis: It is worth noting that in the States you can have a credit freeze—a freeze on your credit file. We have talked here about the idea of a three-month unlocking period. Everybody can unlock it, but not instantly. That gives you a breathing space from whatever your current issue is and to slow it down.

Lord Harrison: Very quickly on your hunch that the payday loan market is manufactured, is there any academic evidence for that?

Martin Lewis: No, there is not, but it is in the nature of payday loans. We talked about precarity earlier. If we take that out of this, if I am borrowing the £100 because I do not have it this payday, why will the next payday be any better? That is the problem in this demand scenario: most people do not operate that way. In fact, all that happens is that next month I cannot afford it either. That is one of the issues.

Polly made the point very well, and it is a nice finish, that for most people debt is the problem. For people with mental health issues, easy access to credit and the ability to borrow at any whim is a bigger problem. That is what they want to protect themselves from; they want to protect themselves from credit as much as debt.

The Chairman: A final very quick question from Lord Kirkwood.

Lord Kirkwood of Kirkhope: You have given us some very wide-ranging and extremely helpful evidence, both written and oral. Can I just ask you this? We are simple legislators and most of us are personally broke; the country is certainly broke. We have to make recommendations to government. If I pressed both of you to try to single out one recommendation that you would be disappointed not to see in our report, what, very briefly, might that be?

Martin Lewis: I will ignore my student loan change, which is a personal peccadillo. There are two simple steps here. Number one, we need a body that is responsible continually for assessing the financial capability of the country, because without that information this is all pointless. Number two, funding needs to be focused on where the gaps are. It is that simple: stop spending money on everything else; just put it into the gaps.

Lord Kirkwood of Kirkhope: That is very clear.

Polly Mackenzie: Martin mentioned it earlier. With universal credit we are expecting people to budget monthly without support or assistance. The technology is out there and we should be providing it to people. It is not just a four-week wait; it is actually a six-week wait. We are trying to work how to do some research into how many people could survive six weeks without any money coming in if they were to lose their job tomorrow. We are still working on the methodology, so I will come back to you on that. Fundamentally, that will push people into financial difficulty.

Lord Kirkwood of Kirkhope: That is a very good point.

The Chairman: Thank you very much indeed, both of you, for your evidence. It has been a really interesting session. You talked earlier on about various control options. It was a very interesting part of the session. Would it be possible to give the Committee a note on your work or your thinking in this area?

Polly Mackenzie: Of course. We have some papers—

Lord Kirkwood of Kirkhope: And something on universal credit.

The Chairman: Indeed.

Polly Mackenzie: We can send you all our papers.

The Chairman: That would be very helpful. Thank you so much.