



## Select Committee on Financial Exclusion

### Corrected oral evidence: Financial Exclusion

Tuesday 29 November 2016

11.45 am

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Members present: Baroness Tyler of Enfield (The Chairman); Bishop of Birmingham; Viscount Brookeborough; Lord Fellowes; Lord Harrison; Lord Haskel; Lord Holmes of Richmond; Lord McKenzie of Luton; Lord Northbrook; Lord Shinkwin.

Evidence Session No. 20.

Heard in Public

Questions 193 - 202

### Witnesses

**I:** Jonquil Lowe, Senior Lecturer in Economics and Personal Finance and Member, True Potential Centre for the Public Understanding of Finance, Open University; and Martin Upton, Senior Lecturer in Finance and Director, True Potential Centre for the Public Understanding of Finance, Open University.

### USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on [www.parliamentlive.tv](http://www.parliamentlive.tv).

## Examination of witnesses

Jonquil Lowe and Martin Upton.

Q193 **The Chairman:** Please have a seat and make yourself comfortable. While you are doing that, I shall run through a couple of formalities. First, we welcome you to this evidence session of the Select Committee on Financial Exclusion. You have in front of you a list of interests that have been declared by members of the Committee. This meeting is being broadcast live by the parliamentary website. A transcript of the meeting will be taken and published on that website, but you will have the opportunity to make any necessary corrections or amendments. Could you start, please, by introducing yourselves: who you are, your role and who you represent?

**Jonquil Lowe:** Thank you, my Lord Chairman. I am Jonquil Lowe, senior lecturer in economics and personal finance at the Open University, and a member of our research centre, the True Potential Centre for the Public Understanding of Finance.

**Martin Upton:** Hello, my Lord Chairman. I am Martin Upton; I am senior lecturer in finance and director of the True Potential Centre for the Public Understanding of Finance, which is the longest job title I have ever had. It is in a fairly small font on my business cards. The True Potential Centre has been funded for five years, between 2013 and 2018, by the financial services company, True Potential, and our mission is to develop public financial capability and public financial education. Financial education is being delivered by the three courses, details of which are in the submission.

Q194 **The Chairman:** Thank you very much. It is very helpful to clarify that point about your funding. What are the key features of your online courses on financial capability that you believe make them successful, and how do you market those courses so that people find out about them? Finally, could you tell me what evidence you have amassed about the effect they have on people's real-world financial capability?

**Martin Upton:** In terms of what makes the courses successful, we took a lot of care when it came to the design of the courses. We have mixed up the teaching assets; we have a variety of different types of assets: videos, audios, quizzes, text, interviews and discussion steps. That is important, not just to create variety, but because we know from our research that people like to learn in different ways. Some people do not want to watch videos; some want text, and some vice versa. Possibly, with me in the videos, I can understand why they might want to look at text instead. We mix up the assets, and that is important.

Secondly, the design of the courses is meant to make them not daunting. Each week, or session, is divided into a small number of steps, snippets of learning that are very digestible. People who are busy and doing other things can do two or three steps, go away and do something different—watch something on TV or have their dinner—and come back to the

course, without feeling they have had to stop halfway through something important. We mix information with skills. If we are developing personal financial education for the lifetime of people, we need to develop skills as well as information about products, because information about products changes over time. We were very attentive to the level, which is what I call level 1, which is pretty much sixth form or first year undergraduate, so it is very accessible. The tone is not preaching, patronising or judgmental; it is informative and, one hopes, develops people's skills.

We are also, I think, quite canny in how we deliver it, because we deliver it on two platforms, FutureLearn and OpenLearn. On the FutureLearn platform people can engage with other learners, as they are called, in discussions as they go through the course. This develops a community of learners who are mentored by Open University staff. Through those discussions people can sometimes learn solutions from each other, or at the very least gain comfort that the financial problems they have are shared elsewhere—they are not alone.

On the OpenLearn platform, you study on your own. For people who like to do that, that is ideal, and the OpenLearn platform is open all the time; you can study whenever you want. FutureLearn courses are run on specific dates, so there is a designated period during which the course assets are mentored. You can put together very good products, but when it comes to a product working there has to be a demand for that product. Some 65,000 people have become active learners across the presentations of the three courses, which are detailed in the submission, so there is a demand there. The demand, to a degree, is personal interest, when people do not have financial problems but want to become better educated. Then there is also a demand because people have problems with some of the basic aspects of personal financial management and some of the more complex ones. So we are meeting a demand.

You ask about how we advertise the courses. The Open University has a huge reach, so we use social media, including Facebook, Twitter and LinkedIn, and we also have a huge audience in terms of alumni and our students—we still have 173,000 students. So we have a good base on which to expose and advertise our products. Additionally, each of the three courses which are detailed in the submission had a big PR launch. For the first two, Managing My Money and Managing My Investments, I did a huge number of radio interviews. For Managing My Money I went through 26 radio interviews in one day. That, again, broadcasts what we are doing.

FutureLearn now has 5.2 million learners across the world, so when it comes to advertising its courses and promoting not only the ones which PUFIn has put together but all their other courses, it has a good base with which to work.

How do we measure effectiveness? During the course of this year we have done a survey into the effectiveness of Managing My Money, which

provided some very interesting conclusions. We surveyed just over 800 people and, as well as finding out about the demographic, we were interested to see how their behaviour had changed with money as a consequence of studying Managing My Money. The findings are quite interesting. To pick out two or three of the findings, we asked the question, "Do you feel stressed out about your financial situation?" Before Managing My Money, 31% said yes; after studying Managing My Money, it was down to 18%. We asked, "Do you feel confused by financial products?" Before Managing My Money, 41% said yes; after Managing My Money, it was only 19%. Clearly, we have not covered all the products in the course, but we made some progress. On the basic question, "Do you set a budget?", before the course, 44% said yes, while after the course it went up to 52%.

There is evidence of good behaviour changes, but we have to be careful. The people who answered the survey were self-selected, so it is likely that they probably wanted to give us, in certain cases, responses we would like to hear, and possibly give themselves a bit of a halo-effect as well. We need to do more there, and the good news is that we can and will be doing more in the very near future, because we are on the verge of sorting out an agreement with the Money Advice Service under their "What works?" programme. We have a four-pronged initiative to look at the impact of studying Managing My Money among four different groups. Three of those groups, it would be reasonable to expect, would contain or include people who may be currently financially excluded to a greater or lesser extent. We are going to test people who are working with Milton Keynes' community action programme, along with a group of social housing tenants and college students and a group of credit union customers. We are going to test how they behave financially before and after studying Managing My Money. It will be robust and it will, I hope, reinforce what we have already found through our first study in 2016.

**The Chairman:** Thank you. That was very helpful. Jonquil, do you want to add to that at all?

**Jonquil Lowe:** I would underline, perhaps, two things that Martin has said. One is that, because learners choose for themselves to sign up to these courses, it is likely that they are very salient. Most of the learners say they are doing it out of personal interest. It could be that they come to the courses because they are at that life stage when they are looking at pensions or buying their first home, for example. It could be that we are going with salience. The problems with financial capability are to do with consumers' bounded rationality. We have all become very familiar with "nudge" initiatives that try and work with those behavioural biases and the desire to use heuristics, but there is another approach, called Think. That is about creating safe spaces where people can publicly debate issues and possibly change their own views as a result. Perhaps the forums on FutureLearn are providing that, but I have to say we have not tested that yet. Those are some theories that might underpin the success of what we are doing there.

**Lord McKenzie of Luton:** Martin, on the good behaviours that you instance, do you have any evidence about the sustainability of those changes?

**Martin Upton:** No, we do not have any evidence about sustainability. This comes back to one key point about financial education: it should continually be reinforced. It is not good enough to say that you do financial education once—say, just do Managing My Money—and then hope that in 10 years' time the skills you have learned will be there without decay. They will have decayed anyway, because the information about products will have changed, but in the interim even the skillset you have may have decayed and become intruded on by behavioural forces which impact upon financial behaviour. The one message that we want to get across is that we want to see personal financial education not only in schools but at all stages throughout life, and at each key point when you are making key financial decisions it should be accessible and free.

**The Chairman:** We have covered that point now. Viscount Brookeborough.

Q195 **Viscount Brookeborough:** We are going back to schools, which is not your responsibility or your main mission. In your written evidence you mentioned there is a range of opinions on how effective financial education in schools can be. What are the difficulties of running effective financial education in schools, and have you seen or created any solutions? What are your views? In considering financial education, what balance needs to be struck between issues of numeracy and broader financial and social awareness, such as might come under the PSHE curriculum?

**Martin Upton:** I will kick off on this one. All I have is anecdotal evidence about how personal financial education in schools is going, and the evidence I have is that it is patchy and there is a shortage of teachers with the right personal financial knowledge to deliver the education. Let us be fair about this, for England it is still early days. Personal financial education on the curriculum only kicked off in September 2015. It was earlier elsewhere in the UK. In addition, we have to take into account that the curriculum is very crowded. To deliver the teaching but provide sufficient time is tricky. To be fair, good work is being done by various organisations. PFEG, part of Young Enterprise, is doing great things and an organisation called MyBnk is doing good work in schools as well.

One exciting thing, which I can also announce, because the ink on the paper dried this week, is that PUFin is in receipt of funding for the next three years from the Chartered Accountants Livery Company to develop a Managing My Money product targeted at 16 to 18 year-olds. Given that personal finance on the curriculum is focused at up to 16, and given that a lot happens for people between the ages of 16 and 18—at 18 they are hitting a key life stage of going to university or going into a job/apprenticeship or leaving home—we felt at PUFin we had to do something to address what we think is a gap. We have funding from the Chartered Accountants Livery Company to support this project. It has a

working title of Managing My Money - Youth but, hopefully, by the time the project goes live it will have something a bit more exciting and buzzy than that, targeted at 16 to 18 year-olds.

**Viscount Brookeborough:** You talk about the curriculum—but financial education is not mandatory on that curriculum.

**Martin Upton:** No.

**Viscount Brookeborough:** Secondly, there are different types of schools, whether they are free schools or other schools, some of which do not teach it at all. We heard that at primary school children are encouraged to play around with money and play games, but from then on there is a severe lack of it. What is your view on whether it should be mandatory, and what should be done to encourage it more?

**Martin Upton:** My view is that it should be mandatory up to 18. I do not think it is realistic, given other considerations which come to bear in resourcing schools and in the time they have available. If we are serious about the view that we need to have financial education for life, to not do much between 16 and 18, I think, is being slightly negligent. We now know that a lot of people who are getting into financial trouble are those in younger age groups. StepChange has said that the fastest growing problem area for people in debt is in the under-25s.

**Viscount Brookeborough:** Therefore, all pupils should leave school with a basic level—whatever that level is—and you know where to go in order to pick them up.

**Martin Upton:** Absolutely. If they cannot get it through the schools, with the CALC project they will have these assets available to do the study free of charge outside the school. The CALC project—the Chartered Accountants Livery Company project—is two-pronged. We will deliver assets into the school so that teachers can use them, if they have time, in citizenship classes. But it is a standalone study as well, which can be downloaded on to mobile phones or tablets to study in a way that not just youngsters but virtually everybody tends to study these days, engaging with the media.

**Jonquil Lowe:** I have a slightly different view, I guess. If you look at the academic literature, there are some academics who question whether financial education in schools can work at all, because when people come to engage with financial services their behavioural biases may overwhelm what training they have had. Also, what you teach in school may very quickly become out of date, because of the fast pace of innovation in financial services. In 2013, the National Endowment for Financial Education in the United States sponsored a very large study, a meta-analysis, which looked at 87 evaluations of financial interventions, and 101 surveys trying to measure financial capability. I mention those to show this was a very large attempt to try to see what the effect of financial education would be. They found that the effect was significant. It

was positive, but it was tiny; 0.1% of the variation in subsequent financial behaviour could be attributed to financial education.

What has come out of those kinds of studies is the suggestion that education works better if it is just in time, at the point when you have a financial decision to make, and that counselling might be better. If you look back to school, it is not so much about teaching financial knowledge; factors such as numeracy, confidence in shopping around, a propensity to plan and a willingness to take investment risks are more likely to have an enduring effect. That suggests to me that teaching in schools should not focus too much on product knowledge but should be looking more at developing those skills, perhaps through role play and gaming. The LifeSavers project, bringing savings banks back into schools, is an example. Even things such as the Fiver Challenge, which we think of as being an enterprise initiative—running a small business for a fiver—is also teaching children about cash flow, balance sheets and taking risks. Trying to develop those kinds of skills and confidence seems to me more important than, perhaps, financial knowledge.

**Viscount Brookeborough:** I thought that was basic financial education. I was not considering that they should be taught about pensions at the age of 13. This gives them a table to work from.

**Jonquil Lowe:** Yes, I would agree.

Q196 **Bishop of Birmingham:** To continue this theme, we come to an area we are very concerned about—young people who are in further education, rather than in schools or higher education, and those in adult education. Could you extend your theme to that sector? Are you saying the same things about that sector as you have said about schools, or are there any other opportunities, particularly in terms of salience, as people get older and are facing decisions?

**Jonquil Lowe:** Yes, indeed. As young adults move into their adult life and start to engage with the workplace, taxation and their need to budget their salary and, one hopes, are starting to save, they will be bombarded with offers of credit, so financial education becomes much more salient. That is the point at which you probably need to bring in current product knowledge, using tools to engage with those decisions. That would seem to me an even more important point at which to have financial education.

**Martin Upton:** I would agree. I am sure you are aware of the All-Party Parliamentary Group on Financial Education for Young People. They published a report back in 2012, *Financial Education in Further Education*, and they found, as I am sure you know, that institutions did not have curriculum time, there was a shortage of tutors who could teach financial education, or who were interested in being taught to teach financial education. There was a lack of interest among some students at level 1 and entry level, and also resistance by staff, who perhaps felt they were overloaded. Those issues were exposed in 2012, and there is little evidence to suggest that things have changed radically since then.

**Bishop of Birmingham:** How much would you welcome support for a further project, following your accountants-supported project, for 18 to 25 year-olds?

**Martin Upton:** That would be great. I would certainly welcome that. At the very least, the education institutions making available the current courses, Managing My Money in particular, could do a lot for people in further education and adult education. It is all there and free, so why not use it?

**Bishop of Birmingham:** Have you done any thinking about the connection between completing a course, a period of study or a learning experience and credit ratings, as people enter into the financial borrowing market?

**Jonquil Lowe:** We have not, but that is an interesting thought. Credit reference agencies are expanding the kind of data they are looking at. I was particularly impressed by the project between Experian and the Rental Exchange, bringing into the data social housing tenants' successful paying of their rent on time. Possibly there could be some kind of collaboration, because the credit reference agencies would want to see statistical evidence that the training did have some impact and relevance. But I think that is a really interesting idea.

**Martin Upton:** It is an interesting idea, indeed. We have already started to draft what is going to go into the 16 to 18 year-old financial education piece. Part of it will be managing your credit rating, but you have to start managing it when you are 18.

**The Chairman:** Martin, can I make sure I understand something you have been saying? It is about the links with further education colleges. Do you currently have any collaborative projects or arrangements with the FE sector, or is it that the new venture you are talking to us about is going to give you the scope, perhaps, to do that?

**Martin Upton:** PUFin does not have any current arrangements. The Open University, as you would expect, has very good network relationships with schools, colleges and other universities. When we develop the Chartered Accountants Livery Company project for 16 to 18 year-olds, we will use that network. If we were to have a product which is aimed at people in further and higher education, we would use that network as well to broadcast its availability.

**The Chairman:** Thank you very much.

Q197 **Lord Northbrook:** Moving on to the area of government leadership and co-ordination, what do you think should be the role of a successor to the Money Advice Service in tackling financial exclusion? What good practices would you like to see continue? What changes in approach or practice would you like it to take on board? Jonquil, as you worked for the Money Advice Service, would you like to start?

**Jonquil Lowe:** Yes. I have worked with the Money Advice Service and its successor bodies for about 20 years. Over that time one of the projects that I thought was most effective was the “Parents’ guide to money”, a file of resources and a suite of interactive tools for use by parents expecting a baby. I think that was particularly successful for two reasons. Its reach was huge; it is still available and reaches about 700,000 parents a year. The evaluation work that was done suggested that half the parents took some action as a result of the resource. It was a particularly good resource, to go back to that point about salience, is to do with relevance—it targeted people at a very specific point in their life, when they had a need for particular elements of financial guidance. As you might expect, the resource covered things such as budgeting, which is obviously under strain with a growing family or a new baby on the way, as well as benefits that might be claimed. It also provided that opportunity to deliver education around things that people might not have been thinking about, such as the impact on eventual retirement income of decisions made now about taking time off work. Salience, I would say, is absolutely crucial to any resource.

The other aspect that I thought was very good about that resource was that it was, to a large extent, reaching parents through trusted intermediaries—midwives, health visitors and Sure Start centres. So there was this sense of not just trusting the messenger but cascading information. I have worked on cascading projects as well with Macmillan Cancer Care, where we have produced resources that train Macmillan nurses who then, as they deliver their nursing care, can also answer questions that people affected by cancer often have about financial issues around having a terminal disease. With the Women’s Institute, I have also done some cascading work whereby we worked with the leaders of the county organisations who then went away and cascaded their knowledge down through their local organisation. The church, through the credit champions network, has been doing a similar thing. That seems to me a very effective way of delivering financial capability. I would particularly like those two elements to still run through the work of the successor body.

The other things that are valuable are the phone-based and web chat services, particularly with The Pensions Advisory Service arm of the successor body. I have been so impressed by the material I have seen about TPAS advisers. When they get on the phone with people they are not talking to scripts; they are usually volunteers who have great pensions expertise, and they can talk to people and get to grips with the issues, which sometimes are multiple. Life is messy, and using a website or a script can take you so far, but at some stage people need someone who can talk to them about their own specific circumstances. I would like to see something of that ilk continue.

**Lord Northbrook:** Martin, do you have anything to add?

**Martin Upton:** Only that the evidence that the pensions work is needed is clear-cut. From the feedback and questions which we have from people

who study the financial courses we have put together for PUFIn, we know that, overwhelmingly, the big financial issue when people have major issues and do not understand matters is pensions. It is not debt so much, surprisingly, or investments or budgeting or insurance, although of course there are questions on those. Overwhelmingly, 80% of questions and concerns are about pensions. It is a big area for the successor body to MAS.

**Lord McKenzie of Luton:** Can I pick up that last point before I go into my set question? Is the particular issue around pensions at retirement about what to do with the options or levels of saving?

**Martin Upton:** Where do I start? First, people who are getting to the age of 50 or 60 and have not started to plan a pension, so they are asking, "What do I do?". People do not understand what is happening to state pensions; they do not understand that a flat rate state pension is not really a flat rate state pension, because it does not get into the detail. Then there are people who do not understand fully the new freedoms they have and are sometimes possibly even scared about exercising those freedoms, because they see the stories in the media about scams. I could carry on for another half an hour on that question. Sometimes there are very harrowing stories of people who have worked overseas and then come back to the UK but do not have a national insurance record. What happens to them now, when they are 50 to 60 years-old?

Q198 **Lord McKenzie of Luton:** My substantive question was around advice and guidance. In the written evidence you have presented to the Committee, you expressed concern about intended greater reliance on private services for advice and guidance. Could you expand on that a little and say more specifically what your concerns are?

**Jonquil Lowe:** Christine Farnish's report on MAS noted that there are lots of other websites that the public use and trust, and they are not necessarily impartial. I think her words were, "That's not an absolute requirement". I think I agree, up to a point. People get information and guidance from a wide range of sources, and it is often very good, but I think it is important that the public should be able to access impartial guidance, and distinguish between partial and impartial. They should be aware, if they are going to a site, say, from a provider or an intermediary, that there might be some spin and there might be follow-up sales calls. It is about people knowing what they are dealing with.

I am also rather concerned that a free-for-all might make scams easier. When Pension Wise was first set up, there was a copycat site. It was closed down fairly quickly—but will scams persist longer in a kind of private delivery system? It seems to me, possibly one answer would be to have some kind of quality mark, so that websites that are impartial, such as the Citizens Advice, Money Saving Expert and Which?, could have some kind of badge that would tell consumers, "Okay, you are dealing here with an impartial site", so they can distinguish and understand where the advice is coming from and how it might perhaps be framed as a result.

**Martin Upton:** I do not have anything to add to that.

**Lord McKenzie of Luton:** I should say, I think, the Government have just announced proposals to focus on scams and to seek to tackle cold-calling and all that.

**Jonquil Lowe:** Which is very welcome.

Q199 **Lord Haskel:** You have both told us quite a lot about surveys and how robust they are. What is your opinion of the Money Advice Service's financial capability survey? Maybe you worked on it.

**Jonquil Lowe:** Not on that one.

**Lord Haskel:** Does it provide up-to-date information on financial inclusion? Is there anything you would change? How reliable do you think it is?

**Jonquil Lowe:** I have not examined the methodology in detail, but I would assume that the MAS has the statistical number-crunching correct. Financial capability is always a construct; it is framed by the economics and politics of the day and the aims of financial capability. Not only will these change over time but they are not necessarily shared by all. One of the things that I noticed in the Money Advice Service survey is one of its possible indicators of reasons for a lack of financially capable behaviour might be that people are not happy to bank online. That is definitely the direction of travel we are in, but at the moment about half of over-65s do not engage with the internet, and they might be rather surprised to see that they are being told they are financially incapable as a result. In fact, the data show that older people tend to be more financially capable.

Another aspect I noticed was that financially capable behaviour includes shopping around for household and financial services. I have done some survey research recently, looking at 12 different services that people use on a regular basis, and whether they shop around for all of them. My research found that they shopped around for just over half of them, on average. Probing that further, I found that if people were to shop around for all those services—on average they would take about two hours for each service—that would mean spending perhaps two days a year. Coupling that with some other work that was done by Ofgem, which looked at how much people would expect to gain from shopping around, it seems that people are maybe putting quite a high value on their time, possibly as much as £120 an hour. That sounds very high, but we are talking here about people's leisure time, and the fact that people do not choose to spend all their leisure time looking for a second job suggests that we do value leisure time very highly. Surveys like this do not necessarily take into account that there is an opportunity cost to some of these financially capable behaviours. Quite rationally, people may wish to spend their time doing other things and, possibly, saving on their cognitive effort as well. Perhaps they would rather do a crossword than shop around.

These surveys are always rather framed by the current thinking on what financial capability is. They need to change these surveys as time goes on, as those views shift. Interestingly, with shopping around, I noticed the other day that there is now a fintech company called Trussle, which is a mortgage intermediary. For people who take out a mortgage through that organisation, it will do continuous shopping around and alert them on a regular basis to when it might be in their interests to switch. Technology may overtake us; perhaps we will not need to put any effort into shopping around in future, and surveys will need to change to reflect that. As surveys change, though, it means that it is not so easy to use them to say, "That was the baseline then—look, financial capability has improved", because the concept is shifting over time. These surveys are tricky beasts.

**Lord Haskel:** Martin, you said you are going to do another survey with the Money Advice Service.

**Martin Upton:** We are indeed, yes.

**Lord Haskel:** Are you going to avoid these pitfalls?

**Martin Upton:** With Jonquil on hand, I am sure we will.

Q200 **Lord Shinkwin:** Your written evidence identified people for whom markets may not be able to produce supportable solutions—for instance, in the insurance and short-term credit sectors—and for whom a social policy response might be necessary. My question is in three parts. First, could you give us examples of potential responses that you feel would meet the needs of such people? Secondly, how should these responses be paid for? Lastly, how could existing initiatives targeting these groups achieve greater uptake?

**Jonquil Lowe:** To start with some examples from insurance, there are two main examples where the Government have brokered solutions that the industry was, possibly, not going to come up with itself. The first, I would suggest, is the moratorium on genetic testing for life and health insurance. This is where the insurance industry has agreed that the results of predictive genetic tests will not be used at all for life insurance up to £500,000, critical illness cover up to, I think it is, £300,000, and income protection insurance up to £30,000. Above those limits, the tests will be used only if an independent panel has said that that is okay, and only one test has so far been approved.

The other example is the recent Flood Re insurance scheme. The Government did broker an agreement back in 2000, I think, with the insurance industry to make sure that houses at risk of flooding could still be insurable, but the cost of the insurance has often been high. More recently, with the passing of the Water Act 2014, there is the Flood Re scheme which enables insurers to reinsure the risk of those flood-risk houses with the Flood Re scheme, financed by a levy across the industry. The levy most likely is being passed on to customers in higher premiums. In both those examples, the larger pool of insurance customers are cross-

subsidising those higher risks. Those are schemes that the Government brokered. Presumably, the Government saw wider social issues. With genetic testing, it is not in the interests of society as a whole to have a disincentive to taking predictive genetic tests if it might, for example, save passing on the genes. The same with the flood risk, which has a knock-on effect on the housing market. That might be one indicator of where there is a role for social policy—that it is not just an individual issue but there is this bigger social issue. With insurance, there has not been a need to incentivise people to take part, because the consumers are all covered anyway.

You asked also about short-term credit. There has been an issue with the very welcome cap on payday lending and the far less welcome squeeze on benefits through the universal credit system, which National Trading Standards has cited as factors that might lead to an increase in loan shark activity. I notice that the Government said in the autumn financial statement that they will put money into an initiative to increase credit union membership in communities that are at particular risk from loan sharks, and that is being funded out of the proceeds of bringing loan sharks to justice. However, even if that money were not available, once we have identified this as an issue, it is an issue that should probably be funded. There is hypothecation going on here—a certain pot of money is available—but if the cause is just it would seem that it needs funding.

I am not sure I can take it much further. You asked whether these cross-subsidies should exist. That is a normative question, and there is no objective way to answer that. If society thinks an issue is important and conveys that to Parliament, it would seem right that social policies should step in.

**The Chairman:** Martin, do you want to add at all?

**Martin Upton:** I want to reinforce the point about what is happening with payday loans and the new regulations which have applied there. Clearly, while we welcome that initiative, there is the concern that by cutting off this source of credit for people, unless they have access to credit unions, they will fall foul of unregulated lending. I believe there has been research in Australia which has identified this as an issue, and I think we need to be alive to it.

Q201 **Lord Fellowes:** I wonder if you could expand a bit. What does your research tell us about how people could be encouraged to save more? How can any proposals arising from this research be put into place?

**Martin Upton:** PUFin did some research on this for the British Bankers' Association a relatively short time ago. To start off, we found that 32% of UK adults have no savings at all. It is not a case of, "Can you save more?" but, "Can you even start to save at all?".<sup>1</sup> You have to wonder if

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<sup>1</sup> Note by witness: The UK figure is in fact 27% (2014); 32% relates to the average for 13 European countries.

the impact of changes to government benefits may increase that group of people who cannot afford to save at all.

The other problem is that for people who are on slightly higher incomes, who have some scope to save, the availability of credit is an alternative, which means if you get into problems and you need some money to pay for work on the house or for new white goods, or whatever, you can use a credit card or a bank loan. There is a borrow-to-spend culture within the country and, as a consequence, the availability of funds which you can borrow acts as a disincentive to build up your own savings. In trying to be more positive on what could be done, should we explore more closely whether we should have automatic enrolment into workplace ISAs? That is one measure of developing savings—something which can nudge behaviour towards putting money aside at the start of the month rather than waiting to find what you have at the end of the month and save that. By the time you get to the end of the month, you have probably spent it anyway. Possibly development around that area could help.

I have to say that the Government have done a lot in recent years to try to encourage savings behaviour, with the tax breaks on ISAs, which are substantial, and the introduction of Help to Buy ISAs, as well as the new LISAs provide sufficient encouragement and bonuses for people to save, although LISAs are directed towards first-time house purchase and pensions. So long as there is this availability of finance in multiple forms of credit, and so long as the majority of people who are homeowners have equity of some sort within their property, they will say, "If I need to get hold of money I have a credit card, I can get a bank loan or I can make use of the equity on my property, so why do I need to save?". I have heard people say in the last few weeks, "My house is my pension". I think they are slightly naive about how that would translate into a pension, particularly if you look at annuity rates, but that is what they are saying and what they are thinking. Therefore, that will impact on savings behaviour adversely.

**Jonquil Lowe:** It is important to distinguish between the non-savers who can afford to save and the non-savers who cannot. We have heard a lot recently about the "just about managing" households who, by definition, are spending 100% or 101% of their income. The Resolution Foundation thinks that is 6 million households, which is an awful lot. The Government's Help to Save scheme is great—it is a matched-saving scheme—but their own figures suggest that 3.5 million people are eligible, and the way they have costed it suggests that they think very few will take up the scheme. I am concerned that people are not put in a Catch-22 position where they are told that they must take responsibility for their own financial security when they do not have the means to do that.

**Martin Upton:** We need more education about the different ways in which you can save. If you save currently into a cash account, given where inflation is, you are losing money. If people can be encouraged to

take a long-term view on their investments, they could be encouraged into investments which will produce real returns over term.

**The Chairman:** Can you clarify the source of the 32% figure you quoted? I think you said “of households”?<sup>2</sup>

**Martin Upton:** I would have to go back to the evidence which we provided.

**The Chairman:** Would you? Thanks very much. Bishop of Birmingham, did you wish to come in?

**Bishop of Birmingham:** No, that is fine.

**The Chairman:** Could I ask, Lord Holmes, if there are any questions of any description you would like to ask?

**Lord Holmes of Richmond:** No, thank you. A lot of what you have covered has chimed with our previous sessions, and it was very good to have received your evidence today.

Q202 **The Chairman:** Thank you very much. If there is one thing you would most like this Committee to focus on and make a key recommendation on when drawing up its final report, what would that be? What is top of your wish list?

**Jonquil Lowe:** Top of my wish list—and this comes out of the access to financial services in the UK research that we did with the Financial Conduct Authority—would be that Governments and regulators in impact assessments and market studies should be automatically required to include consideration of the impact of policy on financial exclusion, whether it is negative or positive, who is affected, how many and in what way. That would do a lot to raise the visibility of the issues, which has to be the first step to tackling them.

**Martin Upton:** My one thought is that there should be one body, not necessarily a new body, which has responsibility for drawing together and co-ordinating all the initiatives aimed to reduce financial exclusion. We know from the work that we have done and the evidence that we have put forward that there need to be multiple solutions by a number of different bodies. If there is no co-ordination, the risk is things will slip between fingers.

**The Chairman:** It has been a very interesting and wide-ranging session, so thank you very much indeed for your time.

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<sup>2</sup> See earlier note by witness (Q201).