HOUSE OF LORDS

Liaison Committee

10th Report of Session 2019–21

# Tackling Financial Exclusion: A country that works for everyone?

## *Follow-up report*

Ordered to be printed 20 April 2021 and published 24 April 2021

Published by the Authority of the House of Lords

HL Paper 267

## *Liaison Committee*
The Liaison Committee advises the House on the resources required for select committee work and allocates resources between select committees; reviews the select committee work of the House; considers requests for ad hoc committees and reports to the House with recommendations; ensures effective co-ordination between the two Houses; and considers the availability of Lords to serve on committees.

## *Membership*
The Members of the Liaison Committee are:

Lord Bradley
Baroness Campbell of Surbiton
Lord Davies of Oldham
Baroness Hayter of Kentish Town
Earl Howe *
Lord Judge
Lord Lang of Monkton
Lord McFall of Alcluith (Chair)
Lord Smith of Hindhead
Lord Tyler
Baroness Walmsley

*Earl Howe recused himself for this inquiry on grounds of ministerial propriety.

## *Declaration of interests*
A full list of Members' interests can be found in the Register of Lords' Interests:
https://members.parliament.uk/members/lords/interests/register-of-lords-interests

## *Publications*
All publications of the Committee are available at:
https://committees.parliament.uk/committee/187/liaison-committee-lords/

## *Parliament Live*
Live coverage of debates and public sessions of the Committee's meetings are available at:
http://www.parliamentlive.tv

## *Further information*
Further information about the House of Lords and its Committees, including guidance to witnesses, details of current inquiries and forthcoming meetings is available at:
http://www.parliament.uk/business/lords

## *Committee staff*
The staff who worked on this inquiry were Philippa Tudor (Clerk), Lucy Molloy (Research Assistant) and Heather Fuller (Committee Assistant).

## *Contact details*
All correspondence should be addressed to the Liaison Committee, Committee Office, House of Lords, London SW1A 0PW. Telephone 020 7219 3130. Email hlliaisoncmttee@parliament.uk

# CONTENTS



Evidence is published online at https://committees.parliament.uk/work/1052/financial-exclusion-followup/ and available for inspection at the Parliamentary Archives (020 7219 3074).

Q in footnotes refers to a question in oral evidence.

# SUMMARY OF RECOMMENDATIONS

## Chapter 2: Inclusive financial services

### *Access to cash*

1. We recommend that the Government bring forward the measures announced in the 2020 budget to protect access to cash without delay and set out a timetable within six months of the publication of this report. We recommend that the Government include its plans to protect access to cash in its financial inclusion strategy and includes details of whom will have overall responsibility for maintaining access to cash. (Paragraph 15)

2. We recommend that the Government considers giving the FCA overall responsibility to meet the cash needs of consumers and SMEs and recommend that this is enshrined in law as part of the Statutory Duty of Care. (Paragraph 16)

### *Digital inclusion*

3. We continue to recommend that the Government should ensure that non-digital access to financial services, remains possible. Access via free telephone lines, and through face-to-face meetings where appropriate, should remain available indefinitely. (Paragraph 24)

4. We recommend that the FCA monitor and make recommendations to banks regarding inclusive design. We recommend that this be enforced by the duty of care and financial inclusion objective. More detail on these recommendations are in Chapter 3. (Paragraph 25)

### *Basic bank accounts*

5. We recommend that the Government expand the analysis on the basic bank accounts annual report to include evidence of how banks are ensuring access to basic bank accounts to their customers, including staff training to demonstrate how the industry is ensuring that the burden of providing the accounts is equally distributed. (Paragraph 33)

### *Bank branch and ATM closures*

6. We recommend that the Government formally review the powers available to the FCA, to mitigate the negative effects of bank branch and free ATM closures. This review should include provision of alternative services including banking hubs and Post Offices within a reasonable distance. (Paragraph 40)

### *The role of the Post Office*

7. We recommend that the Government considers incorporating the Banking Framework Agreement into the proposed legislation for protecting access to cash and makes membership of the Banking Framework Agreement compulsory for all retail banks operating in the UK. (Paragraph 48)

8. We recommend that the Government continue to work with the Post Office and UK Finance to roll out a public information campaign about the banking services that the Post Office offers. We recommend that the evaluation of the progress of the five-point plan is published within six months of the publication of this report and that a comprehensive, national, information campaign follows within 12 months. We suggest that this evaluation forms

part of the Government's financial inclusion strategy and is presented as a command paper as stated in recommendation 19. (Paragraph 49)

### *Control options*

9. The Committee welcomes the developments on gambling blocks. More progress is needed on control options and we recommend that the Government works with the FCA and other key stakeholders to ensure that all retail banks operating in the UK make control options available to their customers. We recommend that the requirement for banks to make control options available to their customers is upheld through the statutory duty of care. (Paragraph 55)

### *Affordable credit*

10. The Committee welcomes the news that deferred payment products will be regulated. This legislation should be brought forward without delay and the situation be kept under review by the FCA and the Government. (Paragraph 66)

11. The Committee welcomes the No-Interest Loan Pilot. The Committee recommends that the timescale and details on how this pilot will be evaluated are published within three months of this report's publication. The Government should consider if an additional scheme needs to be provided for those facing arrears on household costs due to the COVID-19 pandemic. (Paragraph 67)

12. The Committee recommends that the Government continue to work closely with the CDFI sector to develop long-term options for low and no-interest credit as part of its overall strategy for ensuring access to low-cost credit. Given the significant market gap between high-cost and low-cost credit, and the increase in low financial resilience amongst households due to the COVID-19 pandemic, the Government should act swiftly to set targets for widening access to affordable credit. (Paragraph 68)

### *Help to Save Scheme*

13. The Committee recommends that the Government review the four-year limit on the 'Help to Save' scheme with a view to extending the limit by two to four years. The Committee recommends that the Government consider allowing the savings account holders to have access to an account in the long-term without fund matching, in order to support the habit of saving and thus improve financial resilience amongst those on low incomes. (Paragraph 72)

### *Financial Education*

14. The Committee recognises the value of the partnerships between schools and other bodies to deliver financial education. Nevertheless, we recommend that ring-fenced, long-term funding should be made available to support financial education in schools and further education establishments. This funding should come primarily through the Department for Education. Financial Education should form part of the core curriculum from key stage one to key stage four. This financial education should be broad and have a practical application with focus on budgeting, saving, credit and associated risks, and digital banking. (Paragraph 80)

## Chapter 3: Leadership from Government and Proactive Regulation

### *The Financial Conduct Authority's objectives and a duty of care to customers*

15. The Committee welcomes the Financial Inclusion Policy Forum. Nevertheless, it cannot deliver the level of change required to result in meaningful and sustained financial inclusion in the UK. In order to ensure that financial inclusion is given due priority, the requirement for the FCA to promote it as a key objective and have the powers to enforce a statutory duty of care on banks is required. The Government must recognise this and put this into action. (Paragraph 96)

16. The Committee reiterates its recommendation that the Government should expand the remit of the FCA to include a statutory duty to promote financial inclusion as one of its key objectives. Government leadership of the financial inclusion agenda must be supported by proactive regulation. At present, the work of the FCA in this field is limited by the objectives defined in its statutory remit. (Paragraph 97)

17. The Committee reiterates its recommendation that the Financial Services and Markets Act 2000 should be amended, in order to introduce a requirement for the FCA to make rules setting out a reasonable duty of care for financial services providers to exercise towards their customers. (Paragraph 98)

### *The Government's Financial Inclusion Strategy*

18. The Committee reiterates its recommendation that the Government should set out a clear strategy for improving financial inclusion in the UK. The Government should lead and coordinate on the implementation and monitoring of this strategy. This should be one aspect of a wider Government strategy to address comprehensively the issue of financial exclusion. (Paragraph 102)

19. The Committee believes that the Financial Inclusion Policy Forum provides a valuable forum for discussion, however it cannot be a substitute for an overall strategy. The Committee maintains its position that such a strategy must be presented to Parliament as a Command Paper within 12 months of the publication of this report to allow for Parliamentary scrutiny. (Paragraph 103)

# Tackling Financial Exclusion: A country that works for everyone? Follow-up report

## CHAPTER 1: INTRODUCTION

1. This report is the third using the new follow-up procedure as outlined in the review of Committees.[1] In this report we examine the progress which has been made by the Government and key stakeholders on the implementation of some of the recommendations made by the Select Committee on Financial Exclusion in their report *Tackling financial exclusion: A country that works for everyone?*[2]

### The Select Committee on Financial Exclusion

2. The Select Committee on Financial Exclusion was appointed by the House on 25 May 2016 with the remit "to consider financial exclusion and access to mainstream financial services." Its report, published on 25 March 2017, made a number of recommendations, addressed to the Government and regulators. The Government responded to these recommendations on 7 November 2017, and the report and response were debated in the House on 18 December 2017. Lord McFall of Alcluith, the Senior Deputy Speaker and Chair of the Liaison Committee, wrote to the Economic Secretary to the Treasury, John Glen MP, regarding the report on 31 January 2019 as the first stage of the Liaison Committee's follow-up procedure. Replies were received on 13 February[3] and 30 May 2019[4].

3. Baroness Tyler of Enfield, who was Chair of the Select Committee on Financial Exclusion, wrote to Lord McFall on 25 March 2020 making the case for follow-up.[5] At its meeting on 14 September 2020 the Liaison Committee considered her proposal,[6] and on 5 February 2021, they agreed that the follow-up work should take place in March. The oral evidence sessions took place on 16 March 2021[7] when four members of the former Select Committee joined the Liaison Committee to hear evidence from eight witnesses over four sessions. Written evidence was received from four witnesses. The names of the members are recorded in Appendix 1, and those of the witnesses in Appendix 2.

1 Liaison Committee, *Review of House of Lords Investigative and Scrutiny Committees: towards a new thematic committee structure* (6th Report, Session 2017–19, HL Paper 398), para 68

2 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132)

3 Letter from John Glen MP, Economic Secretary to the Treasury to the Chair of the Liaison Committee (13 February 2019): https://old.parliament.uk/documents/lords-committees/liaison/Letter-from-John-Glen-MP-on-the-Select-Committee-on-Financial-Exclusion.pdf [accessed 19 April 2021]

4 Letter from John Glen MP, Economic Secretary to the Treasury to the Chair of the Liaison Committee (30 May 2019): https://old.parliament.uk/documents/lords-committees/liaison/Additional-Letter-from-John-Glen-MP-on-the-Select-Committee-on-Financial-Exclusion.pdf [accessed 19 April 2021]

5 Letter from Baroness Tyler of Enfield to Lord McFall of Alcluith, Senior Deputy Speaker and Chair of the Liaison Committee on follow-up to the Select Committee on Financial Exclusion.

6 Liaison Committee, Decisions document (14 September 2020): https://committees.parliament.uk/publications/3114/documents/29142/default/

7 Liaison Committee, 'Formal meeting (oral evidence session): Financial Exclusion: follow-up': https://committees.parliament.uk/event/3774/formal-meeting-oral-evidence-session/

4. Chapter 2 of this report sets out the financial exclusion landscape, including the key stakeholders and associated financial products and services. Chapter 3 details the Committee's overarching recommendations regarding the Government's financial inclusion strategy and the Financial Conduct Authority's objectives and powers. A glossary of terms and guide to key stakeholders are included in Appendix 3.

5. This report analyses the evidence received and makes further recommendations to the Government and the Financial Conduct Authority. The Committee looks forward to receiving the Government's response.

# CHAPTER 2: INCLUSIVE FINANCIAL SERVICES

## Understanding financial exclusion and financial inclusion

6. The Select Committee on Financial Exclusion's 2017 report did not seek to set out a precise definition of financial exclusion or inclusion, but instead referred to established research.[8] Its primary focus was to consider the "multiple causes and effects of financial exclusion and to give account to policy initiatives and proposals that were intended both to promote financial inclusion and address exclusion".

The report found that:

> "in public policy, the term 'financial exclusion' began to be used in the early 1990s, reflecting concern among geographers regarding bank closures. Subsequently, financial exclusion has come to describe the inability, difficulty or reluctance to access mainstream financial services, which, without intervention, can stimulate social exclusion, poverty and inequality."

It also concluded that the term 'financial inclusion' is now more commonly used.[9]

7. The report found that individuals could be described as experiencing financial inclusion if they have the ability to:

- Manage day-to-day financial transactions;
- Meet expenses (both predictable and unpredictable);
- Manage a loss of earned income; and
- Avoid or reduce problem debt.[10]

8. Evidence presented to the Committee showed that financial exclusion can "affect a wide range of people at various stages in life."[11] Those at risk included:

- Those on low incomes or living in poverty;
- Young people;
- Older people;
- People with difficulty accessing banks; and
- Those lacking digital access.

---

8 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132) para 15
9 *Ibid.*, para 12
10 *Ibid.*, para 13
11 *Ibid.*, para 20

9. Financial resilience has been defined as "the ability to cope financially when faced with a sudden fall in income or unavoidable rise in expenditure."[12] Financial resilience is a useful metric when seeking to understand who is experiencing, or at risk of financial exclusion, at any one time, across the population.

10. In 2017, the Committee found that 16.8 million people (40% of the working age population) had low financial resilience, with less than £100 in savings available to them at any time.[13] The report also found that the household savings ratio had been declining steadily since 2010.[14] Four years on, financial exclusion is still highly prevalent in the UK.

11. Given the COVID-19 pandemic, it is particularly important to not only understand but take action to tackle financial exclusion. The Committee heard that financial exclusion has been exacerbated by the pandemic and that millions are experiencing low financial resilience. Nisha Arora, Director of Consumer and Retail Policy at the Financial Conduct Authority (FCA), told us that there had been a "15% increase in people [who have] characteristics of [financial] vulnerability, as a result of COVID-19."[15] She went on to say that, 27.7 million adults in the UK (more than half of the population) are financially vulnerable.[16] Recent data from the IFS shows that the poorest fifth of the population have seen an average £170 per month decline in their bank balances between March and September 2020 due to the COVID-19 pandemic.[17] The COVID-19 crisis is expected to lead to long-term economic scarring[18] and increased unemployment[19] which will exacerbate financial exclusion among certain groups. It is crucial that the Government prioritises those experiencing and at risk of financial exclusion as we move out of the crisis.

### Access to cash

12. The Committee's 2017 report found that the "greater movement towards a cashless economy will put individuals at serious risk of social exclusion and

12 ONS, 'Financial resilience of households; the extent to which financial assets can cover an income shock', (April 2020): https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/financialresilienceofhouseholdstheextenttowhichfinancialassetscancoveranincomeshock2020–04-02 [accessed 19 April 2021]

13 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 38

14 *Ibid.*, para 39

15 Q 7 (Nisha Arora)

16 Q 7 (Nisha Arora) and Q 11 (Nisha Arora) see also, FCA, 'FCA finds the Covid-19 pandemic leaves over a quarter of UK adults with low financial resilience', (11 February 2021): https://www.fca.org.uk/news/press-releases/fca-finds-covid-19-pandemic-leaves-over-quarter-uk-adults-low-financial-resilience [accessed 19 April 2021]

17 IFS, *Spending and saving during the COVID-19 crisis: evidence from bank account data* (29 October 2020): https://www.ifs.org.uk/publications/15146 [accessed 19 April 2021]

18 House of Commons Library, *Coronavirus: Economic Impact* Briefing Paper, Number 8866, 9 April 2021. See also Andrew Bailey, Governor of the Bank of England, *Speech to the Resolution Foundation 'Getting over COVID'* (8 March 2021): https://www.bankofengland.co.uk/-/media/boe/files/speech/2021/march/getting-over-covid-speech-by-andrew-bailey.pdf [accessed 19 April 2021]

19 In their most recent labour market study, the ONS stated that "Data from our Labour Force Survey (LFS) show the unemployment rate continued to increase… while the employment rate continued to fall". ONS, 'UK Labour market overview, UK: March 2021', (23 March 2021): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2021 [accessed 19 April 2021]

marginalisation."[20] The evidence heard in the follow-up inquiry echoed this. Natalie Ceeney, who chaired the Access to Cash Review and is now Chair at Innovate Finance, told the Committee that unless the Government puts forward legislation that obliges "providers and regulators to have a regard to inclusion" then "we will lose the cash infrastructure that we have in Britain within 12 months".[21] This view was echoed by the Financial Inclusion Commission who said "without legislation, we could see the collapse of the cash infrastructure within 12–24 months."[22] Martin Lewis, who Chairs the Money and Mental Health Policy Institute and founded the consumer advice service, MoneySavingExpert.com, expressed the risks associated with digital payments and associated complacency around access to cash: "We should remember that many people are enjoying the move to a cashless society. That is almost a danger in itself. It becomes accepted by the mainstream that we do not need cash anymore, and therefore people do not consider the need to protect it."[23]

13. It is widely understood that, despite the increase in digital trends, access to cash is crucial for millions across the UK. Evidence from the Financial Inclusion Commission stated that "5.4 million adults still currently rely on cash to a great or very great extent in their day-to-day lives"[24] and Professor Rowlingson, Professor of Social Policy at the Centre of Household Assets and Savings Management, University of Birmingham, said that "seven million people say they would struggle without cash".[25] Martin Kearsley, Banking Director at the Post Office, told the Committee that access to cash was vital for "many vulnerable and less financially able customers [who] need to budget to the penny" and for those in "rural and urban-deprived areas where there is a limited network signal, where people cannot get online services."[26] The Post Office described themselves and Link (the largest cash machine network in the UK) as "the shoulders on which the country's cash currently sits." The Post Office was clear about the need for oversight of the cash network moving forward, stating that "a regulatory framework needs to be put in place that supports the accurate and robust safe provision of cash."[27]

14. In the 2020 budget, the Government announced that it would "bring forward legislation to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long-term."[28] A call for evidence was launched on 15 October 2020[29] and concluded on 25 November 2020. The

20 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 3
21 Q 5 (Natalie Ceeney)
22 Written evidence from Financial Inclusion Commission (FEF0003)
23 Q 1 (Martin Lewis)
24 Written evidence from Financial Inclusion Commission (FEF0003)
25 Professor Rowlingson was the Specialist Adviser to the Financial Exclusion Committee during the 2017 inquiry.
26 Q 1 (Martin Kearsley)
27 Q 4 (Martin Kearsley)
28 HM Treasury, *Budget 2020* (March 2020), para 1.188: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf [accessed 19 April 2021]
29 HM Treasury, *Access to Cash: Call for Evidence* (October 2020): https://www.gov.uk/government/publications/access-to-cash-call-for-evidence [accessed 19 April 2021]

Government is yet to publish the proposed summary of responses[30] or set out the timelines for the proposed legislation.

15. **We recommend that the Government bring forward the measures announced in the 2020 budget to protect access to cash without delay and set out a timetable within six months of the publication of this report. We recommend that the Government include its plans to protect access to cash in its financial inclusion strategy and includes details of whom will have overall responsibility for maintaining access to cash.**

16. **We recommend that the Government consider giving the FCA overall responsibility to meet the cash needs of consumers and SMEs and recommend that this is enshrined in law as part of the Statutory Duty of Care.**

## Digital inclusion

17. The Committee's report found that digital inclusion needed to be tackled in parallel with financial inclusion, to ensure that it did not cause or exacerbate financial exclusion.[31] Digital inclusion requires access to infrastructure (digital devices and internet), skills (the knowledge and confidence to use the devices and an understanding of how the internet works) and accessibility (assistive technology and accessible design for those with disabilities or additional needs).[32]

18. The COVID-19 pandemic shone a light on digital exclusion across the country, as internet access and digital skills have become increasingly important for accessing a wide range of services, including financial ones during periods of lockdown.[33] According to recent figures from the ONS, 6.3% of adults in the UK have never used the internet.[34] A recent study by Lloyds Bank showed that an estimated 9 million (16%) are unable to use the internet and their device by themselves.[35]

19. In 2017 the Committee heard evidence of the 'digital dividend' whereby some low-income families could save around £516 a year by switching to digital banking. Evidence shows, however, that low income families are more likely to struggle obtaining access to the internet and digital devices in the first place. The latest data from the ONS shows a negative correlation between income and access to the internet, in 2019 only 51% of households earning

---

30 "Following the call for evidence, the government will provide a summary of responses and will set out next steps for its work on cash access, including delivering the commitment made at Budget 2020 to bring forward legislation to protect access to cash." HM Treasury, *Access to Cash: Call for Evidence*, (October 2020), para 7.2: https://www.gov.uk/government/publications/access-to-cash-call-for-evidence [accessed 19 April 2021]

31 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 245

32 House of Commons Library, *Digital infrastructure, connectivity and accessibility* Debate Pack, CDP 2020/0162, 2 December 2020

33 Parliamentary Office for Science and Technology, *COVID-19 and the digital divide* (17 December 2020): https://post.parliament.uk/covid-19-and-the-digital-divide/ [accessed 19 April 2021]

34 ONS, 'Internet users, UK: 2020': https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/internetusers/2020 [accessed 20 April 2021]

35 Lloyds Bank, *UK Consumer digital index 2020*, (2020), p 4: https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/lb-consumer-digital-index-2020-report.pdf [accessed 19 April 2021]

between £6,000–10,000 had home internet access compared with 99% of households with an income of over £40,001.[36]

20. Contrastingly, the online bank Monzo, told us that for many young people, digital banking was accessible and more inclusive than in branch services. The majority of Monzo's customer base are 18–35 years old and it is estimated that 99% of that age group use the internet, compared to 52% of the over 75s.[37] Monzo argue that traditional banking models do not necessarily meet the needs of this age group and that "in-branch support, for example, is inconvenient and inaccessible when compared to tailored in-app support to meet their needs."[38] Monzo told us that in contrast to more traditional banks they "aim to design products and services to meet people where they are to communicate in ways they understand, and through channels they're comfortable with."[39] Nevertheless, Monzo is not a full service retail bank. And some services, typically ones requiring proof of identity such as changing one's name on a mortgage, can't currently be completed online or via the telephone.[40]

21. Monzo have also taken steps to ensure that their services are accessible for people with disabilities. For example, Monzo's features enable deaf users to "'say or sign' the elements of [their] electronic identification process that require users to speak in English." Monzo stated that "more work must be done to ensure that online banking remains accessible for deaf people."

22. When asked about how to pre-empt and identify people's needs before they become subsumed by them, the FCA told us that "We have defined vulnerability in very broad terms ... our guidance says to firms that they have to think early; they have to pre-empt the problems. They cannot just react and deal with events as they happen, when harm has already occurred".[41] Nevertheless, these measures are guidance and the FCA is unable to enforce a duty of care on banks, and the incentives for banks, as commercial enterprises, to prioritise vulnerable customers, are limited.

23. The Committee's 2017 report concluded that, "for an online offering to be truly financially empowering, it must have an offline presence, be that by phone or ideally face-to-face."[42] The report expressed support for initiatives undertaken by the FCA and some high street banks to assist their customers in improving their digital skills.[43] The Committee's report recommended that the Government and regulators work together to develop new platforms and apps designed to encourage take-up amongst older people[44] as evidence

---

36 ONS, *Exploring the UK's digital divide* (March 2019): https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/articles/exploringtheuksdigitaldivide/2019–03-04 [accessed 19 April 2021]

37 Written evidence from Monzo (FEF0004), see also Ofcom, *Adults' Media Use & Attitudes report* (2019) p 3: https://www.ofcom.org.uk/__data/assets/pdf_file/0021/149124/adults-media-use-and-attitudes-report.pdf [accessed 19 April 2021]

38 Written evidence from Monzo (FEF0004)

39 *Ibid.*

40 Lloyds Bank, 'Changing the name on your mortgage account': https://www.lloydsbank.com/mortgages/help-and-guidance/managing-your-mortgage/make-a-change/changing-names-on-mortgage.html [accessed 12 April 2021]

41 Q 11 (Nisha Arora)

42 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?*, (Report of Session 2016–17, HL Paper 132), para 246

43 *Ibid.*, para 157

44 *Ibid.*, para 166

showed that this group was at high risk of financial exclusion due to the increase in mobile banking.[45]

24. **We continue to recommend that the Government should ensure that non-digital access to financial services, remains possible. Access via free telephone lines, and through face-to-face meetings where appropriate, should remain available indefinitely.**

25. **We recommend that the FCA monitor and make recommendations to banks regarding inclusive design. We recommend that this be enforced by the duty of care and financial inclusion objective. More detail on these recommendations are in Chapter 3.**

### Basic bank accounts

26. Basic bank accounts (a transactional bank account which is fee-free for standard operations) have an important role to play in financial inclusion. Most provide direct debit facilities, a debit card and access to cash machines and over-the-counter banking. They do not provide overdraft facilities and customers do not have to pass a credit check to open this type of account.[46] First introduced to the UK in the 1990s, they are underpinned by a memorandum of understanding between HM Treasury and a number of banks.[47] However, the 2017 report found that the cost burden of basic bank accounts was not being shared equally amongst the sector.[48] The 2017 report recommended that "the Government should address the concerns expressed to us that not all banks are issuing an equivalent proportion of these accounts, and that the cost burden of offering the accounts is not shared appropriately across the sector."[49]

27. In 2021, the Committee heard evidence that "[the Treasury] looks to ensure that there is relatively even distribution across those brands, based as a proportion ... of market share."[50] Nevertheless, the most recent Treasury basic bank accounts report shows that disparities between market share and basic bank account provision remain.[51] The report shows that the uptake of

---

45 *Ibid.*, Figure 1

46 FCA, 'Retail banking: our review of Basic Bank Accounts', (11 February 2020): https://www.fca.org.uk/publications/multi-firm-reviews/retail-banking-our-review-basic-bank-accounts [accessed 19 April 2021]

47 The nine largest personal current account providers are designated to provide basic bank accounts that comply with the Payment Accounts Regulations 2015 (PARs). These firms are: Lloyds Banking Group (including Halifax and Bank of Scotland brands), Royal Bank of Scotland (including NatWest and Ulster Bank brands), Barclays, HSBC, Santander, Nationwide Building Society, TSB, Clydesdale and Yorkshire Banks and Co-operative Bank. HM Treasury, *Basic bank accounts: July 2018 to June 2019*: https://www.gov.uk/government/publications/basic-bank-accounts-july-2018-to-june-2019 [accessed 21 April 2021]

48 Government reporting regarding the basic bank accounts showed "a disparity between the numbers of basic bank accounts being opened by the various banks. Lloyds were still opening more than twice as many as any other bank, while the Co-operative and Clydesdale/Yorkshire Banks were opening a notably large number in proportion to their relatively small market share." Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 197

49 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 204

50 Q 15 (Eric Leenders)

51 HM Treasury, *Basic Bank Accounts July 2018 to June 2019* (December 2019): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853887/Basic_Bank_Accounts.pdf [accessed 19 April 2021]

basic bank accounts is increasing[52] with almost 7.5 millon open as of 30 June 2019.[53]

28. However, according to our witnesses, issues around the promotion of the accounts to eligible customers remain.[54] The Committee heard from Martin Lewis, Founder of The Money and Mental Health Policy Institute, that situations can occur where "someone who ... has a poor credit score and will not get a bank account is still given a personal account application form and not told up front about basic banking."[55] UK Finance told the Committee that training varies between banks, "different brands take slightly different approaches to their training" with some banks opting to "formalise it with qualifications through recognised professional bodies".[56] UK Finance explained that "as with all organisations, although the intention is always to get it right every time, I am sure that mistakes occur on occasion."[57]

29. The 'Revised Basic Bank Account Agreement' (2014) states that:

> "Basic Bank Accounts will be:
>
> - Visible to potential customers alongside full-service accounts; and;
> - Made available across all distribution channels normally used by the provider in line with their national reach."[58]

However, evidence from witnesses and recent research shows that these aspects of the agreement are not always honoured.

30. Mystery shopper research conducted by the FCA revealed that:

> "bank staff did not often identify potential eligibility or give any information on basic bank accounts until quite late in the interaction, if at all and frequently failed to identify suitable identification and/or encouraged the mystery shoppers to get unrequired additional proof of identity which would have resulted in an additional cost."[59]

As a result of this research, the FCA stated that it wanted to "encourage all firms to create a customer journey which is inclusive of all customers and their needs".[60]

31. Nevertheless, some witnesses were sceptical about the efficacy of these measures, with Professor Rowlingson suggesting that "encouragement' may not be enough"[61] and Natalie Ceeney stating that "one cannot survive in

52 Written evidence from Professor Rowlingson (FEF0001)

53 At 30 June 2019, there were 7,416,210 basic bank accounts open at the designated institutions. HM Treasury, *Basic Bank Accounts July 2018 to June 2019*, (December 2019) p 5: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853887/Basic_Bank_Accounts.pdf [accessed 19 April 2021]

54 Written evidence from Professor Rowlingson (FEF0001)

55 Q 1 (Martin Lewis)

56 Q 15 (Eric Leenders)

57 *Ibid.*

58 HM Treasury, *Transparency Data, Revised basic bank account agreement* (15 December 2014): https://www.gov.uk/government/publications/revised-basic-bank-account-agreement [accessed 19 April 2021]

59 FCA, *Retail banking: our review of Basic Bank Accounts* (February 2020): https://www.fca.org.uk/publications/multi-firm-reviews/retail-banking-our-review-basic-bank-accounts [accessed 19 April 2021]

60 *Ibid.*

61 Written evidence from Professor Rowlingson (FEF0001)

today's society without basic banking and without access to payments. I think we need to… look for structural change [and] put a legal obligation on the banks to provide services to all customers who need them."[62]

32. The Committee's 2017 report recommended that "the Government ... require banks to promote their basic bank accounts appropriately and effectively, both in store and in advertising."[63] The report also recommended that the "Government address the concerns expressed to us that not all banks are issuing an equivalent proportion of these accounts, and that the cost burden of offering the accounts is not shared appropriately across the sector."[64]

33. **We recommend that the Government expand the analysis on the basic bank accounts annual report to include evidence of how banks are ensuring access to basic bank accounts to their customers, including staff training to demonstrate how the industry is ensuring that the burden of providing the accounts is equally distributed.**

### Bank branch and ATM closures

34. The Committee's report found that 53% of UK bank branches closed between 1989 and 2016.[65] The 2017 report concluded that "the trend towards a growing number of bank branch closures is contributing towards financial exclusion, particularly for vulnerable customers who experience difficulties accessing alternative services."[66] The trend of bank branches closing has continued[67] and the Committee heard evidence that free to use ATM machines were on the decline,[68] particularly in disadvantaged areas[69] which some witnesses argued was leading to a 'poverty premium' where those on lower incomes pay more for services.[70]

35. The Financial Inclusion Commission said that "the poverty premium means that poor people still pay more for essential goods and services compared to those on higher incomes" and "it is estimated that 99% of low-income households pay at least one poverty premium".[71] Professor Rowlingson told us that:

> "The rates of losing these machines is higher in more disadvantaged areas where the need for them is greater. This is consequently leading to a growth in the number of machines that generally charge up to £2 per cash withdrawal ... since 2018, two Birmingham constituencies—Hall

62 Q 1 (Natalie Ceeney)
63 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?*, (Report of Session 2016–17, HL Paper 132), para 204
64 *Ibid.*
65 *Ibid.*, para 35
66 *Ibid.*, para 263
67 House of Commons Library, *Bank branch and ATM statistics* Briefing Paper, CBP08570, 19 April 2021. "In 2019 there were 10,405 bank or building society branches in the UK. Of these 8,525 were bank branches and 1,880 were building society branches. Since the mid-1990s, the number of bank branches in the UK has been falling steadily, whilst the number of building society branches has been broadly steady. Between 2012 and 2019, the total number of bank and building society branches in the UK has fallen by 22%."
68 Written evidence from Financial Inclusion Commission (FEF0003),"We are extremely concerned that the rapid rate of bank branch closures and mothballing of ATMs18 will leave people behind unless the government takes swift and effective action."
69 Written evidence from Professor Rowlingson (FEF0001)
70 Written evidence from Financial Inclusion Commission (FEF0003), see also, written evidence from Professor Rowlingson (FEF0001) .
71 Written evidence from Financial Inclusion Commission (FEF0003)

Green and Hodge Hill—have seen 44% and 40% reductions in free-to-use ATMs respectively, but both had a 59% increase in pay-to-use machines. These locations are within the top 10% for deprivation in England."[72]

36. The Access to Banking Protocol was launched by the British Banking Association (now UK Finance) in 2015 as a way of mitigating the impact of branch closures.[73] The protocol was reviewed in 2017[74] and is now known as the 'Access to Banking Standard' and is currently overseen by the Lending Standards Board who publish yearly summary reports on the measures.[75] The Standard "sets out requirements to inform customers and stakeholders about a branch closure and the reasons behind the decision to close, advising of the options they have to continue to access banking services … and providing specialist help to those that need it."[76]

37. The Standard is voluntary, and evidence received in both inquiries suggests its impacts on bank branch closures to be limited. In 2017, the Committee found that "No witnesses, could point to any occasion where a bank had reversed branch closure decision following the Protocol process."[77] In 2021, when asked what the point of the consultations were if the decision to close was never overturned, Eric Leenders of UK Finance said that "I take very personally the industry's view that it does not close branches lightly" and that "ultimately, as a trade association, it is certainly not for us to intervene in a commercial decision by a bank to close one of its branches".[78]

38. In 2020, The Financial Conduct Authority (FCA) published guidance for firms that stated that they "should consider the impact of a planned closure or conversion of branches or ATMs on their customers' everyday banking needs."[79] This guidance is set to be reviewed in September 2021.[80] They told the Committee that:

"Through our statutory ambit, we have been able to say to banks during [the pandemic], 'When you're thinking about closing branches, you must ensure that you think about the vulnerabilities of the population in the community where that branch resides. You must make an assessment of

72 Written evidence from Professor Rowlingson (FEF0001)
73 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 220
74 UK Finance, 'High street banks announce new Access to Banking Standard' (July 2017): https://www.ukfinance.org.uk/high-street-banks-announce-new-access-banking-standard [accessed 19 April 2021]
75 Lending Standards Board, *Access to Banking Standard Summary Report* (February 2020): https://www.lendingstandardsboard.org.uk/wp-content/uploads/2020/02/Access-to-Banking-Standard-summary-report-February-2020.pdf [accessed 19 April 2021]
76 *Ibid.*
77 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?*, (Report of Session 2016–17, HL Paper 132), para 223
78 Q 19 (Eric Leenders)
79 FCA, 'FG20/3: Branch and ATM closures or conversions', (14 September 2020): https://www.fca.org.uk/publications/finalised-guidance/fg20-3-branch-and-atm-closures-or-conversions [accessed 19 April 2021]
80 The FCA website states that "This guidance applies from 21 September 2020. We'll review our guidance within the next 12 months in the light of market developments and/or the timing of forthcoming legislation [on access to cash] and will revise it if appropriate." FCA,' FG20/3: Branch and ATM closures or conversions', (14 September 2020): https://www.fca.org.uk/publications/finalised-guidance/fg20-3-branch-and-atm-closures-or-conversions [accessed 12 April 2021]

that and the impact on them. If you go ahead with closing the branch, you need to find other ways to service those people'".[81]

Current trends would suggest that bank branch closures are set to continue regardless, with recent announcements from major retail banks showing hundreds of bank branches are set to close in 2021 alone.[82]

39. Martin Lewis told us that it was unrealistic to expect banks to prioritise social responsibility over commercial interests, stating that the ultimate responsibility lay with the Government and the FCA "surely, it is for regulators and politicians to make sure that, if we need them to keep the bank branches open, they do so."[83] The FCA implied that their powers to prevent bank branch closures were limited, they told the Committee "we use our powers as flexibly as we can to support people in the financial inclusion space. However, if the Government wish us to go further, that would be a matter for them and how they wish to set our objectives."[84]

40. **We recommend that the Government formally review the powers available to the FCA, to mitigate the negative effects of bank branch and free ATM closures. This review should include provision of alternative services including banking hubs and Post Offices within a reasonable distance.**

### The role of the Post Office

41. There is a gap between the commercial led endeavours of the banks and the needs of the financially excluded. Martin Lewis told the Committee "I never attribute social responsibility to banks … they are there to make money for their shareholders."[85] The 2017 report recognised these gaps and concluded that the Post Office may be best placed to meet the needs of those at risk of financial exclusion as a result of bank branch and free ATM closures and the move towards digital banking.[86]

42. The 2017 report concluded that "The Post Office, with its extensive branch network, has the potential to meet the needs of such customers."[87] The Committee concluded that "This potential is currently unrealised, due to low levels of public awareness of the financial services available through Post Offices."[88] The report recommended that "the Government work proactively with the Post Office and banks to fund and launch an extensive public information campaign on the banking services that are available through Post Office branches. The Government—as sole shareholder in Post Office

81 Q 8 (Sheldon Mills)
82 Santander, 'Santander announces change to UK branch network', (25 March 2021): https://www.santander.co.uk/about-santander/media-centre/press-releases/santander-announces-changes-to-uk-branch-network-0 [accessed 19 April 2021], Barclays, 'UK branch closures',: https://home.barclays/society/esg-resource-hub/reporting-and-disclosures/uk-branch-closures/ [accessed 21 April 2021], see also Unite the Union, 'Lloyds announces 56 bank branch closures', (18 November 2020): https://www.unitetheunion.org/news-events/news/2020/november/lloyds-announces-56-bank-branch-closures/ [accessed 19 April 2021] and Which?, 'Bank branch closures: is your local bank closing?', (March 2021): https://www.which.co.uk/money/banking/switching-your-bank/bank-branch-closures-is-your-local-bank-closing-a28n44c8z0h5 [accessed 19 April 2021]
83 Q 2 (Martin Lewis)
84 Q 8 (Sheldon Mills)
85 Q 2 (Martin Lewis)
86 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 236
87 *Ibid.*
88 *Ibid.*

Ltd—should also ensure that the Post Office provides adequate training for staff at branches within retail outlets, so that they can carry out banking services for customers with confidence and competence."[89]

43. In 2021, the Post Office told us that, regarding access to cash, "Since 2017, we have not seen a great deal of direct intervention or guidance from government" they felt that due to the planned legislation to safeguard cash that "this is set to change".[90] Nevertheless, they described a situation in which without the legislation "we are left with essentially commercial considerations, and that brings with it, weakness."[91] One example they referred to was when Barclays announced in 2019 that they would withdraw from the Banking Framework Agreement[92] with the Post Office Ltd.[93] The announcement was heavily criticised by consumer bodies,[94] the Payment Systems Regulator[95] and MPs.[96] Barclays subsequently reversed their decision ahead of being asked to appear before the Business, Energy and Industrial Strategy (BEIS) Committee to give public evidence regarding the matter.[97] Membership of the Banking Framework Agreement is voluntary and is a confidential arrangement between the Post Office and banks.[98]

44. Concern over the long-term viability of the Banking Framework Agreement was highlighted by witnesses. The Post Office told us "Banks, quite rightly, are free to choose how they offer their services. If the commercial aims of the Post Office and the banks do not align, we will see that fragment even more."[99] The then Chair of the BEIS Committee, Rachel Reeves MP, has also raised concerns about the funding model of the Post Office, calling on the Government to "step forward with a long-term funding commitment beyond 2021 to support the Post Office network."[100]

---

89 *Ibid.*, para 237
90 Q 1 (Martin Kearsley)
91 *Ibid.*
92 In January 2017, the Post Office signed a three-year agreement with the UK's major banks, to provide nearly all of the large banks' everyday banking services including depositing cash and cheques and reviewing balances. In return, the banks paid the Post Office for providing these services.
93 Q 1 (Martin Kearsley), see also Business, Energy and Industrial Strategy Committee, *Future of the Post Office Network* (First Report, Session 2019–21, HC 247)
94 Which?, 'Which? responds to Barclays announcement that customers will no longer be able to access cash from Post Office', (October 2019): https://press.which.co.uk/whichstatements/which-responds-to-barclays-announcement-that-customers-will-no-longer-be-able-to-access-cash-from-post-office/ [accessed 19 April 2021]
95 Payment Systems Regulator, 'PSR responds to Barclays's announcement about the removal of cash withdrawal services from Post Office branches', (October 2019): https://www.psr.org.uk/news-updates/latest-news/news/psr-responds-to-barclays-s-announcement-about-the-removal-of-cash-withdrawal-services-from-post-office-branches/ [accessed 19 April 2021]
96 Barclays's withdrawal from the banking framework with Post Office Ltd, EDM 27, 15 October 2019
97 Rachel Reeves, Chair of the Business, Energy and Industrial Strategy (BEIS) Committee has responded to the decision: "Barclays has finally read the writing on the wall and caved to public and political pressure to dump this woefully misguided policy. I met with Barclays yesterday and as a Committee we were very keen that they should face proper public scrutiny for their actions." House of Commons Business, Energy and Industrial Strategy Committee, *Barclays Admit Defeat* (24 October 2019): https://old.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/news-parliament-2017/post-office-network-report-published-19-20/ [accessed 19 April 2021]
98 Business, Energy and Industrial Strategy Committee, *Future of the Post Office Network* (First Report, Session 2019–21, HC 247) para 108
99 Q 1 (Martin Kearsley)
100 Business, Energy and Industrial Strategy Committee, 'Barclays Admit Defeat', (24 October 2019): https://old.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/news-parliament-2017/post-office-network-report-published-19-20/ [accessed 19 April 2021]

45. Natalie Ceeney, who chaired the Access to Cash Review, told the Committee about the Access to Cash pilot[101] which will commence in September 2021, in which banking hubs will be set up which will "be an advance on the current Post Office model … and will have community bankers coming in to provide a personal banking service to supplement the Post Office service."[102] Natalie Ceeney explained that if successful, the model could potentially "protect people from the impact of branch closures by utilising the Post Office system and infrastructure, while reducing costs to the banks by allowing them to share services."[103]

46. The Government stated that the Post Office had a significant role to play given the changing landscape of banking. In 2018, the Post Office announced a five-point plan alongside UK Finance to raise the profile of banking services available through the Post Office.[104] This included two trial publicity campaigns in the North West of England and in Dumfries and Galloway.[105] UK Finance and the Post Office are due to complete an evaluation of these pilots and report back to HM Treasury with the results. In correspondence, the Economic Secretary to the Treasury, John Glen MP, told us that "I expect to be updated of their continued progress".[106] There does not, however, appear to be any updates available to the public on this matter and there doesn't seem to be any mention of the five-point plan on the Post Office's and UK Finance's websites since the initial announcement in 2018.

47. Mr Glen told us that "Post offices can provide 95% of business banking requirements, and 99% of personal banking requirements across their 11,500 branches". He also said that "95% of the total population lives within three miles of a post office."[107] Mr Glen stated that in the future "We will have to see more collaboration between banks, and the use of the post office as we try to ensure that we have resilience in access to banking for everyone" he acknowledged that this may be in a "different form than perhaps a generation ago."[108] The Government said that they were in close contact with the Post Office via the Financial Inclusion Policy Forum.[109] The HM Treasury *Financial Services Future Regulatory Framework Review*[110] is in its phase two consultation stage briefly mentions the access to cash review, in

101 Community access to cash pilots, 'About: Background to the Community Access to Cash Pilots': https://communityaccesstocashpilots.org/ [accessed 19 April 2021]
102 Q 3 (Natalie Ceeney)
103 *Ibid.*
104 Post Office, 'Raising the Profile of Banking Services', (April 2018): https://www.onepostoffice.co.uk/secure/latest-news/our-products/raising-the-profile-of-banking-services/ [accessed 19 April 2021]
105 HM Treasury, *Financial Inclusion Annual report 2018–2019*, (March 2019) para 1.9: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/789070/financial_inclusion_report_2018–19_web.pdf [accessed 19 April 2021]
106 Letter from the Economic Secretary to the Treasury, to the Chair of the Liaison Committee (30 May 2019): https://old.parliament.uk/documents/lords-committees/liaison/Additional-Letter-from-John-Glen-MP-on-the-Select-Committee-on-Financial-Exclusion.pdf [accessed 19 April 2021]
107 Q 25 (John Glen MP)
108 *Ibid.*
109 Letter from the Economic Secretary to the Treasury, to the Chair of the Liaison Committee (30 May 2019): https://old.parliament.uk/documents/lords-committees/liaison/Additional-Letter-from-John-Glen-MP-on-the-Select-Committee-on-Financial-Exclusion.pdf [accessed 19 April 2021]
110 HM Treasury, *Financial Services Future Regulatory Framework Review Phase II Consultation*, (October 2020): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927316/141020_Final_Phase_II_Condoc_For_Publication_for_print.pdf [accessed 19 April 2021]

regards to 'innovation'.[111] Bank branch closures and the Post Office are not mentioned.[112]

48. **We recommend that the Government considers incorporating the Banking Framework Agreement into the proposed legislation for protecting access to cash and makes membership of the Banking Framework Agreement compulsory for all retail banks operating in the UK.**

49. **We recommend that the Government continue to work with the Post Office and UK Finance to roll out a public information campaign about the banking services that the Post Office offers. We recommend that the evaluation of the progress of the five-point plan is published within six months of the publication of this report and that a comprehensive, national, information campaign follows within 12 months. We suggest that this evaluation forms part of the Government's financial inclusion strategy and is presented as a command paper as stated in recommendation 19.**

### Control options

50. The Committee's report found that "people who are living with mental health problems are particularly likely to be victims of financial exclusion."[113] The Committee heard that these people were "more likely to be out of work or living unstable lives which were beyond their control, meaning that they face multiple hardships due to lack of access to services, including financial services."[114] Control options can be particularly important for people with these conditions and can significantly reduce risk of financial harm. Control options can include but are not limited to: notifications of deviations from regular patterns of behaviour; restrictions from spending at certain merchant categories; time delays before processing large transactions; bank accounts and/or pre-pay cards with third party; joint control or partial joint control (such as authorisation of large transactions and/or particular merchant category code types); view-only privileges; and notification of specific behaviours only (such as gambling or large transactions).[115]

51. The Committee's report concluded that much of the technology needed to develop control options was already in existence.[116] The Committee concluded that "banks and financial services providers should do more to provide support ... to customers experiencing mental health problems."[117] The 2017 report recommended that "the Government should work with the financial service industry and the FCA to develop and introduce a wider range of 'control options' for those customers who may experience mental health problems. Such options would allow people to opt in voluntarily to a series of controls which limit the potential financial harm."[118]

111 *Ibid.*, p 9
112 *Ibid.*
113 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 167
114 *Ibid.*
115 *Ibid.*, para 173
116 *Ibid.*, para 175
117 *Ibid.*
118 *Ibid.*, para 176

52. In 2021, the FCA told us:

> "Control options on spending is exactly one of the responses that can be put in place to mitigate the harm for people with vulnerabilities, particularly those with addictions or mental health problems. Indeed, control options, in particular gambling blocks, were one of the examples we put in our vulnerability guidance, to say to firms, 'This is how you can design really good products to avoid problems'".[119]

The FCA said that whilst they had seen "some good progress" in the roll out of control options, they "want to see more" and ultimately felt that "these initiatives [should be] taken up by firms across the whole financial services sector."[120] According to the FCA there is "often a disconnect between the support that is available and the awareness of customers that it is available, so take-up is not as high as it could be."[121]

53. Monzo was the first bank in the UK to launch a card-based gambling block back in 2018.[122] Several other banks including Barclays, Cashplus, HSBC, Lloyds Bank, Starling and Santander have since introduced similar controls.[123] Monzo told us that the tool has been effective for their users claiming that "more than 90% of customers who activate a gambling block keeping it in place in the long term."[124] Monzo said that in their view, card-based gambling blocks, are "simple to build, proven to work, and will help protect hundreds of thousands of people."[125] The House of Lords Select Committee on the Social and Economic Impact of the Gambling Industry's recent inquiry heard evidence on control options and gambling blocks and their report *Gambling Harm—Time for Action* recommended that "banks should work together with UK Finance to create an industry-wide protocol on blocking gambling payments, with at least a 48 hour cooling off period."[126]

54. UK Finance told us about the associated challenges with technical innovation when applied to finance, stating that "[technology] is moving at such a pace that it is very difficult for a regulator, or a legislator, to second-guess the direction in which it might go."[127] Monzo cited the pandemic and the trend in digital innovation as conditions which have led to an increased risk to vulnerable customers, they told us that "there have been a number of innovations in payments, accelerated by the pandemic, that have made it harder for firms to introduce a truly comprehensive payment blocker."[128] Monzo told us about the role of data sharing between banks, stating that under current provisions, "banks are not incentivised to collate or securely and anonymously share data on trends in consumer vulnerability." In their view, such measures are "crucial to seeing improved provision of services to help meet the challenges consumers are facing."[129] In reference to the

119 Q 11 (Nisha Arora)
120 *Ibid.*
121 *Ibid.*
122 Written evidence from Monzo (FEF0004)
123 University of Bristol, Personal Finance Research Centre, *A Blueprint for Bank Card Gambling Blockers* (July 2020): https://www.begambleaware.org/media/2217/bri-uni-gambling-a4-06_07_2020_final_report.pdf [accessed 19 April 2021]
124 Written evidence from Monzo (FEF0004)
125 *Ibid.*
126 Select Committee on the Social and Economic Impact of the Gambling Industry, *Gambling Harm–Time for Action* (Report of Session 2019–21, HL Paper 79) para 339
127 Q 17 (Eric Leenders)
128 Written evidence from Monzo (FEF0004)
129 *Ibid.*

Treasury's consultation on the revised regulatory framework for financial services, UK Finance stressed the importance of regulation keeping up with the pace of change, stating "the same service, the same risks and the same regulation" was imperative[130] The FCA said that what they were "encouraging firms to do, is to design inclusively" in order to proactively prevent harm.[131]

55. **The Committee welcomes the developments on gambling blocks. More progress is needed on control options and we recommend that the Government works with the FCA and other key stakeholders to ensure that all retail banks operating in the UK make control options available to their customers. We recommend that the requirement for banks to make control options available to their customers is upheld through the statutory duty of care.**

## Affordable credit

56. The 2017 report identified a relationship between financial exclusion and the use of consumer credit.[132] The Committee heard that, for the many low-income households who lack a savings buffer, credit of various kinds was an essential way of managing the family finances.[133] The 2021 inquiry examined recent trends in deferred payment products, commonly known as 'Buy now, pay later' (BNPL).[134] These products have grown in popularity since the 2017 inquiry and the Committee was particularly concerned about the way in which they are targeted at the under 30s[135] and by the fact that they currently lie outside the FCA's regulatory perimeter. The 2021 inquiry also considered alternative forms of credit and the announcement of the no-interest loan pilot in the 2021 Budget.

### *'Buy now, pay later' products*

57. In September 2020, the FCA Board asked Christopher Woolard, former Interim Chief Executive, to review change and innovation in the unsecured credit market. The review was published in February 2021.[136] Mr Woolard said there was "an urgent need to regulate all" BNPL products. He noted that while such products provide "a meaningful alternative to payday loans and other forms of credit" they also "represent a significant potential consumer harm."[137] The key recommendations included: ensuring that BNPL products should be brought under FCA regulation as soon as possible; ensuring that a healthy credit market is underpinned by good debt advice services; and encouraging the growth of alternatives to high cost credit.[138]

58. 'Buy now, pay later' companies, including Clearpay, Laybuy and industry leader Klarna, allow customers to stagger payments for products such as

130 Q 18 (Eric Leenders)
131 Q 11 (Nisha Arora)
132 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 262
133 *Ibid.*
134 The Money Advice Service, 'What are buy now pay later purchases?', : https://www.moneyadviceservice.org.uk/en/articles/what-are-buy-now-pay-later-purchases#:~:text=Buy%20now%20pay%20later%20agreements,by%20catalogues%20and%20online%20retailers [accessed 19 April 2021]
135 'Buy now, pay later: the new debt trap for millennials?', *Financial Times* (September 2018): https://www.ft.com/content/8c751ac6-bb63-11e8-94b2-17176fbf93f5 [accessed 19 April 2021]
136 FCA, *The Woolard Review: A review of change and innovation in the unsecured credit market* (February 2021): https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf [accessed 19 April 2021]
137 *Ibid.*
138 *Ibid.*

clothes and furniture with no interest or fees—unless the consumer fails to meet the payment deadlines.[139] The model is popular with the under 30s who can delay payments for goods at hundreds of retailers.[140] There are increasing concerns about the under 30s who are being targeted by buy now pay later advertisements online and on television.[141] The Financial Inclusion Commission told us "more than half of 18–34 year olds using Buy Now Pay Later have missed a payment and nearly two thirds (62%) say that BNPL is making them spend more, potentially increasing their chances of getting into debt".[142]

59. In 2021, the FCA told us that their "board had agreed the need for buy now, pay later to come within [the FCA's] regulation" and that they were "working urgently with government to do that" and that "the timescales are in the hands of the Government."[143] The FCA informed us that they have been able to make some interventions in the meantime, including "work[ing] with the Advertising Standards Authority on its guidance to firms on how to avoid misleading consumers about BNPL products"[144,145] and "where there are regulated firms who carry out the exempt BNPL activities, and they conduct them in ways we think are poor … we have had marketing materials withdrawn".[146] In addition, the FCA explained that, alongside the Financial Ombudsman Service, they were looking at "whether firms could come within its voluntary jurisdiction, so that people have recourse to independent voluntary dispute resolution."[147]

60. The Economic Secretary to the Treasury, John Glen MP, told us that "with buy now, pay later, you have an evolution in the market that for some people will be a responsible new product and an opportunity to defer payment over a certain period of time."[148] Nevertheless, he acknowledged that such products could cause harm to some consumers and lead to "unsustainable levels of debt."[149] He felt that "an evolving conversation between the Treasury and the regulator" was needed in order to respond effectively to market change.[150] The Financial Inclusion Commission told us that "Financial exclusion is dynamic and increasingly linked to digital connectivity which opens up new risks of exclusion."[151] They stated that "there is a no clear, constructive communication from HM Treasury and the FCA about how to progress

139 House of Commons Library, *Buy Now Pay Later: An "urgent need" to regulate,* (5 February 2021): https://commonslibrary.parliament.uk/buy-now-pay-later-an-urgent-need-to-regulate/ [accessed 19 April 2021]
140 'Buy now, pay later: the new debt trap for millennials?', *Financial Times* (September 2018): https://www.ft.com/content/8c751ac6-bb63-11e8-94b2-17176fbf93f5 [accessed 19 April 2021]
141 BBC, *Influencer:* 'Why I stopped working with Klarna' (February 2021): https://www.bbc.co.uk/bbcthree/article/3df91ac4-9098–46e9-b619-fae016bce3fb [accessed 19 April 2021] see also, 'When I saw Klarna's advert I just knew it was wrong', *The Times* (February 2021): https://www.thetimes.co.uk/article/when-i-saw-klarnas-advert-i-just-knew-it-was-wrong-v0bmgnvxk [accessed 19 April 2021]
142 Written evidence from the Financial Inclusion Commission (FEF0003)
143 Q 10 (Nisha Arora, Sheldon Mills)
144 The FCA told us that they have worked with the Advertising Standards Authority when it has received complaints about the advertising of BNPL products. Q 10 (Nisha Arora)
145 Advertising Standards Authority, *Guidance on advertising delayed payment services: Advertising Guidance (broadcast and non-broadcast)* (1 December 2020): https://www.asa.org.uk/resource/guidance-on-advertising-delayed-payment-services.html [accessed 19 April 2021]
146 Q 10 (Nisha Arora)
147 *Ibid.*
148 Q 23 (John Glen MP)
149 *Ibid.*
150 *Ibid.*
151 Written evidence from the Financial Inclusion Commission (FEF0003)

such issues, each often pointing to the other as being responsible."[152] They also called for greater transparency to enable consumer organisations to be able to engage with these issues.[153]

61. The Committee believes that a Financial Inclusion Strategy would bridge the gap between the rapid evolution of products on the market, the government and the FCA; this will be explored in more detail in Chapter 3.

### *No-Interest Loan Scheme*

62. In 2017, the Committee found that millions of people in the UK were unable to access affordable credit.[154] The Committee were concerned to hear that these additional costs are often used for basic necessities rather than luxury goods and services, with 77% of those taking out loans using them to pay for food, 52% for gas or electricity and 36% for rent or mortgage payments.[155] In 2021, the situation prevails, and the Financial Inclusion Commission told us that "lack of access to affordable credit pushing people towards high-cost loans."[156]

63. The Money Advice Trust told us that "the Government could consider implementing a no-interest loan scheme specifically for people who have fallen into debt on essential bills—such as their rent or council tax—due to the impact of COVID-19."[157] Such a scheme would "enable people to apply for a loan to pay off these arrears, and then repay the loan (without interest) over an affordable period." They felt that this could reduce the risk of homelessness whilst "ensuring landlords are not financially disadvantaged."[158]

64. In the 2021 Spring Budget, the Government announced that it will provide up to £3.8 million of funding to deliver a pilot no-interest loans scheme.[159] The scheme will "help vulnerable consumers who would benefit from affordable short-term credit to meet unexpected costs as an alternative to relying on high-cost credit."[160] The Economic Secretary to the Treasury, John Glen MP told the Committee that the pilot "is really important."[161] He went onto explain that affordable credit "is an incredibly complex and difficult area to get right, but if we can get it to work, and establish that principle, I hope that many organisations that take a deep interest in this will want to use that facility."[162]

152 *Ibid.*
153 *Ibid.*
154 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 41
155 *Ibid.*, para 42
156 Written evidence from the Financial Inclusion Commission (FEF0003)
157 Written evidence from the Money Advice Trust (FEF0002)
158 *Ibid.*
159 HM Treasury, *Budget 2021*, (March 2021) para 2.40: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf [accessed 19 April 2021]
160 *Ibid.*
161 Q 24 (John Glen MP)
162 *Ibid.*

65. The pilot follows a 2019 study, commissioned by the Treasury in the 2018 Budget,[163] and conducted by London Economics, which found that "establishing a no-interest loans scheme in the UK is feasible."[164] Given that three years have passed since the announcement of the research, it is important that the pilot progresses as quickly as possible, especially given the decrease in financial resilience for lower income households as a result by the COVID-19 pandemic. Nevertheless, the Committee looks forward to the roll-out of the pilot.

66. **The Committee welcomes the news that deferred payment products will be regulated. This legislation should be brought forward without delay and the situation be kept under review by the FCA and the Government.**

67. **The Committee welcomes the No-Interest Loan Pilot. The Committee recommends that the timescale and details on how this pilot will be evaluated are published within three months of this report's publication. The Government should consider if an additional scheme needs to be provided for those facing arrears on household costs due to the COVID-19 pandemic.**

68. **The Committee recommends that the Government continue to work closely with the CDFI sector to develop long-term options for low and no-interest credit as part of its overall strategy for ensuring access to low-cost credit. Given the significant market gap between high-cost and low-cost credit, and the increase in low financial resilience amongst households due to the COVID-19 pandemic, the Government should act swiftly to set targets for widening access to affordable credit.**

### Help to Save Scheme

69. The 2017 report examined matched funding schemes, including the 'Help to Save' scheme which was announced in 2015.[165] The scheme is available to those in receipt of Working Tax Credit or Universal Credit, who can save between £1 and £50 each calendar month with the Government providing a bonus of 50p for every £1 they save over four years.[166]

70. Disappointingly, we heard that adoption of the accounts has been much lower than anticipated. The Money Advice Trust told us that:

> "two and a half years into the scheme, 264,800 accounts had been opened. However, the government's own estimate was that 3.5 million people would be eligible for the scheme and that 500,000 people would

163 "No-interest loans scheme pilot – For some people, even borrowing from social and community lenders can be unaffordable. Therefore, the government, working with leading debt charities and the banking industry, will launch a feasibility study to help to design a pilot for a no-interest loans scheme early next year." HM Treasury, *Budget 2018*, (29 October 2018) para 5.57: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf

164 London Economics, *Feasibility Study into the Viability of Establishing a No-Interest Loans Scheme (NILS) in the UK* (August 2019): https://londoneconomics.co.uk/wp-content/uploads/2020/03/NILS-feasibility-study-report.pdf [accessed 19 April 2021]

165 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 145

166 HM Government, 'Get help with savings if you're on a low income (Help to Save)': https://www.gov.uk/get-help-savings-low-income [accessed 19 April 2021]

> open accounts in the first 2 years—meaning they are significantly behind their own target."[167]

When asked about improving on this, the Economic Secretary to the Treasury told us that they "[did] not want to waste money on advertising campaigns that will not be effective" and that they were "tak[ing] advice from professionals on what [they] can do to improve uptake."[168]

71. The Committee's 2017 report noted that the sums allocated to the Help to Save initiative by the Government were relatively low. Citizens Advice told the Committee that £90 million had been allocated to support Help to Save over the course of the Parliament, while the funding allocated to "incentives to help better off people save", such as the Help to Buy ISA, the savings allowance and increasing the amount of tax-free savings held in an ISA amounted to "about £8 billion".[169] Currently, help to save accounts are only available to use for up to four years and then they are closed, with no option to reopen. This contrasts starkly to the ongoing provisions for other incentives typically aimed at higher earners outlined in the 2021 budget.[170] When asked why the accounts close after this limited period, the Economic Secretary to the Treasury, John Glen MP said that "four years is a reasonable amount of time to get into the habit of saving".[171] Nevertheless, given that 27.7 million people[172] are considered by the FCA to have characteristics of financial vulnerability and that 1.3 million people remain unbanked,[173] the Committee considers that long-term investment in schemes that support, and reward saving are necessary. This is particularly the case in the wake of the COVID-19 pandemic which has resulted in increased unemployment and exacerbated low financial resilience across the country.[174]

72. **The Committee recommends that the Government review the four-year limit on the 'Help to Save' scheme with a view to extending the limit by two to four years. The Committee recommends that the Government consider allowing the savings account holders to have access to an account in the long-term without fund matching, in order to support the habit of saving and thus improve financial resilience amongst those on low incomes.**

### Debt advice

73. The 2017 report found that free and impartial debt advice was a crucial aspect of financial inclusion and concluded that "the body that was [due to] succeed the Money Advice Service [should] be provided with the appropriate

---

167 *Ibid.*

168 Q 24 (John Glen MP)

169 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 147

170 The band of savings income that is subject to the 0% starting tax rate will remain at its current level of £5,000 for 2021/22. The adult ISA annual subscription limit for 2021–22 will remain unchanged at £20,000 .The Government will maintain the Pensions Lifetime Allowance at its current level of £1,073,100 until April 2026. HM Treasury, *Budget 2021*, (March 2021) para 2.77: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf [accessed 21 April 2021]

171 Q 24 (John Glen MP)

172 Q 7 (Nisha Arora)

173 Q 24 (John Glen MP) and written evidence from Monzo (FEF0004).

174 FCA, 'FCA finds the Covid-19 pandemic leaves over a quarter of UK adults with low financial resilience', (11 February 2021): https://www.fca.org.uk/news/press-releases/fca-finds-covid-19-pandemic-leaves-over-quarter-uk-adults-low-financial-resilience [accessed 19 April 2021]

mandate to be able to commission and fund effective and impartial debt advice for all who need it."[175]

74. The Money and Pensions Service (MaPS) has replaced the three previous providers of government-sponsored financial guidance—the Money Advice Service, the Pensions Advisory Service and Pension Wise.[176] It provides free and impartial debt advice, money guidance and pension guidance to members of the public.[177] MaPS is an executive non-departmental public body, sponsored by the Department for Work and Pensions. The Financial Services Levy provides funding for debt advice through MaPS. [178] Debt advice is a devolved matter. The FCA is responsible for collecting funding amounts requested by government for free-to-consumer debt advice provided by MaPS in England and by other financial bodies in Scotland, Wales and Northern Ireland.[179]

75. Professor Rowlingson highlighted the disparity between the low-cost credit and the high-cost credit sector: "affordable credit providers [including Fair4All Finance] originate just £250m of loans each year compared with high-cost short-term credit providers who originate £3bn, [which is] more than 10 times as much."[180] In the light of the Woolard review, Professor Rowlingson argued that the Government needed to "set out its strategy for affordable credit".[181] The Money Advice Trust told us that in their response to the Woolard review, the Government should work with the FCA to ensure that "debt solutions are accessible and effective."[182] They also felt that it was imperative that "long-term sustainable funding for free-to-client debt advice" was provided by the Government.[183]

76. The Minister for Pensions and Financial Inclusion, Guy Opperman MP, told us that MaPS had launched its UK Strategy for Financial Wellbeing in 2020.[184] The Committee felt that financial inclusion was not given sufficient prominence in this strategy, reflecting the concerns of the Financial Inclusion Commission.[185] We asked if the wellbeing strategy could give greater priority to financial inclusion. Mr Opperman said:

> "MaPS will play a co-ordinating role with stakeholders to improve the UK's financial capability, helping people get the right information and

175 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 133

176 The organisation was set up as the Single Financial Guidance Body (SFGB) on 1 October 2018. It was renamed the Money and Pensions Service (MaPS) in April 2019.

177 HM Government, 'Money and Pensions service': https://www.gov.uk/government/organisations/single-financial-guidance-body [accessed 19 April 2021]

178 FCA, 'CP20/16: Debt advice levy rates for 2020/21: additional funding', (5 August 2020): https://www.fca.org.uk/publications/consultation-papers/cp20-16-debt-advice-levy-rates-2020–21-additional-funding [accessed 19 April 2021]

179 FCA, *Fees (Devolved Authorities Debt Advice Levies) Instrument 2019:* https://www.handbook.fca.org.uk/instrument/2019/FCA_2019_8.pdf [accessed 19 April 2021]

180 Written evidence from Professor Rowlingson (FEF0001)

181 *Ibid.*

182 Written evidence from the Money Advice Trust (FEF0002)

183 *Ibid.*

184 Letter from Guy Opperman MP to Baroness Tyler of Enfield (31 March 2021): https://committees.parliament.uk/publications/5527/documents/54962/default/ [accessed 20 April 2021], see also Money and Pensions Service, *UK Strategy for Financial Wellbeing* : https://www.moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing/ [accessed 19 April 2021].

185 Written evidence from the Financial Inclusion Commission (FEF0003)

the right support at the right time when it is needed most. This is likely to include work to support citizens to gain access to financial services."[186]

77. The Committee considers that an overarching financial inclusion strategy should be laid before Parliament as a Command paper, a recommendation we discuss further in Chapter 3.

### Financial education

78. The 2017 report made a number of recommendations on financial education in schools. Due to the limited nature of this follow-up procedure, the Committee touched on only a few key areas and has not been able to review this policy area in depth.

79. The 2017 report concluded that "the provision of financial education to young adults in further and higher education needs to be improved".[187] In 2021, the Committee were disappointed to hear about the lack of sufficient funding for financial education in schools across the UK.[188] Martin Lewis argued that funding for financial education should come from the Department for Education, rather than current arrangements that go through the MaPS.[189] Associated issues with the increase of state schools setting their own curriculums through the proliferation of Academies and Free Schools was also mentioned.[190,191] The Post Office told us that education was essential in being able to "capture those dropping through the gaps".[192] UK Finance told us that they provide financial education to school children alongside the MaPS, stating that they had "reach[ed] between about 1.8 million to 2 million schoolchildren"[193] which roughly equates to 20% of school aged children.[194]

80. **The Committee recognises the value of the partnerships between schools and other bodies to deliver financial education. Nevertheless, we recommend that ring-fenced, long-term funding should be made available to support financial education in schools and further education establishments. This funding should come primarily through the Department for Education. Financial education should form part of the core curriculum from key stage one to key stage four. This financial education should be broad and have a practical application with focus on budgeting, saving, credit and associated risks, and digital banking.**

186 Letter from Guy Opperman MP to Baroness Tyler of Enfield (31 March 2021): https://committees.parliament.uk/publications/5527/documents/54962/default/ [accessed 20 April 2021]

187 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?*, (Report of Session 2016–17, HL Paper 132), para 117

188 Education is a devolved matter.

189 Q 1 (Martin Lewis)

190 Q 6 (Martin Lewis)

191 The Economic Secretary to the Treasury said "some academies will take a different view about what would be appropriate in their school, there is a challenge to get that completely aligned." Q 22 (John Glen MP)

192 Q 4 (Martin Kearsley)

193 Q 16 (Eric Leenders)

194 There are 8.89 million pupils in England in 2020. HM Government, 'Schools, pupils and their characteristics', (February 2021): https://explore-education-statistics.service.gov.uk/find-statistics/school-pupils-and-their-characteristics [accessed 19 April 2021]

# CHAPTER 3: LEADERSHIP FROM GOVERNMENT AND PROACTIVE REGULATION

## The Financial Conduct Authority's objectives and a duty of care to customers

81. The Financial Conduct Authority (FCA) was established in April 2013, as a result of the Financial Services Act 2012, which abolished the Financial Services Authority.[195] The FCA regulates the conduct of over 56,000 financial services firms in the UK; its strategic objective is to ensure that relevant financial services markets function well.[196] This is supported by three operational objectives which are: securing an appropriate degree of protection for consumers; protecting and enhancing the integrity of the UK financial system; and promoting effective competition in the interests of consumers.[197]

82. In 2017, the FCA told the Committee that "under their statutory competition objective, they 'had regard to' how easy it is for consumers to access financial services, including consumers in areas affected by social or economic deprivation".[198] For many years the FCA has considered whether to apply an overarching standard of care that should be applied to authorised firms.

83. The 2017 report recommended that "the Government should expand the remit of the FCA to include a statutory duty to promote financial inclusion as one of its key objectives. Government leadership of the financial inclusion agenda must be supported by proactive regulation. At present, the work of the FCA in this field is limited by the objectives defined in its statutory remit."[199]

84. In addition, the 2017 report recommended that:

> "the Financial Services and Markets Act 2000 should be amended, in order to introduce a requirement for the FCA to make rules setting out a reasonable duty of care for financial services providers to exercise towards their customers. Such a duty will promote responsible behaviour on the part of businesses and support sound financial decision making by customers."[200]

The Committee asserted that the implementation of these two recommendations was required in order to ensure that financial inclusion was prioritised and enforced amongst the financial services sector.

85. In July 2018 the FCA launched a Discussion Paper on a duty of care and potential alternative approaches.[201] In April 2019 [the FCA] published

195 Financial Services Act 2012, section 6, Part 1A
196 FCA, Our Approach to Consumers (July 2018): https://www.fca.org.uk/publications/corporate-documents/approach-consumers [accessed 19 April 2021]
197 *Ibid.*
198 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 78, see also written evidence from FCA (FEX0083).
199 Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 84
200 *Ibid.*, para 89
201 FCA, *Discussion Paper on a duty of care and potential alternative approaches* (July 2018): https://www.fca.org.uk/publication/discussion/dp-18-05.pdf [accessed 19 April 2021]

a Feedback Statement containing a summary of the responses.[202] The statement concluded that most respondents agreed that "levels of harm to consumers are high", but there was disagreement around whether a new duty was the correct way forward, or whether changes should be made to the existing regulatory framework.[203]

86. The FCA's findings were inconclusive, on the one hand it stated that there was not a case for changing primary legislation: "the [FCA] do not consider that there is a sufficient basis for making changes to primary legislation, which Parliament would need to make."[204] On the other hand, it left the door open for further conversation on the issues: "However, if, as part of our analysis, we take the view that there are substantive reasons for supporting a statutory duty, we will consider this further."[205]

87. The FCA delayed further work on this area due to COVID-19. They consulted with firms in Q1 of 2021 and their 'guidance for firms on the fair treatment of vulnerable customers' was published on 23 February 2021.[206] The guidance refers to the FCA's principles and states that "Firms can expect to be asked to demonstrate how their business model, the actions they have taken, and their culture, ensures the fair treatment of all customers, including vulnerable customers".[207] Whilst giving evidence in 2021, the FCA told us that they planned to "think about how we will respond to calls for a duty of care and how we put forward new principles in relation to updating our treating customers fairly approach" over "the next couple of months".[208]

88. When giving evidence in 2021, the FCA hinted at their limitations in preventing financial exclusion. When asked about the 'treating customers fairly principle' Sheldon Mills, Executive Director for Consumers and Competition at the FCA, told us "I agree that, to a certain degree, the concept of treating customers fairly, is not the most powerful tool to protect consumers".[209] Mr Mills also referred to the challenges presented in the digital arena "within a digital environment, it can be quite complex for some consumers to access certain services, and it can be easier for firms to bamboozle consumers. Those are genuine issues that we come across as regulators in [the] financial services market."[210]

89. Nisha Arora told us that "level of harm in markets is too high"[211] and that the FCA were planning to consult on whether or not their principles "[are] enough, and whether the way we have applied those has been enough, and whether the way firms have responded to those principles, and our rules and our actions, is sufficient."[212] Whilst it is welcome to hear that the FCA is consulting with its user base and considering the needs of the public, the Committee considers action, rather than consultation, is now needed.

202 FCA, *A duty of care and potential alternative approaches: summary of responses and next steps, Feedback statement FS19/2* (April 2019): https://www.fca.org.uk/publication/feedback/fs19-02.pdf [accessed 19 April 2021]
203 *Ibid.*
204 *Ibid.*, para 1.36
205 *Ibid.*, para 1.36
206 FCA, *Finalised guidance FG21/1 Guidance for firms on the fair treatment of vulnerable customers* (February 2021): https://www.fca.org.uk/publication/finalised-guidance/fg21-1.pdf [accessed 19 April 2021]
207 *Ibid.*
208 Q 7 (Nisha Arora)
209 Q 9 (Sheldon Mills)
210 *Ibid.*
211 Q 9 (Nisha Arora)
212 *Ibid.*

90. The recommendations put forward by the Financial Exclusion Committee in 2017 have not been actioned and there has been reluctance from the Government to bring these recommendations into force. Nevertheless, the majority of witnesses that gave evidence to the Liaison Committee in 2021 agreed with these recommendations and saw them as necessary to bridge the gap between the commercial interests of financial service providers and societal needs to achieve financial inclusion.

91. The Money Advice Trust told us that "There is no clear, statutory requirement for the FCA to address financial inclusion issues and that the FCA does not routinely have regard to issues of financial inclusion across all of its work, wherever it is appropriate."[213] The Trust told us that alongside other organisations, they have "been encouraging the Government to consider creating either a duty on the FCA, or a cross-cutting 'must have regard to' financial inclusion objective for the FCA."[214] The Trust argued that this would "help ensure that financial inclusion is considered throughout the regulator's work." The Trust felt that that these recommendations were timely, given the HM Treasury's Financial Services Future Regulatory Framework Review.[215]

92. This view was echoed by the Financial Inclusion Commission, who told us that "the regulator must have a stronger role in ensuring financial inclusion for individuals and small business users of financial services."[216] They argued that "the lack of clarity of coordinated policy and regulatory ownership and action across and between the FCA and HM Treasury make it impossible for consumer representatives to gain traction on issues that involve more than one organisation."[217] The Financial Inclusion Commission stated that "The FCA should be required by HM Treasury to have a cross-cutting statutory duty to promote financial inclusion as a core objective."[218]

93. The Financial Inclusion Commission argued strongly that the FCA's principles need to be strengthened. They said that "the regulatory principle that firms should 'treat customers fairly' (TCF) only enshrines a weak duty to the consumer, further undermined by the principle in the Financial Services and Markets Act (FSMA) that consumers should 'take responsibility for their decisions'."[219] According to the Financial Inclusion Commission, the TCF objective fails to "remove conflicts of interest and so does not provide sufficient deterrence to firms from mis-selling products and services, and indeed has the potential to normalise firms' unethical behaviour." The Commission argued that "the 'consumer responsibility' principle fails to take into account the imbalance in market power between firms and their customers."[220]

94. Natalie Ceeney told us that changes to the FCA's remit and powers were required to achieve financial inclusion: "the fundamental issue [is that] there are market segments that commercial models will never address. They

213 Written evidence from the Money Advice Trust (FEF0002)
214 *Ibid.*
215 Written evidence from the Money Advice Trust (FEF0002), see also HM Treasury. *Future Regulatory Framework (FRF) Review: Consultation* (30 November 2020): https://www.gov.uk/government/consultations/future-regulatory-framework-frf-review-consultation [accessed 19 April 2021].
216 Written evidence from the Financial Inclusion Commission (FEF0003)
217 *Ibid.*
218 *Ibid.*
219 *Ibid.*
220 *Ibid.*

are never going to be commercially viable to support the most vulnerable and the poorest."[221] Ms Ceeney stated that FCA's current principles and objectives were insufficient: "at the moment, the regulators do not have legal powers needed … to make the banks include everybody, and they need those powers."[222] Martin Kearsley from the Post Office echoed this view "there is a clear and present challenge right now, which is people who are excluded dropping through the gaps. They need to be protected by government action."[223]

95. The Economic Secretary to the Treasury, John Glen MP told us that they were in alignment with the FCA and that "I want what it wants, which is to have a well-regulated marketplace where consumers are protected and firms have responsibility."[224] Nevertheless, evidence cited earlier on in this report shows that this isn't the case; millions of people remain financially excluded across the country, and will continue to be excluded until the Government take action to prevent this. Evidence received in the 2017[225] and 2021 inquiries strongly demonstrates that the FCA require political cover in order to prevent financial exclusion.

96. **The Committee welcomes the Financial Inclusion Policy Forum. Nevertheless, it cannot deliver the level of change required to result in meaningful and sustained financial inclusion in the UK. In order to ensure that financial inclusion is given due priority, the requirement for the FCA to promote it as a key objective and have the powers to enforce a statutory duty of care on banks is required. The Government must recognise this and put this into action.**

97. **The Committee reiterates its recommendation that the Government should expand the remit of the FCA to include a statutory duty to promote financial inclusion as one of its key objectives. Government leadership of the financial inclusion agenda must be supported by proactive regulation. At present, the work of the FCA in this field is limited by the objectives defined in its statutory remit.**

98. **The Committee reiterates its recommendation that the Financial Services and Markets Act 2000 should be amended, in order to introduce a requirement for the FCA to make rules setting out a reasonable duty of care for financial services providers to exercise towards their customers.**

## The Government's Financial Inclusion Strategy

99. In 2017 the Committee heard that the lack of a Financial Inclusion Strategy was exacerbating financial exclusion. Whilst the Government referred to the

---

221 Q 1 (Natalie Ceeney)

222 *Ibid.*

223 Q 5 (Martin Kearsley)

224 Q 23 (John Glen MP)

225 The 2017 report found that "The issue of 'political cover' for actions taken by the FCA arose when considering recent measures taken to impose a cap on high-cost short-term ending. In this instance, the FCA told us that it might have been open to legal challenge on the imposition of a cap had it not been for the introduction of a new clause into the Banking Reform Bill, in November 2013, requiring them to implement such a cap. This example demonstrates that proactive regulation requires political cover and legal backing." Select Committee on Financial Exclusion, *Tackling financial exclusion: A country that works for everyone?* (Report of Session 2016–17, HL Paper 132), para 843

Financial Inclusion Policy Forum[226] as having the ability to compensate for the lack of an overarching strategy, "it was the view of the Government under Theresa May and it continues under this Government—that the Financial Inclusion Policy Forum is the appropriate way to drive forward real and meaningful change in the various things that we are all passionate about".[227] Other witnesses felt strongly that this was not the case. Natalie Ceeney said "We absolutely need a strategy."[228] "We have an awful lot of … nice words, but nice words do not actually make inclusion happen."[229] When asked "whether he thought there would be a desire within the sector to have sight of and indeed an ability to comment on the Government's overall strategy for financial inclusion"[230], Eric Leenders said "I would be fully supportive."[231]

100. Martin Lewis said: "I agree about a strategy."[232] He also raised concerns about the limitations of the Financial Inclusion Policy forum, stating that it is "dealing only with the periphery issues and the experimental, asking how we can get some market solutions to come in".[233] Mr Lewis argued that "we need far more senior, powerful and invested government in financial inclusion. Because it is the bedrock of employment. It is the bedrock of being a consumer and, frankly, it is the bedrock of being a citizen. All those decisions involve, to an extent, some form of financial knowledge and financial inclusion."[234] Professor Rowlingson agreed, stating that "the lack of a clear and comprehensive strategy for financial inclusion/resilience may hinder the effectiveness of this group".[235]

101. Professor Rowlingson told us that financial exclusion has "increased even more [due] to the COVID-19 pandemic" and as a result, "leadership needs to … step up".[236] Rowlingson argued that "a unified strategy for tackling financial inclusion, with clear objectives and a plan for delivery, would help join up the various strands of work that are all essential as we emerge from the pandemic and seek to level up so that no-one is excluded or left behind."[237]

102. **The Committee reiterates its recommendation that the Government should set out a clear strategy for improving financial inclusion in the UK. The Government should lead and coordinate on the implementation and monitoring of this strategy. This should be one**

226 The Financial Inclusion Policy Forum has held meetings since 2018, is co-chaired by the Economic Secretary to the Treasury and the Minister for Pensions and Financial Inclusion with representation from other departments, regulators and industry and third sector organisations. Two annual Financial Inclusion reports have been published to date. DWP and HM Treasury, *Financial inclusion report 2018 to 2019* (25 March 2019): https://www.gov.uk/government/publications/financial-inclusion-report-2018-to-2019 [accessed 19 April 2021] and DWP and HM Treasury, *Financial inclusion report 2019 to 2020* (November 2020): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/935985/Financial_Inclusion_Report_2020.pdf [accessed 19 April 2021], see also, HM Treasury, 'Summary of Financial Inclusion Policy Forum meetings', (22 May 2020): https://www.gov.uk/government/collections/summary-of-financial-inclusion-policy-forum-meetings [accessed 19 April 2021]
227 Q 22 (Guy Opperman MP)
228 Q 5 (Natalie Ceeney)
229 Q 6 (Natalie Ceeney)
230 Q 13 (Baroness Tyler of Enfield)
231 Q 13 (Eric Leenders)
232 Q 5 (Martin Lewis)
233 *Ibid.*
234 *Ibid.*
235 Written evidence from Professor Rowlingson (FEF0001)
236 *Ibid.*
237 *Ibid.*

**aspect of a wider Government strategy to address comprehensively the issue of financial exclusion.**

103. **The Committee believes that the Financial Inclusion Policy Forum provides a valuable forum for discussion, however it cannot be a substitute for an overall strategy. The Committee maintains its position that such a strategy must be presented to Parliament as a Command Paper within 12 months of the publication of this report to allow for Parliamentary scrutiny.**

# APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

## Members[238]

Lord Bradley
Baroness Campbell of Surbiton
Lord Davies of Oldham
Baroness Hayter of Kentish Town
Lord Lang of Monkton
Lord Judge
Lord McFall of Alcluith (Chair)
Lord Smith of Hindhead
Lord Tyler
Baroness Walmsley

The following members of the former Select Committee on Financial Exclusion participated in the meetings:

Viscount Brookeborough
Lord Empey
Baroness Primarolo
Baroness Tyler of Enfield (Chair)

## Declarations of interest

Lord Bradley
*No relevant interests to declare*
Viscount Brookeborough
*No relevant interests to declare*
Baroness Campbell of Surbiton
*No relevant interests to declare*
Lord Davies of Oldham
*No relevant interests to declare*
Lord Empey
*No relevant interests to declare*
Baroness Hayter of Kentish Town
*No relevant interests to declare*
Lord Judge
*No relevant interests to declare*
Lord Lang of Monkton
*No relevant interests to declare*
Lord McFall of Alcluith
*Unremunerated Director (formerly Chairman) and Member of Advisory Board, New City Agenda Ltd (formerly New City Network (London) Ltd) (not-for-profit think tank aiming to develop ideas and research on financial services policy)*
Baroness Primarolo
*No relevant interests to declare*
Lord Smith of Hindhead
*No relevant interests to declare*

238 Earl Howe recused himself on grounds of ministerial propriety.

Baroness Tyler of Enfield
*Member of the Financial Inclusion Commission*
*President of the charity Money Advice Trust*
Lord Tyler
*No relevant interests to declare*
Baroness Walmsley
*No relevant interests to declare*

A full list of members' interests can be found in the Register of Lords' Interests: https://members.parliament.uk/members/lords/interests/register-of-lords-interests.

## APPENDIX 2: LIST OF WITNESSES

Evidence is published online at https://committees.parliament.uk/work/1052/financial-exclusion-followup/publications/ and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in alphabetical order. Those witnesses marked with ** gave both oral evidence and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

### Alphabetical list of witnesses

| | | |
|---|---|---|
| * | Nisha Arora, Director of Consumer and Retail Policy, Financial Conduct Authority | QQ 7-11 |
| * | Natalie Ceeney, Chair, Innovate Finance and Former Chair of the Access to Cash Review | QQ 1-6 |
| | Financial Inclusion Commission | FEF0003 |
| * | John Glen MP, Economic Secretary to the Treasury and City Minister, HM Treasury | QQ 20-26 |
| * | Martin Kearsley, Banking Director, Post Office | QQ 1-6 |
| * | Eric Leenders MD, Head of Personal Finance, UK Finance | QQ 12-19 |
| * | Martin Lewis, Chair, Money and Mental Health Policy Institute; Founder, MoneySavingExpert.com | QQ 1-6 |
| * | Sheldon Mills, Executive Director for Consumers and Competition, Financial Conduct Authority | QQ 7-11 |
| | Money Advice Trust | FEF0002 |
| | Monzo Bank | FEF0004 |
| * | Guy Opperman MP, Parliamentary Under-Secretary of State (Minister for Pensions and Financial Inclusion), Department for Work and Pensions | QQ 20-26 |
| | Professor Karen Rowlingson (Professor of Social Policy at University of Birmingham) | FEF0001 |

## APPENDIX 3: ACRONYMS AND GLOSSARY

| | |
|---|---|
| ATM | Automated Teller Machine. An electronic banking machine that dispenses cash. |
| BNPL | By Now, Pay Later. Buy now pay later agreements are also known as store finance. They're a way for people to purchase goods on credit and pay for them usually after a set interest-free period, or in instalments. |
| CDFI | Community Development Financial Institution |
| FCA | Financial Conduct Authority. A body that regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers. |
| Financial Inclusion Policy Forum | The Financial Inclusion Policy Forum is a group that meets twice a year to discuss financial inclusion. The forum is co-chaired by the Economic Secretary to the Treasury and the Minister for Pensions and Financial Inclusion. Members include charities, consumer groups, the financial industry and regulators. |
| FSMA | Financial Services and Markets Act 2000 |
| HM Treasury | Her Majesty's Treasury. The government's economic and finance ministry, which maintains control over public spending and sets the direction of the UK's economic policy. |
| IFS | Institute for Fiscal Studies |
| ISA | Individual Savings Accounts |
| MaPS | Money and Pensions Service. It is an executive non-departmental public body, sponsored by the Department for Work and Pensions. It was set up as the Single Financial Guidance Body on 1 October 2018. It was renamed the Money and Pensions Service (MaPS) in April 2019. It replaces the 3 existing providers of government-sponsored financial guidance–the Money Advice Service, the Pensions Advisory Service and Pension Wise. It provides free and impartial debt advice, money guidance and pension guidance to members of the public. |
| ONS | Office for National Statistics |
| Q1 | Quarter 1 |
| Payday loan | A relatively small sum of money lent at a high rate of interest on the agreement that the borrower will repay the sum when they receive their next wages. |

| | |
|---|---|
| Post Office | The Post Office is a national retail network that has over 11,500 branches in the UK, the vast majority of these are run with retail partners on an agency or franchise basis. It separated from the Royal Mail in 2021 and is publicly owned. It provides a range of services including; financial services including savings, loans, insurance, mortgages and credit cards; government services such as collecting pensions and renewing passports; foreign currency; and mail services. |
| SME | Small and Medium Enterprise |
| TCF | Treat Customers Fairly |
| Unbanked | A situation whereby an individual does not have access to a bank account or equivalent service. |
| UK Finance | A trade association for the UK banking and financial services sector, formed on 1 July 2017. It represents around 300 firms in the UK providing credit, banking, markets and payment-related services. It lobbies for its members and gives its view on the legislative and regulatory system for banking in the UK. |