Government Response: "Tackling Financial Exclusion: A country that works for everyone? *Follow-up report*"

The Government has considered the Lords Liaison Committee's follow-up report *Tackling Financial Exclusion: A country that works for everyone?* and thanks the Committee for its recommendations.

The Government is committed to tackling financial exclusion. This has been a priority and remains high up on our agenda, even more so with the impact of COVID-19 on people's personal finances still unfolding. We will continue to progress our work on financial inclusion, working closely with the financial services sector, Government departments, the regulators, consumer groups and charities as well as through the Financial Inclusion Policy Forum. We will also continue to publish an annual report outlining our actions to tackle financial exclusion, as we have done for the past two years. This year's report will be published in Autumn.

This paper sets out the Government's response to each of the Committee's conclusions and recommendations. The Committee's text is in bold, and the Government's response is in plain text. Paragraph numbers in square brackets refer to the Committee's report.

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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. 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.

As explained in its response to the Select Committee on Financial Exclusion's 2017 report, the Government's approach to financial inclusion focuses on access to the supply of financial services, whereas its approach to financial capability focuses on consumers. For the purpose of Government policy making, financial inclusion means that individuals, regardless of their background or income, have access to useful and affordable financial products and services. Financial capability means that individuals have the ability to use, and maximise their use of, the products and services made available by the financial industry.

[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." She went on to say that, 27.7 million adults in the UK (more than half of the population) are financially vulnerable. 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. The COVID-19 crisis is expected to lead to long-term economic scarring and increased unemployment 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.

The Government recognises that COVID-19 has had a significant impact on people's lives and personal finances, and that its impact continues to unfold. This is why the Government has provided unprecedented support to those in financial hardship – including through the Coronavirus Job Retention Scheme, the Self-Employment Income Support Scheme, a temporary £20 per week uplift to the Universal Credit standard allowance, and a 2020/21 £500 million Hardship Fund to enable local authorities in

England to support working-age local council tax support claimants. The Government has also worked with mortgage lenders, credit providers and the FCA to ensure the financial sector provides support for people across the UK to manage their finances by providing payment holidays on mortgages (including Buy to Let mortgages to help renters), consumer credit products and support on overdrafts. Over 2.7 million mortgage and over 2.5 million consumer credit payment holidays have been granted. Supporting those at risk of financial exclusion continues to be a key priority for the Government.

Access to cash

[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" 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". 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." 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."

[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.

The Government agrees with the Committee's conclusion that cash has ongoing importance to the daily lives of millions of people across the UK, particularly those in vulnerable circumstances. As a result, the Government is committed to legislating to protect access to cash for those who need it, and to ensuring the UK's cash infrastructure is sustainable for the long term.

Following the Chancellor's announcement in the 2020 Budget that the Government would bring forward legislation to protect cash, HM Treasury published a Call for Evidence on Access to Cash in October 2020. This sought views on the key considerations associated with cash access, including deposit and withdrawal facilities, cash acceptance, and regulatory oversight of the cash system. The responses have fed into the Government's work on developing cash legislation.

As part of the Call for Evidence, the Government invited views on the potential for cashback to play a greater role in providing cash, and on how this can be facilitated. In

2019, cashback was the second most frequently used method for withdrawing cash in the UK behind ATMs; there were 123 million cashback transactions when making a purchase with a debit card, amounting to a total value of £3.8 billion. As a result of the Financial Services Act 2021, UK law will allow shops and other businesses to offer cashback without a purchase to customers more easily from June 2021. Since the Committee's recommendation, the Government has confirmed that it will consult this summer on further legislative proposals to protect 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.

The Government is committed to ensuring regulators have the right responsibilities and powers to oversee the cash system. As set out in the 2020 Call for Evidence on Access to Cash, effective coordination between authorities with financial services responsibilities will continue to be critical.

However, the Government considers that there may be benefit in giving a single authority overall responsibility for ensuring the retail distribution of cash meets the needs of consumers and businesses. The Government's view is that the FCA would be well positioned to take on the function through legislation. The Government will launch a consultation on legislative proposals to protect access to cash this summer.

The Government's position on introducing a statutory duty of care for financial services providers is detailed below (*The Financial Conduct Authority's objectives and a duty of care to customers*).

<u>Digital inclusion</u>

[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. 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).

[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. According to recent figures from the ONS, 6.3% of adults in the UK have never used the internet. A recent study by Lloyds Bank showed that an estimated 9 million (16%) are unable to use the internet and their device by themselves.

The Government agrees with the Committee's conclusion that digital inclusion needs to be promoted alongside financial inclusion, especially as COVID-19 has exacerbated digital exclusion challenges. The Government is committed to ensuring everyone has access to digital infrastructure and has the digital skills necessary to fully participate in society, including in rural areas where staying connected can be more challenging. To help those in financial difficulty to stay connected, there are social tariffs available which offer low-cost landline and broadband services. The Government and Ofcom also agreed a set of commitments with the UK's major broadband and mobile operators to support vulnerable consumers during COVID-19.

[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.

In line with the Committee, the Government recognises that access to non-digital financial services continues to be important. Throughout COVID-19, the Government has worked closely with the regulators to ensure banks, building societies, the Post Office and credit unions continue to maintain branch access for essential services, while balancing the needs of their customers with the safety and welfare of their staff. In addition, some firms established dedicated phone lines for the over 70s so that they could manage their finances quickly without needing to go into a branch, organised cash deliveries to homes, and introduced carer cards for trusted third parties to make payments on behalf of individuals. More broadly, banking customers can continue to access their banking in ways that work best for them, including in branch, at the Post Office, via telephone or online.

[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.

The Government's position on introducing a statutory duty of care for financial services providers is detailed below (*The Financial Conduct Authority's objectives and a duty of care to customers*). This recommendation is a matter for the FCA to respond to.

<u>Basic bank accounts</u>

[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. First introduced to the UK in the 1990s, they are underpinned by a memorandum of understanding between HM Treasury and a number of banks. However, the 2017 report found that the cost burden of basic bank accounts was not being shared equally amongst the sector. 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."

[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." Nevertheless, the most recent Treasury basic bank accounts report shows that disparities between market share and basic bank account provision remain. The

report shows that the uptake of basic bank accounts is increasing with almost 7.5 million open as of 30 June 2019.

[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.

The Government agrees with the Committee that access to a transactional bank account is vital for financial inclusion, as it enables people to manage their money on a day-to-day basis effectively, securely and confidently. The Government is therefore committed to improving access to bank accounts. Since 2016, the nine largest personal current account providers in the UK have been legally required to offer fee-free basic bank accounts to customers who do not have a bank account in the UK or who are ineligible for a bank's standard current account.

Whilst the Government does not determine what market share of basic bank accounts providers should hold, providers are required to publish this data on an annual basis. Banks are also expected to maintain certain (non-regulatory) standards of both visibility and accessibility for their basic bank accounts. In addition, the Government regularly engages with all designated firms to ensure they continue to fulfil their obligations to customers, and that the annual data publication remains fit for purpose.

As the Committee notes, the FCA published its Review of Basic Bank Accounts in 2020. As part of this, the FCA found good examples of customers being informed about basic bank accounts and offered assurance that there was an account available to them suitable to their circumstances. The Government continues to encourage firms to consider the areas for improvement identified by the FCA in this review. It also supports the FCA's recommendation encouraging firms to create a customer journey that is inclusive of all customers and their needs.

Bank branch and ATM closures

[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." This guidance is set to be reviewed in September 2021. 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 that and the impact on them. If you go ahead with closing the branch, you need to find other ways to service those people'".

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.

[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 Government recognises that the way consumers interact with their banking is changing. According to UK Finance, in 2019 eight out of ten UK adults used contactless payments, 72% used online banking, and 50% used mobile banking. The Government cannot reverse changes in the market and customer behaviour; nor can it determine firms' commercial strategies in response to those changes. In fact, having the flexibility to respond to changes in the market is what makes the UK's financial services sector one of the most competitive and productive in the world, and the Government wants to protect that.

However, whilst decisions on opening and closing bank branches are commercial decisions in which the Government does not intervene, the Government firmly believes that the impact of branch closures should be understood, considered, and mitigated where possible.

As noted by the Committee in paragraphs 36 and 37 of its report, the major high street banks are signed up to the Access to Banking Standard, which commits them to ensuring customers are well informed about branch closures and options for continued access to banking services. The Lending Standards Board, who monitor and enforce the Standard, is currently reviewing the Access to Banking Standard to ensure it continues to be fit for purpose. The FCA also published guidance in September 2020 setting out their expectation of firms when they are deciding to reduce their physical branches or the number of free-to-use ATMs. Firms are expected to carefully consider the impact of a planned closure on their customers' everyday banking and cash access needs, and other relevant branch services, and consider possible alternative access arrangements. This will ensure the implementation of closure decisions is done in a way that treats customers fairly.

In addition, LINK, the scheme that runs the UK's largest ATM network, has existing commitments to protect the broad geographic spread of free-to-use ATMs, and the Payment Systems Regulator continues to hold LINK to account over their commitments. LINK has taken steps to protect free ATMs more than one kilometre away from the next nearest free ATM or Post Office, for example through premium payments for ATMs in remote and deprived areas. LINK is also protecting free access to cash on high streets, where there is a cluster of five or more retailers, that do not have a free-to-use ATM or a Post Office counter within one kilometre. Additionally, LINK's members have made £5 million available to fund ATMs at the request of communities with poor access to cash.

Alternative access may be via the Post Office, where 99% of personal and 95% of small business customers can carry out their everyday banking across the Post Office's extensive network, which ensures essential banking facilities remain available in as many communities as possible.

The Post Office is also currently trialling two 'BankHubs', which provide local customers with basic banking and cash services, as well as dedicated rooms where they can see community bankers from their own bank. The Government does not intervene in these commercial arrangements, but continues to encourage the sector to think creatively about how they can ensure consumers can access a wide range of banking services on a sustainable basis.

<u>The role of the Post Office</u>

[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.

The Government continues to be fully supportive of the Post Office Banking Framework Agreement, which allows 95% of business and 99% of personal banking customers to carry out their everyday banking at 11,500 Post Office branches in the UK until December 2022. However, the terms of future agreements are commercial decisions and, as such, it is right that the Government gives all parties the commercial freedom to carry out these discussions.

The Government recognises the importance of ensuring customers are aware of the banking services that the Post Office offers. This is why the Government announced at Budget 2017 that it would ask Post Office Limited and UK Finance to raise public awareness of the banking services available at the Post Office. As a result, UK Finance and the Post Office developed the five-point plan, which included two trial awareness campaigns. These found that the most effective method of promoting 'Everyday Banking' was found to be in-branch activities or referral by family and friends, as opposed to national public information campaigns. Over 1 in 4 consumers (27%) say they found out about the service via a referral. The Post Office also works closely with banks who have announced branch closures to make their customers aware of the local Post Office services, which often increases awareness amongst impacted customers within a local area. According to Citizens Advice, 2 in 3 people (67%) were aware that post offices offer everyday banking services in 2020. This compares with under half the population (43%) who knew about the service 2 years ago. The Government continues to encourage UK Finance and the Post Office to monitor awareness and consider further actions to improve awareness of Post Office banking services, including through community outreach schemes, targeted support and in-branch activity.

The Government's position on presenting a financial inclusion strategy is detailed below (*The Government's Financial Inclusion Strategy*).

Control options

[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.

In line with the Committee, the Government recognises the value in voluntary gambling blocks to allow gamblers to self-exclude themselves from making payments to gambling operators, which add friction to the system to help gamblers manage their spending. UK banks have already made considerable progress in this area. Since an industry roundtable in February 2019, where the then Secretary of State for the Department for Digital, Culture, Media and Sport set out the merits of these features, almost all of the largest UK banks, as well as some of the digital challenger banks, now have voluntary gambling blocks for their debit cards. This represents a significant expansion of coverage, and it is estimated that up to 90% of current accounts have access to a gambling block feature on their debit cards.

In its Guidance on the Fair Treatment of Vulnerable Customers, the FCA made clear that firms should understand the needs of their customers, and work this through product or service design, communications and customer service so that vulnerable customers experience outcomes as good as those for other consumers. While there is no mandate on control options, this Guidance refers to control options (in the form of gambling blocks) as a good example of how banks have considered the needs of vulnerable consumers in their target market and worked to support them.

The Government's position on introducing a statutory duty of care for financial services providers is detailed below (*The Financial Conduct Authority's objectives and a duty of care to customers*).

Affordable credit

[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. 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." 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.

The Government recognises that currently unregulated interest-free deferred payment products, such as exempt Buy Now Pay Later (BNPL), have the potential to give rise to consumer detriment. It is for that reason that the Government announced its intention to bring these products into the scope of regulation under the Financial Services and Markets Act 2000.

The Government also recognises that exempt BNPL products can help consumers manage their personal finances, and that such borrowing is inherently lower risk than other, interest-bearing credit products. Regulation of these products should be proportionate. This is why, on 17 March, the Government tabled an amendment to the Financial Services Bill (now the Financial Services Act 2021) which gives HM Treasury the necessary powers to bring exempt BNPL products into the scope of FCA regulation in a proportionate way. This will provide robust consumer protection while also ensuring it is viable for firms to continue to offer these products.

[62] In 2017, the Committee found that millions of people in the UK were unable to access affordable credit. 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. 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."

The Government is a champion of the affordable credit sector, as recent interventions in this space have demonstrated. These include: providing £96 million of Dormant Assets funding to Fair4All Finance – the independent body founded in 2019 to improve the financial wellbeing of those who are financially vulnerable – whose first area of focus is supporting the affordable credit sector; providing £2 million to set up the Affordable Credit Challenge Fund; announcing legislation to allow credit unions to offer a wider range of products and services, which will allow credit unions to continue to grow sustainably for the future and support them in the vital role they play in financial inclusion; and allocating up to £3.8 million of funding for a pilot No-Interest Loans Scheme to support vulnerable consumers.

[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.

The Government will publicly consult on policy proposals, and will then bring forward secondary legislation to regulate these products as soon as parliamentary time allows.

[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.

The Government will appoint an organisation to deliver the pilot No-Interest Loans Scheme. The Government anticipates this organisation will provide information about expected timescales, as well as the intended approach to evaluating the pilot, within three months following the publication of the Committee's report.

On rent arrears, the English Housing Survey Household Resilience Survey (wave 2) shows that the vast majority – 91% of private renters – were up to date on their rent when surveyed in November and December last year, and of these most are in arrears of less than 2 months' rent. This data shows that the comprehensive package of support provided by the Government is preventing widespread rent arrears as a result of COVID-19. We continue to monitor the ongoing impact of COVID-19 on renters.

[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.

In line with the Committee, the Government recognises the important role played by the Community Development Finance Institutions (CDFI) sector in increasing access to alternatives to high-cost credit. Whilst the Government is committed to widening access to affordable credit, it has no current plans to set specific targets to do so. Setting challenging but achievable targets is difficult in the current economic climate.

<u>Help to Save Scheme</u>

[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.

Help to Save is intended to support working people on low incomes and in receipt of certain benefits to build their financial resilience while kickstarting a regular, long-term savings habit. As of the end of March 2021, 284,050 Help to Save accounts had been opened with just over £141 million deposited in those accounts. Take up of the scheme is increasing, with the total number of Help to Save accounts opened by savers increasing by 7% over the course of February and March 2021; and HM Treasury, HMRC and the Money and Pensions Service (MaPS) continue to collaborate to increase uptake further.

The Government has no current plans to extend the four-year term of a Help to Save account to allow for Government bonuses for saving to be paid over a longer period. As it is designed, the scheme is very generous, providing a 50% Government bonus on up to £50 of savings each month, and a maximum possible bonus of £1,200 over four years. As Help to Save provides two bonus payments to savers, calculated in different ways after two and four years, extending the provision of accounts would fundamentally alter the scheme's design.

Given that Help to Save accounts are not interest bearing, the Government does not consider that it would be in savers' best interests to have access to the Help to Save account in the longer term without fund matching. The Government is clear the aim of Help to Save is for individuals to build a long-term savings habit and that individuals should continue saving once their participation in Help to Save comes to an end. HM Treasury and HMRC are working with MaPS to encourage the continuation of this savings habit and promote options for saving. After their participation in Help to Save, individuals may benefit from a range of existing savings policies, such as tax-free saving in an Individual Savings Account (ISA).

<u>Debt advice</u>

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

[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. It provides free and impartial debt advice, money guidance and pension guidance to members of the public. 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. 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.

[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. The Committee felt that financial inclusion was not given sufficient prominence in this strategy, reflecting the concerns of the Financial Inclusion Commission. 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 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."

The Government recognises that financial inclusion and financial capability are interlinked: they play complementary roles in helping people access affordable products and services, regardless of their background and income, and use their money in the most efficient way possible.

MaPS has a statutory strategic function, as set out in the Financial Guidance and Claims Act 2018, 'to develop and coordinate a national strategy to improve the financial capability of members of the public, the ability of members of the public to manage debt, and the provision of financial education to children and young people'. As explained by the Minister for Pensions and Financial Inclusion in his appearance before the Committee on 16 March 2021, MaPS published its UK Strategy for Financial Wellbeing in 2020. This sets our five goals to improve the UK's financial wellbeing by 2030, including 2 million more children and young people getting a meaningful financial education, and 5 million more people understanding enough to plan for, and in, later life.

The Government continues to engage with industry and the regulators to ensure people have access to useful and affordable financial products and services, and highly values MaPS's work and focus on financial capability and education. The Government continues to work closely with MaPS – including on the delivery plans for its UK Strategy, money and pensions guidance offer, and the provision of debt advice in England – to ensure this supports and complements wider Government efforts to tackle financial exclusion. The Government greatly appreciates the role MaPS and the debt advice sector play, and it remains strongly committed to helping people access the support they need to get their finances back on track. This is why it has agreed to maintain record levels of debt advice funding for MaPS in 2021/22, bringing the budget for free debt advice in England to £94.6 million, an increase of over 70% compared to 2019/20 levels.

Financial education

[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.

The Government is committed to ensuring people understand and make efficient use of financial products and services, and our work focuses on ensuring people can access the advice and guidance they need and have the confidence and skills to successfully engage with their finances.

The Government trusts schools to use their professional judgement and understanding of their pupils to develop the right teaching approach for their school, drawing on the expertise of subject associations and organisations. Schools receive their core funding through the National Funding Formula (NFF), which continues to distribute this funding fairly, based on the needs of schools and their pupil cohorts. The NFF does not ringfence funding for subjects, as schools are best placed to decide how to spend their money to meet pupils' needs.

Financial education can be taught within mathematics, which is a core subject and compulsory for all schools from key stages one to four. The mathematics curriculum provides young people with the knowledge and financial skills to make important financial decisions, including how to solve problems such as loan repayments, interest rates and personal finance problems such as compound interest. Since September 2014, students enrolled on a 16-19 study programme have been required to continue the study of maths until they secure a GCSE grade 4 or above.

Financial education also forms part of the citizenship curriculum which can be taught from key stage one, and is a compulsory foundation subject at key stages three and four. The citizenship curriculum covers knowledge around the functions and uses of money, the importance of personal budgeting, money management, and the need to understand financial risk.

Schools are also free to include the teaching of financial education in their personal, social, health and economic (PSHE) provision if they wish, drawing on the PSHE Association's non-statutory programme of study.

<u>The Financial Conduct Authority's objectives and a duty of care to customers</u>

[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.

The FCA have one strategic objective – to ensure the relevant markets function well – and three operational objectives – to secure appropriate protection for consumers, to protect and enhance the integrity of the UK financial system, and to promote effective competition in consumers' interests. The Government believes these objectives provide significant opportunity for the FCA to proactively support government leadership of the financial inclusion agenda and, therefore, that an additional objective is unnecessary.

As the UK's independent conduct regulator, the FCA act to improve access to existing services, where issues fall within its consumer protection and competition objectives. The FCA are also a permanent member of the Financial Inclusion Policy Forum, which the Government set up in response to the Financial Exclusion Committee's report in 2017 in order to bring together stakeholders to collaborate and tackle financial exclusion.

The FCA have taken concrete action to promote financial inclusion, for example by intervening under the consumer protection objective to improve access in the travel insurance sector for customers with pre-existing medical conditions. They have also issued guidance to firms under Principle 6 of their Principles for Businesses – that firms should treat customers fairly – which supports financial inclusion. Examples include their

Guidance on the fair treatment of vulnerable customers – which outlines how firms should consider the needs of such consumers throughout the whole customer journey, including communications and product design – and their bank branch closure guidance.

When laws are passed to create additional public service obligations, the FCA regulate in line with them. For example, certain banks are required to provide access to basic bank accounts. Where issues fall outside the FCA's remit, they work closely with the Government and other bodies. For instance, the FCA issued a Call for Evidence last year to inform the Government's work on access to cash, where the Government has said it intends to legislate to protect access. The FCA have also worked with the Government by providing regulatory expertise in relation to measures to increase consumer access to fair and affordable credit, including:

- The £2 million Affordable Credit Challenge Fund to promote innovative fintech solutions to the challenges faced by social and community lenders;
- The prize-linked savings scheme pilot, under which consumers who saved with participating credit unions were entered into a draw to win cash prizes; and
- Legislative and regulatory changes to make it easier for Registered Social Landlords to direct tenants to alternatives to high cost credit.

[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 is committed to ensuring financial services consumers are protected. The Government has recently enshrined this commitment in legislation through the Financial Services Act 2021 (the Act).

Section 29 of the Act requires the FCA to consult on whether it should make rules providing that authorised persons owe a duty of care to consumers. It also obliges the FCA to publish its analysis of the consultation responses by the end of 2021. Furthermore, it sets out that the FCA must make new rules on the level of care that must be provided to consumers, taking into account the results of the consultation, by 1 August 2022.

In accordance with the requirements set out in the Act, the FCA published a consultation on 14 May 2021 proposing a new 'Consumer Duty'. This seeks to clarify and raise expectations for the standard of care that should be provided by financial services firms to consumers. The proposals in this consultation seek to ensure consumers benefit from a higher level of care from financial services firms.

The Government's Financial Inclusion Strategy

[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 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.

As explained by the Economic Secretary to the Treasury in his appearance before the Committee on 16 March 2021, the Government promotes financial inclusion through many ongoing conversations and workstreams. This includes engagement and collaboration across Government as well as with the financial services industry, third-sector organisations, consumer groups, and the independent regulator.

The Government believes that the Financial Inclusion Policy Forum and the annual Financial Inclusion Report play a key role in setting out a vision for financial inclusion and communicating it to the public. Since the first Financial Inclusion Policy Forum of March 2018, the Government has published summaries of each meeting, including agenda items and key themes which were discussed. The Government also reports annually on progress made in financial inclusion and the actions it has taken through the Financial Inclusion Report, the latest of which was published in November 2020 and covers the period 2019/20. Both Forum summaries and annual reports can be found online on gov.uk.

Whilst publishing a further strategic document would be resource intensive and bear significant risk of duplication with existing activities, the Government recognises the importance of continuing to share our vision and plan for financial inclusion. Therefore, the Government will ensure the annual Financial Inclusion Report includes, in addition to the recent achievements, our plans for ongoing and upcoming activities to reduce financial exclusion going forward. This year’s report will be published in Autumn on gov.uk.