Written evidence submitted by the Financial Inclusion Centre

Introduction

1. The Financial Inclusion Centre is an independent, not-for-profit policy and research group. Its mission is to promote a financial system and financial markets that work for society. The Centre works at two main levels.
- **Promoting system-level change** We undertake research and develop policy to promote sustainable, resilient, economically and socially useful financial markets that: benefit the environment; encourage responsible corporate behaviours and create a positive social impact; and efficiently allocate long-term financial resources to the real economy.
- **Promoting economic and social justice** We promote fair and inclusive, efficient, well-governed and accountable, properly regulated financial services that meet households' core financial needs. To do this, we undertake research into the causes of market failure in the sector, formulate policies to address that market failure, develop alternative solutions where the market cannot deliver, and campaign for market reform.
2. We are unable to respond to questions relating to the macro economic or labour market effects of Covid19. Therefore, we are restricting our submission to questions relating to the impact of the economic and financial shocks created by the pandemic on vulnerable households.
3. We would ask the Committee to also read our report: *Extraordinary times need extraordinary measures: dealing with the immediate and longer term financial impacts of the Covid19 pandemic* http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2020/05/Financial-Inclusion-Centre Covid19-Extraordinary-times-need-extraordinary-measures-May-2020.pdf
4. This report:
- sets out in detail how we think vulnerable households will be affected by the financial shocks created by the pandemic; and
- makes a series of policy recommendations to mitigate those impacts, and rebuild and restructure household finances and the financial system to protect against future economic shocks.

JOB PROTECTION SCHEME AND SELF-EMPLOYMENT INCOME SUPPORT SCHEME

HOW AND WHEN SHOULD THE GOVERNMENT’S SUPPORT PACKAGES BE WOUND UP?

6. At the Financial Inclusion Centre, we focus on economic and social justice, and financial inclusion issues. Covid19 threatens to cause devastating economic and financial shocks. The full extent of the impact is yet to unfold but it is certain to be worse than the aftermath of the financial crisis in 2008.
7. This crisis is also different to 2008 where there was a clear sequence – a financial crisis became an economic crisis, which was followed by austerity. This time we are seeing an economic crisis of a different order (where economic activity in key sectors has almost stopped), a financial crisis, and the public health crisis all happening at the same time.
8. A range of large scale, ***temporary*** interventions have been needed to keep the economy and financial system working, maintain jobs and household incomes, provide reassurance to millions of vulnerable households, and ease the financial and emotional stress they face. Regulators have also introduced temporary consumer protection measures.
9. But, we must prepare for the fact that the crisis will be far from over when these temporary measures are removed or phased out. The crisis will play out in four phases:
    - Emergency phase: while the temporary government and regulatory measures are in place to protect against the immediate economic and financial shocks
    - Survival phase: when the support measures are removed/ phased out and businesses and households have to survive financially until a sustained economic recovery comes
    - Recovery phase: when the economy begins to recover – but it will be some time after this before this feeds into a sustained recovery in jobs and household finances
    - Rebuilding and restructuring phase: when the challenge of rebuilding and restructuring the economy, financial system and household finances needs to begin, new reforms are put in place against the risk of future economic shocks, and existing public policy crises dealt with.
10. No one can really say how long each of these phases will last. Some economists are expecting that we will not see a meaningful recovery until third quarter 2021.
11. We would argue that the Government’s employment support packages be wound up only when there is compelling evidence that a sustained recovery is on the way and there are regulatory measures in place to protect households from the increased risk of evictions, aggressive enforcement of debts and arrears, and being forced to borrow from subprime or illegal lenders.

WHAT ACTIONS DOES THE GOVERNMENT NEED TO UNDERTAKE TO PURSUE TO SUPPORT A SUCCESSFUL EXIT STRATEGY?

WHAT ARE THE FINANCIAL REGULATORS AND THE FINANCIAL SECTOR DOING TO REDUCE THE RISK OF PEOPLE BEING TAKEN ADVANTAGE OF BY FRAUD AT THIS TIME, IN PARTICULAR WITH REGARD TO VULNERABLE GROUPS?

13. We do not believe the Government fully recognises the risks facing vulnerable households. As mentioned, we will see an increased risk of evictions, aggressive enforcement of debts and arrears, and being forced to borrow from subprime or illegal lenders. Financial exclusion will grow as a result of widening inequality and impact on household incomes.
14. There are a number of interventions needed from government and regulators to protect vulnerable households in the short term and medium/ longer term. We have summarised these below.

SHORT TERM INTERVENTIONS

15. The Discretionary Social Fund needs to be urgently restored at least for the emergency period outlined above to provide grants for citizens in receipt of social security.
16. A package of improvements are needed to protect citizens who rely on the social security system.[1] This should include: applying Universal Credit uplifts to all benefits; suspending benefit caps and claimant sanctions; current awards should be extended for 12 months; all disabled and seriously unwell people waiting for the outcome of a Mandatory Reconsideration (MR) of a disallowed ESA claim should be immediately given an assessment rate until the decision has been made; Housing Benefit levels should be temporarily raised to cover all rents; funding for Discretionary Housing Payments for those tenants still facing shortfalls should be increased; and during the emergency period, UC advance payments should be converted into grants.

Access to emergency loans

17. Even with the current job and income protection measures and improvements to social security in place, many households will still need access to emergency loans to cover basic needs (as well as grants for those in most pressing need).
18. The non-profit lending sector does not have the capacity to help the most vulnerable households and SMEs who are at risk of being targeted by loan sharks smelling blood. This calls for quick, direct interventions to provide emergency loans.
19. We call for three interventions to help those in need. In addition to the restoration of the Discretionary Social Fund we propose the establishment of a National Support Fund (NSF) and National Self-employed Loan Scheme (NSLS).

National Support Fund (NSF)

20. A National Support Fund (NSF) should be established immediately. A pool of funding should be provided by a consortium of the Bank of England, government, civil society funders and grantmakers, and contributions from industry. This NSF would directly provide or facilitate access to grants, interest free and low cost bridging loans for eligible citizens. This should incorporate the proposed No-interest Loans Scheme (NILS) currently being considered by HM Treasury.[2] The NSF would also facilitate access to loans from credit unions. In terms of eligibility, a temporary arrangement should be set up between the NSF and debt advice and other charities, social housing providers, and local authorities who would refer clients to the NSF.

[1] For a more thorough set of Proposals on the social security system see Z2K website https://www.z2k.org/latest/z2k-covid-19-demands/
[2] This scheme has been shown to be feasible. See: https://londoneconomics.co.uk/wp-content/uploads/2020/03/NILS-feasibility-study-report.pdf But, given the scale of the problems facing us, it is unlikely NILS would be sufficient to meet the need.

Referring organisations would assess clients' income and expenditure and 'certify' clients based on three tiers:[3]

- clients with negative budgets who need a grant as they will be in no position to repay a loan;
- clients eligible for a no-interest bridging loan; and
- clients eligible for a low cost loan from credit unions (these loans would be underwritten by the NSF).

21. Alternatively, a central hub (rather than a funding pool) could be established with participating lenders/ grant makers signalling which tiers of clients they want to support. NSF could 'ping' clients to participating funders/ lenders or clients could choose an appropriate lender/ grantmaker.
22. We envisage most of the support provided by the NSF would be done via referrals from trusted intermediaries. But, the NSF could allow direct applications and use Open Banking technology to determine eligibility for support.

National Self-employed Loan Scheme (NSLS)

23. Tailored solutions are needed for the self-employed who are eligible for the Self-employment Income Support Scheme (SISS).[4] HMRC is proactively contacting those self-employed who are eligible for the SISS to invite them to apply for a grant to tide them over until the economy recovers. These grants will be helpful but the self-employed need longer term support. It is logical to make greater use of the established relationship between the state and the self-employed to reduce the administration and distribution costs involved in making loans to underserved groups.
24. We propose the immediate establishment of a National Self-Employed Loan Scheme (NSLS). We propose the Bank of England should collaborate with HMRC by creating a NSLS to provide interest free loans to the self-employed.
25. It is difficult to say how much would be needed. But, a £15 billion fund could provide loans of up to £5,000 to 3 million self-employed. This is small beer in comparison to the cumulative £645 billion the Bank of England has created under the QE scheme.[5]
26. Unlike the grants, the loans would be repaid over three years and recycled. HMRC will have done the work identifying and verifying who is eligible, and it has access to the accounts of self-employed to determine how much they can apply for under the grants scheme. The existing relationship the self-employed have with HMRC means the Bank of England and government can ensure that those who can repay loans do so.

Mortgages and credit

27. Charges on all forms of non-mortgage credit should be capped.
28. FCA should issue clear guidance on the conditions attached to 'catch-up' agreements put in place to recoup missed payments from borrowers. Catch-up agreements should not be too onerous and put borrowers under undue strain. We discuss the possibility of debt relief and write-offs, below, under Survival and Recovery measures.
29. Any temporary disruption to borrowers finances arising from Covid19 should not be used as an opportunity to impose more disadvantageous terms and conditions on the borrower. Nor should this be used to restrict access to more favourable deals that would have been available had the temporary disruption not occurred. Note, this is not expecting lenders to continue to offer the better deals to borrowers whose finances have clearly been permanently affected by economic disruption.

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[3] Note that this is not a *credit* rating but a *needs* rating.

[4] This scheme allows the self-employed to claim a taxable grant worth 80 percent of their trading profits up to a maximum of £2,500 a month. It will be available for 3 months, but may be extended.

[5] https://www.bankofengland.co.uk/monetary-policy/quantitative-easing

30. In the more extreme cases, vulnerable households will be at risk of being targeted by illegal loan sharks. The FCA should step up its work with partner organisations and Illegal Money Lending Teams working in this field to closely monitor activity and take necessary enforcement action.

Gaps in the Financial Services Compensation Scheme (FSCS)

31. There is a risk that niche or specialist lenders could very quickly get into financial difficulty and may fail. We need to avoid the repeat of the Wonga episode where customers entitled to redress for being inappropriately sold loans were unable to get that redress when the lender went bust. The FCA and HMT should urgently ensure that subprime lenders are part of the FSCS.

Insurance

32. The FCA has issued some welcome guidance for insurers.[6] But, again this do not go far enough. Much clearer guidance is needed aimed at insurers who are considering suspending or withdrawing some insurance products on how to treat policyholders (including businesses) who rely on these products and may be left without critical cover. There is a risk that large numbers of consumers could be affected by insurers withdrawing altogether from sections of the market. We do not yet know how many households or which communities might be affected. Moreover, some policyholders may have temporary difficulties maintaining insurance premiums.
33. The FCA should urgently assess the extent to which insurers might withdraw from markets, how many policyholders might be affected, and what the implications for policyholders might be if cover is withdrawn. The FCA should publish this assessment and, if necessary, work with HMT to ensure alternative insurance cover is available (learning from the lessons of FloodRe[7]).
34. The FCA should issue clear guidance to insurers on what treating customers fairly (TCF) means in cases where consumers face temporary difficulties maintaining premiums. This might mean, for example, allowing token payments until the policyholder can afford to resume full payments and catch up on arrears.

Pensions and investments

35. Consumers saving for a pension – whether individually or through their employers' pension – are going to be exposed to a range of potential risks.
36. Consumers who have seen their pension pots hit by financial market turmoil will be vulnerable to outright scams, making poor decisions, and receiving poor advice - for example, on pension 'recovery' plans.
37. The FCA has issued some helpful guidance for firms on how to deal with consumers who might be worried about their pensions.[8] This is welcome. But, pension savers need reassurance that the FCA is monitoring these sectors very closely to ensure that regulated firms and intermediaries are not exploiting worried consumers by misselling costly and high risk pension recovery plans involving complex products, or conducting unnecessary pension reviews or transfers.
38. It is not just in the personal pensions sector where risks will increase. Employers' pensions will be at risk from adverse movements in financial markets, and employers facing difficulties maintaining contributions to pension schemes. Members of employers pension schemes will be vulnerable to the asset management industry and financial intermediaries selling costly pension recovery schemes which expose them to further risks.
39. The Personal Finance Society (PFS) says it has seen a rise in reports of parents being pressured into cashing in their valuable defined benefit (DB) pensions schemes by family members. This is

[6] https://www.fca.org.uk/firms/insurance-and-coronavirus-our-expectations
[7] https://www.floodre.co.uk/how-flood-re-works/
[8] https://www.fca.org.uk/firms/pensions-and-retirement-income-our-guidance-firms

worrying as most people are better off keeping their DB pension.[9] This requires urgent action from regulators.

40. The two main regulators overseeing pensions – the FCA and The Pensions Regulator (TPR) – have put on hold 30 consumer protection measures in the employers and individual pensions sectors.[10] It is understandable that regulators want to ease pressure of employers and the pensions industry during these difficult times. But, this leaves pension scheme members exposed. Furthermore, there will be a risk that some of these measures will never be implemented as pension providers and employers lobby for deregulation to cut costs as we come out of the crisis. Brexit will give a further boost to industry lobby attempts to deregulation.
41. Investment scams have wreaked havoc on the finances of many consumers. There was nearly £200 million of reported losses in 2018 alone.[11] The average reported loss was £29,000 which suggests there were some very large individual losses amongst that total. In the confusion and chaos caused by Covid19, there are understandable fears that consumers may be even more vulnerable to scams. Moreover, the sustained low interest rate environment makes consumers more vulnerable when looking for investments offering what seems to be a good return.
42. It has always been very difficult to protect consumers from scams. It is more so now in a world where we are connected via the internet and scamsters may operate more easily from jurisdictions outside the reach of the UK regulators.
43. The FCA has stepped up its warnings to consumers telling them to be more vigilant and to protect themselves against scams.[12] Consumers do have to take a degree of responsibility if they are victims of scams and part with large amounts of money in the hope of getting a high return at a time when rates on the safest investments are so obviously low. There have been plenty of warnings that '*if something seems to be too good to be true, then it is probably is*'. But, to be fair, the current environment does heighten the risk of scams and relying on consumer alerts or warnings has not been effective.
44. FCA and TPR need to step up monitoring of their respective markets and commit to implementing suspended measures quickly if evidence of detriment emerges. FCA and TPR should issue a statement confirming their intention to implement the suspended measures, with a clear schedule for implementation, and report on progress made on implementation.
45. FCA should issue a policy statement to explain how it is monitoring the pensions industry along with explicit guidance and warnings to the industry on what constitutes good practice and breaches of treating customers fairly and acting in the interests of consumers. TPR should do the same for the employers pension fund sector setting out clearly what constitutes good practice and fair treatment of pension scheme members. FCA and TPR particularly need to keep a close watch on the promotion of pension recovery strategies.
46. There needs to be better ways of limiting the risk of consumers falling victim to scams – although we need to accept it is not possible to remove the risk altogether. The key is to make the process of scamming more difficult for those attempting to defraud, to require consumers to take active steps before parting with their money, and for regulated financial institutions who are releasing money to undertake more robust due diligence.
47. Therefore, we propose that the FCA consult on requiring banks to include 'trigger warnings' and break points on online bank account transactions (and for telephone and branch banking) when customers are intending to transfer large sums of money above a certain limit (this level should

[9] See tweet from Josephine Cumbo, 11:40 AM, 9th April 2020
[10] See: https://www.pensions-expert.com/Comment-Analysis/Pension-protections-must-not-be-victims-of-coronavirus
[11] https://www.fca.org.uk/news/press-releases/fca-warns-public-investment-scams-over-197-million-reported-losses-2018
[12] https://www.fca.org.uk/news/news-stories/avoid-coronavirus-scams

be consulted on). This trigger warning should tell customers to check the FCA's Register of Authorised Firms to confirm that the firm they are considering transferring money to is authorised. This could be taken further by forcing banks to require customers to 'double-confirm' they have checked the FCA register before authorising a transaction. For telephone and branch based transactions, banks could be required to perform this check before authorising a transaction. We recognise that these measures could be seen as stepping on individual personal responsibility. But, it is difficult to see how scams could be stopped without interventionist measures.

48. Employers should be required to provide enhanced warnings at each part of a pension transfer process to any scheme member who has requested a transfer. Similarly, any financial institution who is due to receive assets transferred from should be required to take extra steps to satisfy themselves that these assets are not being transferred under duress. When a financial adviser is being used to advise on a transfer, they should be required to provide enhanced warnings to the clients before agreeing to help with the transfer.

Protecting Renters

49. There is a significant rights and protection deficit is in the housing sector. As outlined above, research suggests that private renters are already facing serious and prolonged financial difficulties.
50. The government has introduced some measures to help renters. Nearly £1 billion of support is being provided to increase housing benefit and Universal Credit so that Local Housing Allowance will cover at least 30 percent of market rents in local areas. The government has promised that evictions in social and private housing would be banned during the pandemic.
51. But these measures just extend the statutory notice period for eviction from 2 months to 3 months for the vast majority of renters. This means landlords can still serve notice and claim possession at the end of that period. There appears to be no protection for residents who can be evicted without notice such as people in temporary housing or lodgers. In Scotland, devolved emergency legislation will include a 6 month ban on any evictions.
52. Furthermore, there appears to be no statutory provisions to deal with arrears that will be built up during this period. Instead the government has previously said that it would 'encourage' landlords and tenants to agree an 'affordable' repayment plan to payback arrears.
53. Even if evictions are suspended during the crisis, renters will still be vulnerable when landlords seek to recover rent arrears after the emergency protections are lifted. As private sector rents are high in certain parts of the country, allowing landlords to recover arrears too aggressively would make rents even more unaffordable and place too great a strain on household finances. Just providing tenants with a period of grace to repay arrears would provide limited protection given how badly household finances are expected to be hit.
54. Renters already receive much lower statutory protection than other 'consumers'. The government's measures offer limited protection during the emergency and there is little sign that the consumer protections available to mortgagees will be made available to renters once the emergency measures come to an end.
55. Renters need enhanced protections during the crisis and for as long as it takes until a sustained recovery has been established. We are facing what has been described as an 'avalanche of evictions'. Furthermore, a more fundamental overhaul of the consumer protections available to renters is needed – see below.
56. Of course, the position of landlords must also be considered. In 2015/16 there were 2.5 million private landlords in the UK, up from 1.97 million in 2011/12 – an increase of 27 percent.[13] Eight percent landlords (by number) own 38 percent of all private rented properties.[14] The majority of

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[13] https://www.landlordtoday.co.uk/breaking-news/2018/4/number-of-uk-landlords-rises-to-1-75-million
[14] Source: CML RESEARCH, The profile of UK private landlords, Kath Scanlon and Christine Whitehead LSE London, December 2016, Fig 1:

landlords own just one property. Many of these will not have deep pockets to withstand a loss of rental income.

57. What is intended to be a three month ban on evictions does not go far enough. Evictions should be suspended for as long as it takes to provide time for more permanent legal and consumer protections for renters to be put in place.
58. Government should fast track legislation in the pipeline to protect renters from 'no fault' Section 21 evictions which leave renters in such a vulnerable position. Automatic evictions due to arrears built up as a result of Covid19 related financial difficulties should be banned. This could be done by amending Section 8 notices. These notices are issued by landlords as the first step in the eviction process. If a Section 8 notice is issued, tenants should be able to cite special circumstances to stop the eviction process until their case has been independently assessed – see below. Landlords should not be able to make tenants bankrupt as a result of rent arrears.
59. A new, enforceable pre-action eviction protocol should be urgently agreed requiring landlords to treat tenants fairly, and cover the steps landlords and tenants must take before any attempt at eviction is made. Critically, tenants should be given the right to challenge whether a landlord has complied with the protocol and, if necessary, have this dispute ruled on by the Housing Ombudsman Service. The Ombudsman should have emergency powers during the crisis to suspend rent payments in certain circumstances where tenants are in serious financial difficulties.
60. New rules brought in by the FCA allows borrowers who are experiencing (or reasonably expect to experience) payment difficulties because of Covid19 to ask for a mortgage payment holiday from their lender. The FCA expects lenders to do this unless the lender can offer a better option. This measure should be extended to renters. Renters should be able to request a rent payment holiday and, if refused, take this to the Housing Ombudsman Service for a decision binding on landlords.
61. A new pre-action protocol should ensure that any plan to recover arrears does not place undue strain on tenants' finances. Tenants should have the legal right to refer any proposed agreement to debt advice charities for arbitration and, if necessary, to the Housing Ombudsman Service. The Ombudsman should have the powers to impose a total payment cap consisting of the underlying rent plus any amount set aside for recouping arrears. In exceptional cases, the Ombudsman should be able to set aside accumulated arrears to allow the tenant to start with a clean slate.
62. The position of smaller landlords must also be considered. Any decision by the Ombudsman should also take in to account the financial position of landlords. If the landlord has a buy-to-let mortgage, and a plan recommended by the Housing Ombudsman causes financial difficulty for the landlord, the FCA should ensure that mortgage lenders offer payment holidays under the treating customer fairly rules. Government should also set up a special support fund for smaller landlords. Landlords subject to Housing Ombudsman decisions, and who do not have a buy-to-let mortgage, should be able to apply to this support fund for relief. Larger landlords should be required to absorb any loss of rent caused by Ombudsman decisions.
63. The measures outlined above would provide a good level of protection for renters during the crisis and *assuming there is a sustained recovery*. But, we must be ready for the worst case scenario. Millions of private renters are already experiencing financial difficulty. If we do not see a sustained recovery in the economy, jobs, and incomes millions of renters will find it difficult to pay their rent. This will require extraordinary measures over and above requiring landlords to offer payment holidays. Remember, we are not dealing with just another consumer good/ service. This is about making sure people have somewhere to live. If the worst case scenario does unfold, rents will have to be reduced for those tenants who are facing prolonged financial difficulties connected to Covid19. This will involve landlords and, where relevant, buy-to-let mortgage lenders taking a 'haircut' on their rental and mortgage income, with the state also

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Distribution of PRS Portfolio size (2016)

paying more towards the rent. How this is to be shared between landlords, mortgage lenders, and the state would depend on specific circumstances. But, the general principle should be that larger landlords and smaller landlords making significant profits from rented properties shoulder a greater share of reduced rent.

64. Until comprehensive statutory protections for renters are introduced, local authorities should be given emergency powers to cap rents and limit increases if needed.
65. We call for a statutory Renters Protection Agency to be established with similar powers and duties as the Financial Conduct Authority (FCA), and statutory rights for renters. As an interim measure, the Housing Ombudsman Service should be given emergency resources and emergency powers (similar to the Financial Ombudsman Service) to deal with disputes between landlords and tenants such as those outlined above. As with the FOS, decisions by the Housing Ombudsman should be binding on landlords. These measures would just provide renters with the same protection taken for granted by financial consumers.
66. A register of approved landlords should be established to ensure the market is properly regulated and renters protected.
67. The improved protections and rights outlined above should be rolled over if a landlord sells a property to another landlord.

Council taxpayers

68. Council tax debts have moved up the agenda recently and are now seen as a major source of detriment for financially vulnerable households. Council tax is deemed a priority debt and if payments are missed this can escalate quickly into a serious problem. The Money Advice Trust found than more than 2.6 million debts were passed to bailiffs in 2018/19 by the 367 local authorities that responded to the charity's Freedom of Information requests.[15]
69. As it stands, if a council taxpayer misses a payment, a council writes to them after 14 days to ask for the missed payment to be paid within seven days. If the council taxpayer does this, they can continue paying in monthly instalments as normal. But, if they cannot pay the arrears, councils can demand (and most do) the full year's outstanding amount be paid in one go. This means that what can be relatively small debts can very quickly become large debts.[16]
70. The impact of Covid19 on jobs and household finances is clearly going to increase the number of households who find it difficult to pay their council tax. Moreover, if large numbers of people are unable to pay their council tax, this is going to have an impact on overstretched, underfunded local authorities already struggling to provide services such as social care.
71. A £500 million Hardship Fund created in the last Budget will allow local authorities to provide support to households in financial difficulty including, but not exclusively, council tax relief for those in receipt of Local Council Tax Support (LCTS). This applies to the financial year 2020/21. It is expected that this will further reduce council tax for those in receipt of LCTS by an average of £150 over the year. This is welcome but we do not know at this stage how many council taxpayers are going to get into financial difficulty and, therefore, whether the £500 million will be enough.
72. Clearly the £500 million Hardship Fund is welcome. But, government should give a commitment that it will expand this amount if growing numbers of people require Local Council Tax Support (LCTS).

[15] https://www.stoptheknock.org/wp-content/uploads/2019/06/Money-Advice-Trust-Stop-The-Knock-2019-report-September-2019.pdf

[16] An example provided by Citizens' Advice shows how missing an average council tax payment of £167, in the first month of the financial year, can escalate to a debt of over £2,065 in just nine weeks. If a person falls behind on their council tax bill, they become liable for the outstanding amount of the bill after just two weeks. On top of this, two types of fees are added – court costs (typically £84) and bailiff fees (typically £310). See: https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/harsh-collection-methods-adding-half-a-billion-in-fees-to-peoples-council-tax-debt-citizens-advice-reveals/

73. Local authorities should be prohibited from demanding that the outstanding amount of council tax be paid in one go if a council taxpayer gets into arrears.
74. Local authorities should be prohibited from using the threat of imprisonment to enforce council tax payments.
75. A new, enforceable pre-action protocol should be urgently agreed requiring local authorities to treat citizens in arrears fairly. This should include the requirement to set up, where necessary, a manageable arrears repayment plan negotiated by appointed debt advice charities.[17] Critically, citizens should be given the right to challenge whether a local authority has complied with the pre action protocol and, if necessary, have this dispute ruled on by the Local Government Ombudsman. The Ombudsman should have the authority to require a local authority to comply with an arrears repayment plan negotiated by a debt advice charity.
76. The Local Government Ombudsman should be given emergency resources and emergency powers (similar to the Financial Ombudsman Service) to deal with disputes between local authorities and council taxpayers. As with the FOS, decisions by the Ombudsman should be binding on local authorities.

Improving debt advice

77. According to government estimates, even before the Covid19 crisis hit, there was an estimated nine million overindebted people in the UK. Of those, only 1.1 million receive debt advice each year. Not all of those who are overindebted need debt advice. But, the government analysis concluded that an additional 650,000 to 2.9 million people would benefit from debt advice but do not seek it.[18] Too often, even those that do seek help do so at a late stage and sometimes take the quickest rather than most sustainable solution.
78. To address this, government is committed to introducing 'Breathing Space' in 2021.[19] This will provide a 60-day breathing space period for people with problem debt. During this period, enforcement action from creditors will be halted and interest frozen while individuals receive professional debt advice to find a long-term solution to their financial difficulties.
79. This is welcome. But, the number of households facing financial difficulty, and therefore needing debt advice, is almost certain to rise. The measures we outline above to protect renters and council taxpayers will require additional support from already hard pressed debt advice charities and charities who provide advice on social security. The debt advice process will also need to be more efficient.
80. Additional resources should be provided to debt advice charities and charities who work in the front line of providing advice on social security.
81. A new settlement for funding debt advice should be introduced urgently to ensure there is sufficient debt and rights advice capacity in the system and that the funding reflects better the source of debt problems. This means in practice requiring utilities, telecoms providers, large landlords, and local government[20] to contribute to funding debt advice.
82. The Breathing Space initiative should be fast tracked and introduce as soon as possible in 2020 rather than wait until 2021.
83. Improving the efficiency of the debt advice system overall means improving basic processes such as collecting data on consumers' financial position. All creditors (including government departments and agencies, and local authorities) should be required to use the Standard Financial Statement to ensure that data is processed in a consistent way.

[17] This would be similar to the debt repayment plans negotiated by debt advice charities such as StepChange with banks and other consumer credit providers
[18] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863869/Breathing_Space.pdf
[19] https://www.gov.uk/government/news/breathing-space-to-help-millions-in-debt
[20] Or central government on behalf of local authorities

Expanded access to debt advice, new funding model for debt advice

84. Significant additional resources will still be needed for debt advice charities and charities who work in the front line of providing advice on social security. Currently, we have a 'mixed-economy' model of funding debt and rights advice – that is, funded through a combination of public finances, levies on industry, industry partnership models (eg. the fair shares debt advice funding model supported by major UK lenders), and support from charitable and philanthropic funders.
85. But, it is not clear that the balance of funding for debt advice reflects the source of the causes of debt problems. Increasingly, debts such as council tax and utility bills have caught up with, and for some households overtaken, consumer credit as the main source of overindebtedness.
86. This can be seen in a recent survey which asked people which bills they were already behind with/ expected to be behind with due to the Covid19 crisis. The most common bills households have/ expect to have fallen behind with are council tax, gas/ electricity, and water – all higher than financial services products such as credit cards, personal loans, overdrafts, and mortgages.[21] Indeed, non-financial products make up 64 percent of the total bills that are/ expected to be in arrears.
87. Government and MaPS should restructure the funding of debt advice and social security to better reflect the source of problem debt.
88. To aid this, Registry Trust (which operates the Register of judgments, orders, and fines for the Ministry of Justice) should be allowed to include the name of the claimant as well as the defendant on the Register.[22] Local authority council tax and business rate liability orders should be added to the claimant section of the Register with name of the claimant authority and bailiff or enforcement agent (not the defendant). This would allow MaPS and civil society campaigners to identify clearly and quickly which organisations and sectors are responsible for taking enforcement action against consumers and allow for a better allocation of resources for debt advice. Moreover, this would allow regulators such as the FCA, OFCOM, OFGEM, OFWAT to identify quickly which firms within their remit are most aggressive in terms of enforcement action and failing to treat customers fairly. It would also allow the Local Government Ombudsman and central government hold local authorities to account.

UK Regulators Network (UKRN)

89. Regulators who are part of the UK Regulators Network (UKRN) should:
    - immediately establish a reporting facility to publish intelligence on consumer detriment in their respective areas of responsibility;
    - publish reports on how effective government and regulatory interventions are at mitigating harm to consumers; and
    - how well firms within their respective remits are complying with the objective of government and regulatory interventions.

Recovery loans, longer term affordable credit options

90. The economic and financial impact of Covid19 means that levels of longer term financial exclusion will increase. Ensuring access to affordable loans will be a priority.
91. The Discretionary Social Fund should be maintained for most vulnerable households. The DWP should establish a formal referral relationship with debt advice and rights charities. Advisers

[21] Citizens Advice, Near the cliff-edge: how to protect households facing debt during COVID-19, https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/near-the-cliff-edge-how-to-protect-households-facing-debt-during-covid-19/

[22] Registry Trust can publish claimant data in Scotland and Northern Ireland but for historical reasons not in England and Wales where the vast bulk of judgments is registered. See: https://www.registry-trust.org.uk/ for data on judgments

should be able to certify that clients need a loan and quickly refer them to the DSF for fast track processing of loans.

Supporting the growth of the non-profit lending sector

92. Demand for high cost credit has already been estimated at £3 billion a year but so far affordable credit providers are only providing £250 million a year – or just £1 in £12 of demand.[23]
93. Growing numbers of households will become economically unviable/ unattractive for mainstream lenders and will either be forced to turn to high cost subprime lenders, or they will be denied access to credit altogether. The subprime market is likely to grow again after a period of retrenchment caused by the introduction of the payday lending price cap and tougher regulations for the consumer credit market.
94. As outlined above, a National Support Fund (NSF) should be established to provide no-interest/ low-cost loans for households who are need of emergency short term credit. But, renewed efforts will be needed to develop capacity in the alternative, non-profit lending sector to meet the long term need for affordable credit.
95. Unfortunately, the non-profit alternative lending sector, while doing sterling work, has made little progress on being a serious competitor for the mainstream for-profit lending sector. Previously, the resources available to commercial lenders such as payday lenders meant that non-profits were largely squeezed out of the market. But, even after the payday lending cap and tougher consumer credit regulation significantly reduced the size of the payday lending sector, non-profits have still not made serious inroads into extending their reach.
96. For the non-profit sector to make an impact in these more challenging times, requires a radically different approach. Our experience covering the non-profit alternative lending sector tells us that the main factors explaining the limited success of non-profit lenders are: limited available of long term capital (although credit unions are sitting on significant members' deposits the problem is lack of opportunities for utilising surplus credit union deposits); fragmentation of the non-profit, community based lending sector results in diseconomies of scale and limits the ability of the sector to extend its reach to underserved households; and limited opportunities for distribution and marketing loans to target markets.
97. New mechanisms are needed to channel resources into the non-profit lending sector. We propose the creation of Social Lending Bonds, National Savings and Investment (NS&I) Social Lending Bonds, and Local Authority Community Lending Bonds. These bonds would allow social purpose savers and investors (institutional and retail) to provide longer term loan capital and equity investment to the non-profit lending sector.
98. Distribution is critical to reducing unit cost and extending access. Social entrepreneurs should create the Affordable Lending Gateway. This would be a single on-line lending platform for non-profit lenders such as credit unions and CDFIs and operated on a nationwide 'white-label' basis.[24]
99. Social entrepreneurs and funders should establish a single, ***commercially-minded*** entity focused on expanding the reach of the non-profit lending sector and providing realistic competition for the commercial lending sector. This entity should take the lead on: developing the Affordable Lending Gateway and other services such as ethical rent-to-own schemes (see below); setting up relationships with employers, social housing providers, local authorities and others who can extend distribution of loans and other products and services (for example, setting up payroll deduction schemes); and, more generally, promoting and marketing alternative lending and financial services. The new entity should also act as a broker or clearing house for attracting

[23] https://fair4allfinance.org.uk/activities/
[24] Where each lender retains its own brand but the loan application process is powered by a single platform provided by an efficient single provider.

new, sustainable finance into the sector. Note, this new entity should not be seen as a competitor to existing providers such as credit unions and CDFIs, or to established trade bodies. The entity would exist to complement the activities of existing providers and to maximise the potential of the sector.

A National Loan Scheme

100. Even with the proposals outlined above designed to support non-profit lenders, there will be a limit in their capacity to provide loans to most underserved, financially vulnerable households. Non-profits such as credit unions might be run on a mutual basis but they are not charities.
101. The National Support Fund (NSF) and National Self-employed Loan Scheme (NSLS), described above, should migrate into being a provider of low cost loans called The National Loan Scheme (NLS). The NLS should retain the relationship with referring organisations and be funded on the same basis as the NSF and NSLA. Funders should be paid a social return for providing funds for loans to the NSF. Eventually, the NLS could be operated by a new organisation called National Financial Services (NFS) which would sit alongside NS&I and offer low cost loans and insurance.

Ethical, responsible rent-to-own schemes

102. The rent-to-own (RTO) sector, although comparatively small, has been a source of serious detriment for many financially vulnerable households. As with the payday lending sector, campaigning by groups like the Financial Inclusion Centre has led to a very welcome clampdown on the commercial RTO sector.
103. As with short term lending, the problem is not with the RTO model *per se* rather than how these services are operated and delivered. Structured properly, RTO can be socially useful. The Financial Inclusion Centre has already set out models for providing responsible RTO services.[25]
104. Local authorities, social housing providers, non-profit organisations, environmental charities, and social impact funders should collaborate on establishing a network of non-profit RTO schemes. This network would have a dual purpose of tackling economic exclusion *and* promoting circular economy activities to support environmental objectives.

Debt relief and debt write-offs

105. One of the most difficult debates we are likely to encounter is what to do about unsustainable and unrecoverable debts accrued as a result of the Covid19 financial impacts. There are a range of existing legal and voluntary mechanisms designed to deal with serious debts accrued by individuals. The measures discussed in this paper would provide additional protection for individual households. But, some argue that there should be a wider programme of debt relief aimed at providing a more systemic solution and 'rebooting' of household finances.[26]
106. There is merit in this argument. Starting from a clean slate would: release large numbers of individuals from an overhang of debt; remove the need for an expensive infrastructure of debt collection and enforcement agents (which can exacerbate existing problems); and free up households to move more quickly to a position of financial resilience and security.
107. There is also the very valid point that after the 2008 financial crisis governments bailed out the banks and created 'bad banks' to deal with the overhang of bad debt created as a result of excessive lending pre crisis.
108. But, it is not as simple as that. There are unintended consequences and difficult administrative issues to overcome, never mind the tricky moral hazard issues to consider. For example, how would the eligibility and coverage of a debt relief programme be decided? What would the impact be on lenders' appetite for lending post Covid19 (access to credit will be critical if we

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[25] http://inclusioncentre.co.uk/wordpress29/our-work/publications/better-and-brighter-responsible-rent-to-own-alternatives
[26] See for example: https://www.theguardian.com/commentisfree/2020/mar/18/debt-relief-coronavirus-crash

want the economy to recover from the Covid19 shocks)? Should the programme extend to arrears on council tax and utility bills (remember, as we explain elsewhere, arrears on utilities and other bills now make up a larger share of problem debts than traditional bank or credit card debt)? Should only large creditors be expected to absorb losses and, if so, what determines a 'large' creditor? What does it mean for shareholders? What does it mean for those who had provided the funding for loans such as credit union savers, providers of capital in P2P lenders?

109. Nevertheless, none of these potential problems should preclude the exploration of a more systemic debt relief programme. If there is to be one, we suggest there should be three key principles that guide any such programme:

    - Creditors take a 'haircut' on bad debts/ arrears shared with the state
    - There should be a support mechanism for providing financial advice to those on the relief programme to help them rebuild their finances
    - Access to rescue/ bridging loans should be provided (see above for affordable loan proposals)

110. Government, regulators, industry, and civil society should quickly establish an investigation into the feasibility of a debt relief programme. This investigation should assess: which categories of household/ SMEs in financial difficulty should be eligible for the programme; which creditors should the programme apply to; how would the losses be shared between state and creditors; how would a debt relief programme affect lenders' appetite for future lending amongst different households; and what issues of fairness might arise (for example, does a debt relief programme mean that individuals who have sought to repay debts are penalised)?

Credit risk assessment post Covid19

111. As we recover from the immediate financial impact of Covid19, one of the most challenging issues relating to the availability of affordable credit will be the way credit risk is assessed.
112. There are great expectations about the potential for innovations such as fintech, Open Banking, and 'big data' to improve access for excluded, or poorly served households. And it is likely that the process of collecting, processing, and assessing data used in risk assessment will change as a result of technology.
113. But, fintech etc will ***not*** change the fundamental risk based nature of commercial lending – that is, commercial lenders in a market based system will charge higher prices to borrowers they consider to be a higher risk. Indeed, there is every likelihood that fintech/ big data will result in greater exclusion as it leads to ever greater segmentation.[27] Commercial lenders will still use risk indicators and algorithms to segment consumers and make lending decisions. They may decide to use different risk indicators and the weights given to indicators in algorithms may change. However, the fundamental nature of risk-based lending will not change.
114. Covid19 will cause consumers who were already financially stressed and vulnerable to become even more so – they will be considered an even higher credit risk. Similarly, we will see large numbers of consumers who were previously considered to be a low credit risk (based on steady employment and historic payments data) begin to struggle financially. A key reason for this is that Covid19 has had - and will continue to have - a disproportionate effect on certain sectors of the economy.
115. Moreover, the convulsive effect of the economic shock is likely to call into question the utility of credit scoring and risk assessment models based on historic pre Covid19 data. Stress testing

[27] Fintech: Beware of geeks bearing gifts? Financial Inclusion Centre, http://inclusioncentre.co.uk/wordpress29/our-work/publications/fintech-beware-of-geeks-bearing-gifts

loan books (existing and prospective) based on pre Covid19 scenarios may be of limited validity in such an era of economic uncertainty.

116. Furthermore, FCA has said that borrowers who ask for a payment holiday on their loans should not see their credit file affected. This means that the conventional approaches for recording loan arrears and, ultimately, defaults are in a form of 'suspended animation' during the Covid19 emergency period. We do not yet know how credit referencing agencies (CRAs) will treat this temporary disruption of data once the forbearance measures are removed or phased out and how this will affect their credit scoring and risk rating models.
117. Overall, at this stage, we just do not know how CRAs and lenders will respond and use data during the recovery phase, and what this might mean for access to new credit, extending existing credit, and debt collections and enforcement for different segments of the market. But, the treatment of data will be central. New protocols for dealing with arrears built up during the crisis period will be needed.
118. The FCA has announced that it is delaying the publication of the Interim Report on its Credit Information Market Study.[28] The FCA should use this opportunity to assess what the implications of Covid19 will be for risk rating and credit scoring models and how this might affect vulnerable borrowers.
119. The FCA and other regulators, lenders, utilities and telecoms companies, CRAs, and civil society organisations should collaborate on developing new protocols for handling disruptions in data and treatment of arrears and collections.

Repairing credit files

120. A record number of county court judgments (CCJs), 1.3 million, was issued in 2019.[29] CCJs stay on a consumer's file for six years and can affect their credit rating which, in turn, can make it more difficult to access affordable credit. Even before Covid19 struck, the record level of CCJs would have meant that more consumers would have found it harder to access affordable credit. The Covid19 financial shocks exacerbate this situation which mean that the alternative credit options outlined above are even more necessary.
121. It is important to note that CCJs are also used by employers, insurance companies, landlords, and telecoms companies to make financial decisions. So, it is important that records held are up to date and as much as possible is done to repair credit scores.
122. A major problem is that a low proportion of CCJs are marked as 'satisfied'. CCJs are marked as satisfied if the debt is repaid ***and*** proof of payment is supplied to the courts in England and Wales (and to Registry Trust for other jurisdictions).[30] But, the proportion of debts that are marked as satisfied has been falling. This can happen for a number of reasons such as people moving house and failing to notify the creditor, or just forgetting to do so (having to manage debts can cause anxiety). Whatever the reason, many consumers who have already repaid their outstanding debt could still be penalised if the CCJ has not been marked as satisfied.
123. Ensuring these CCJs are marked as satisfied is a small step that could have a big impact on consumers' financial health. It would help bring consumers back into the mainstream financial system. This could be done in a number of ways.
124. Relevant bodies such as MaPS, consumer groups, and creditors could raise awareness amongst consumers of the need to ensure that CCJs are marked as satisfied. Similarly, debt advice charities could include this information in their debt advice 'scripts' and encourage consumers to inform the courts.

[28] https://www.fca.org.uk/publications/market-studies/ms19-1-credit-information-market-study
[29] https://www.registry-trust.org.uk/blog/fy19-blog/
[30] https://www.registry-trust.org.uk/blog/getsatisfaction/

125. But, the most effective way would be for the FCA and other regulators (OFGEM, OFWAT, OFCOM) to require creditor firms within their remit to notify the courts when a debt has been repaid as part of treating customers fairly obligations. For non-regulated firms, such as private parking firms, government would need to require this step.

Payroll deduction savings schemes, saving with rent schemes, debt to savings conversions

126. A priority is getting households to build up regular savings. Regular payroll deduction schemes build on the principle of inertia to help employees build up a savings cushion. Moreover, it also helps with the goal of helping people get access to affordable credit when they need it. Regular savers establish a relationship with a credit union which makes it easier and cheaper to provide loans. This encourages a virtuous cycle of savings and use of affordable loans for needs (which reduces the risk of overindebtedness). This form of saving also helps credit unions as it reduces administration costs and the costs of marketing services to potential customers.
127. These savings interventions would improve the efficacy of government initiatives such as Help to Save.[31] This is a good initiative but has had limited success. The scheme was launched in September 2018 and according to government data over 90,000 people have so far opened an account and £13 million has been saved.[32] This is equivalent to an average of £144 per person. But, the scheme allows for people to save up to £2,400 over four years with the government topping this up by 50 percent or £1,200. So, eligible citizens could build up a total of £3,600 over four years through this scheme. This scheme is not being used to its full potential.
128. **T**he Confederation of British Industries (CBI), Institute of Directors (IOD) and Chambers of Commerce should aim to persuade the 20 biggest employers in each of the regions of the UK to provide and promote credit union payroll deduction schemes to their employees.[33] This would also help credit unions expand access to affordable loans – see above.
129. Social housing providers should establish savings with rent schemes to 'nudge' residents into regular savings when paying rent.
130. Debt advice charities should establish *debt to savings conversion schemes*. This involves creating working relationships with credit unions so that clients coming off debt repayment plans are 'nudged' into regular savings plans. The idea is that if households, with the support of debt advice charities, have been disciplined enough to maintain a repayment plan then they should be encouraged to put money they had been using to repay debts into a regular savings plan (following checks that they can afford to do this). Again, this would improve access to affordable loans hopefully breaking a vicious cycle of households having to turn to costly credit which undermines ability to save.

Access to insurance

131. Access to insurance is an important component of household financial resilience and financial inclusion. But, the evidence shows that we have made very little progress on this front.
132. A significant proportion of lower income households lack basic insurance such as contents insurance.[34] It is estimated that 7.5 million households lack contents insurance and £266 billion worth of possessions are left unprotected even though the cost of that insurance is just over £59 a year.[35] Lack of insurance can leave already financially vulnerable households having to find money to replace broken appliances or if they have been burgled, and can force them to take out high cost loans.

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[31] https://www.gov.uk/get-help-savings-low-income
[32] HM Treasury, Department for Work and Pensions, Financial inclusion report 2018-19, para 1.24
[33] FIC is currently evaluating different approaches to encouraging payroll deduction including incentives and 'nudges'.
[34] http://inclusioncentre.co.uk/wordpress29/the-financial-inclusion-challenge/key-facts/insurance-and-protection
[35] https://www.moneyadviceservice.org.uk/blog/how-much-is-the-average-cost-of-home-and-contents-insurance

133. We have already set out ideas for ethical versions of rent-to-own schemes to help households access affordable household products – see above. But, what can we do about access to insurance? As with most issues relating to financial exclusion, it comes down to access and distribution, and the unit costs involved in reaching underserved groups. The problem remains that the commercial insurance industry is just unwilling or unable to provide insurance to excluded households.
134. Alternative means of reaching underserved groups will be needed. The best option remains utilising organisations that already have established relationships with hard to reach, lower income households to deliver economies of scale.
135. For example, this includes social housing providers who could use their financial clout to negotiate good deals with commercial insurers and promote take up with tenants
136. Similarly, government organisations such as the DWP and HMRC have established relationships with hard to reach groups. One option would be for government to establish a National Financial Service (NFS) which could refer households to participating insurers on a 'carousel' arrangement.
137. Alternatively, government could establish an initiative to share risk with the insurance industry similar to Flood Re.[36]
138. The DWP should include information on affordable credit, savings, and insurance products on citizens' Universal Credit on-line accounts and on other relevant government websites.
139. Government and FCA should consult on establishing a low cost affordable home insurance service. Insurers would be required to form part of a panel providing below-cost contents insurance. Qualifying, 'uninsurable' customers would be referred to the insurance panel. To avoid the free rider effect, an insurer on the panel would be automatically allocated a new customer, with the next customer then allocated to the next insurer on a 'carousel' system. Larger insurers would have more places on the carousel so ensuring that they receive their fair share of uninsurable customers and smaller insurers are not penalised.
140. This could be taken further with the government establishing a National Financial Service (NFS) with the provision of insurance effectively outsourced to an insurance panel on the carousel basis. A version of Flood Re could be established to ensure that the underwriting risks are shared between the state and the insurance industry.

MEDIUM-LONGER TERM INTERVENTIONS

141. In this section, we make recommendations to:
    - Tackle financial exclusion which is set to grow as a result of Covid19
    - Protect household incomes from future economic and financial shocks
    - Fund social housing, and rebuild the economic and social infrastructure

Getting real about financial exclusion

142. The two biggest factors that cause financial exclusion are:
    - Low incomes (people cannot afford to buy financial services); and
    - Commercial reality. In certain areas, commercial providers just cannot serve hard-to-reach households on terms that make economic sense for both parties. In other words, it is just not economically viable for commercial providers ***that operate to reasonable standards of behaviour*** to provide products and services to large sections of the population.[37] There is

[36] https://www.floodre.co.uk/

also the problem that key sectors of the financial services industry are oversupplied and inefficient.[38]

143. Leaving aside the question of raising incomes (which is generally outside our remit), tackling financial inclusion actually comes down to a few realistic options:

- The state and regulators imposing financial inclusion obligations on the market. This involves the need for cross-subsidies and the application of the mutuality principle – something that is not that common in the market-centric UK economy.
- Regulators trying to make the mainstream financial services industry more efficient so it can extend its reach and serve more consumers. This has not worked and there is no sign that competition left to its own devices will deliver this. On a regular basis, the financial services industry argues that regulation is a burden and stifles its ability to serve hard-to-reach groups. This is a red-herring. Regulation just codifies the behaviours expected of well-run firms that behave with integrity. Reducing regulation in the vain hope that will encourage firms to serve excluded markets enables misselling. It all comes down to cost and economic viability – that is, certain groups cannot be served by mainstream financial services and reducing regulations will not change that fundamental problem.
- Improving the 'demand side'. That is, raising consumer awareness or using financial education initiatives so that they 'self-include' into financial services and make good autonomous financial decisions and choices. But, again, the evidence tells us that attempting to improve the demand side has not been effective. Consumers are primed to borrow but are vulnerable to aggressive marketing and selling of expensive credit and becoming overindebted. However, they have to be *persuaded* to save, invest, and insure which pushes up the costs of distribution and therefore the end-price of products (which then contributes to exclusion and so on). Large scale analysis of the impact of financial education interventions on consumer behaviour have not been encouraging.
- Putting serious resources into supporting the non-profit or alternative financial sector. The main barrier here is that non-profits/ alternatives struggle to reach underserved groups and distribute products on a viable, sustainable basis. The role of non-profits/ alternative providers can be expanded. The proposals we make in this paper would help that. But, again, we need to be honest and accept that the non-profit/ alternative sector needs a real shake up and even if it does become more efficient there will be a limit to its reach.
- Hopes are being pinned on technology to close the exclusion gap. The theory is that the application of fintech, 'big data', and Open Banking would allow innovative new entrants (who do not have the legacy costs of established financial services firms) to reach underserved or excluded groups more cost efficiently. But, so far, despite the early promise, the fintech sector has not made significant inroads into tackling exclusion. Moreover, fintech and big data could actually increase the risk of exclusion – it allows even more granular segmentation and segmentation is associated with exclusion and discrimination.[39]
- The state stepping in where the market (commercial and non-profit) cannot deliver. This is the least considered and most under-utilised option.

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[37] Commercial providers will always be willing to provide products such as subprime lending to excluded households at a price or if consumer protection is weak. But, that price may not make sense for those households.

[38] The key competition problem in financial services is not lack of choice but too much choice and oversupply of providers which pushes up end-to-end costs and means that more households cannot be served profitably.

[39] See: http://inclusioncentre.co.uk/wordpress29/our-work/publications/fintech-beware-of-geeks-bearing-gifts

144. The bottom line is that financial inclusion comes to down to finding more efficient ways of accessing hard-to-reach groups, distribution costs, and economies of scale – and, in some cases, degrees of cross-subsidy and mutuality.
145. The one area where there has been progress on financial inclusion has been in basic banking which came about as a result of banks recognising the threat of legislation.[40] This involves a degree of cross-subsidy and mutuality.
146. In other critical areas such as access to affordable credit, promoting financial resilience through savings, or access to basic insurance it must be acknowledged there has been little progress. Well meaning, ethical providers such as credit unions have made little inroads into meeting the unmet need for affordable credit.
147. Yet, the institution that already has an established administrative relationship with and reaches underserved, lower income households is the state – whether centrally through the DWP and HMRC, or local authorities through housing and council tax.
148. We have seen during the Covid19 crisis how the state administrative systems can be used efficiently to implement interventions such as increases in social security payments and the self-employed support schemes. It would seem logical to build on that established relationship post crisis to tackle longer term challenges.
149. The state has the 'interface' with citizens, and it has the data. It is easy to envisage this interface and data being combined with selected savings, credit, and insurance providers (eg. on a tendered basis, platform arrangement[41], or carousel system[42] - there are a number of models).
150. This could be taken further, and a National Financial Services brand set up similar to National Savings and Investment (NS&I).
151. But, there is an antipathy against using the state in UK policymaking and civil society circles. The default is to 'encourage' the private sector to be more inclusive, to promote the use of non-profit solutions, or more recently to hope that technology (fintech/ Open Banking) will come to the rescue despite the evidence to the contrary. No doubt we will spend as much time and resource after the crisis, as we did before, avoiding the obvious solution of the state.
152. The other role the state (and its agents in the form of regulators) can play of course is to introduce financial inclusion regulation. As outlined above, there is a strong case for the FCA to be given an explicit financial inclusion objective.

National Financial Services

153. The government should investigate establishing National Financial Services (NFS) to sit alongside NS&I to provide low cost loans and insurance. The NFS could work in partnership with The Post Office to deliver basic bank account services. With regards to the underprovision for retirement amongst certain groups (self-employed, carers, and women), we already have a highly effective national model in the form of NEST. We make additional proposals below on how to expand coverage of NEST to underserved groups.

National Financial Advice Services

154. Government should build on the role of the Money and Pensions Service (MaPS) and investigate establishing a National Financial Advice Service (NFAS). MaPS provides very helpful and comprehensive information to financial consumers. But, consumers need more than information. They need explicit guidance and advice on what is the best course of action to

[40] Legislation did come in the form of the EU Payment Accounts Directive (PAD) which means that consumers have a legal right of access to a basic bank account. It is one of the few areas where access to core financial services is established as a right rather than as a privilege where the market determines who has access.
[41] Where state directs to or offers choice of local providers
[42] Where providers are mandated to form part of panel of providers and customers are allocated on a neutral basis.

take. The commercial financial advice market should not be expected to provide valuable advice services to households for no reward. This means there is a significant advice gap. We envisage the NFAS as playing a similar role to that once provided by NHS Direct in healthcare. A NFAS would complement commercial advice providers referring consumers onto approved independent financial advisers where it is clear that the advice need is complex, and the consumer can afford to pay for professional advice.

Protecting incomes against economic shocks

155. In response to the emergency, the government has introduced unprecedented measures to give *temporary* protection to those who are at risk of losing their job or their livelihoods. As it stands, it is unclear how long these measures will be kept in place. But, they will come to an end, or more likely phased out, sometime soon. The question for the long term is what is the best way to protect workers (and families) from the risk of losing their incomes?
156. As the recent crisis highlighted, the level of state financial support normally provided to people who lose their job is not generous. The UK has one of the weakest employment safety nets amongst the world's advanced economies. UK employees who are out of work receive on average 34 percent of the income they received in their previous work. This is the third lowest amongst 35 advanced OECD economies. The main adult unemployment benefit is worth 15 percent of average earnings – the lowest it has been since the creation of the welfare state in 1948.[43] Although it is worth pointing out that for certain households, additional benefits such as housing benefit make the system more generous.
157. In 2010, spending on social security (excluding on pensioners – which has seen the greatest increase) was equivalent to 5.9 percent of GDP. That has fallen to around 4.5 percent. Overall, spending on welfare is estimated to be £34 billion lower in 2023-24 compared to 2010 when austerity was introduced.
158. The main question here is: how do we better protect people against the risk of losing their incomes or health? There are three broad options:

- Improving the level of social security paid to citizens out of current public spending on a pay-as-you-go (PAYG) basis. If this was not funded out of increased taxation, this would imply an increase in the level of state spending and public borrowing. But, as pointed out above, even though the public debt to GDP ratio will rise, it will still be at levels much lower than in previous times of crisis.
- Expand the use of private income protection type insurance. But, this faces significant issues with regards to: fairness and equity (would private insurers be willing to insure workers in precarious sectors for a reasonable price?); resilience (would insurers be able to pay out in the event of a serious economic downturn?); and efficiency (individual based provision involves the need for marketing costs, suffers from diseconomies of scale which reduces the value provided to policyholders). The inefficiencies would be even greater if monetary incentives were needed to encourage citizens to take out sufficient insurance.
- Pre-funding the risk through collective social insurance. In this case, the state would provide the enhanced social security payments from a dedicated fund. Contributions would be made to a social insurance fund and invested for the future to build up sufficient assets to meet social security payments. Alternatively, rather than have a fund dedicated to just social security, the sovereign (or social) wealth fund[44] model could be used to meet a number of

[43] NEF, Building a Minimum Income Guarantee for the UK, https://neweconomics.org/2020/03/building-a-minimum-income-protection
[44] A sovereign or social wealth fund is a state run fund which invests in real assets to prefund the costs of meeting public policy obligations – eg. healthcare, social security, and infrastructure.

public policy objectives – funding NHS and social care, social housing, and social security. A version of this would be to use a prefunded social insurance fund with a top-up available through the PAYG system if there was not sufficient assets in the fund. Whichever model was used, the collective approach would be a much more efficient, fairer way to prefund future liabilities than individual private insurance.

159. The private insurance model is clearly the worst option. There is much to recommend about a collective social insurance model which aims to prefund future liabilities. But, it is not without risks.
160. Wrong decisions on how the investment assets are allocated could leave the fund exposed to financial market falls just at the wrong time.
161. There are transitional issues to consider. If the transition to a prefunded system is not designed properly, it could result in one generation paying twice – paying their share of taxes to fund social security on a PAYG basis and having to start making contributions to prefund/ insure their own potential liabilities.
162. Notwithstanding these risks, government should consult on the establishment of a collective social insurance fund to meet future, enhanced social security payments.

Funding social housing, rebuilding the economic and social infrastructure

163. Post Covid19, we will need a concerted programme of investment to rebuild the economic and social infrastructure, and to aid sustainable economic recovery. Priorities for investment include:
    - regional and local economic development and recovery;
    - supporting affordable lending;
    - expansion of social housing; and
    - funding the greening of the economy (including research and development into green tech and green transformation programmes).
164. We propose the government issues a series of dedicated National Recovery Government Bonds (gilts) to fund activities in core areas of Regeneration, Social Housing, Social Lending, and Greening the Economy. Alternatively, government could just issue tranches of general purpose National Recovery Bonds with government deciding on how to allocate the proceeds in consultation with civil society and industry.
165. In addition, to complement National Recovery Bonds, government should use National Savings & Investment (NS&I) to issue Regeneration, Social Housing, Social Lending Bonds, and Green Bonds. This would be slightly more expensive than government raising money directly (though still significantly cheaper than using pension fund and insurance company investments etc). But, the additional cost we think is worth it in terms of allowing ordinary savers to participate in this national programme of recovery and rebuilding.
166. Similarly, government should allow metropolitan and local authority areas to issue bonds to meet specific needs.[45] Again, this would be slightly more costly than government directly raising money through the government bond markets. But, it would allow local communities to participate directly in the rebuilding programme.

[45] Organisations such as Network Rail and Transport for London are able to finance development by issuing bonds at a fraction above gilt rates. It would be feasible for a new agency called Homes for London to issue bonds at similar pricing structures. Local authority bonds used to be the rated the second safest after gilts until the market was closed.

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