House of Commons

Treasury Committee

Financial inclusion: the roles of the Government and the FSA, and financial capability

First Report of Session 2006–07

HC 53

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Areas for action

Financial exclusion can impose significant costs on individuals, families and society as a whole. Tackling financial exclusion requires action across a range of areas. We have laid out many elements of the comprehensive programme of action that is needed in our preceding two Reports in financial inclusion. In this Report we identify three key areas for action.

Financial capability

The National Strategy for Financial Capability led by the FSA has been successful in improving coordination of programmes aimed at improving financial capability and developing an overall baseline to measure progress. However, the FSA has made little progress in identifying and drawing in extra funding for financial capability work or developing a wider funding strategy. We are concerned that the FSA's strategy is failing to reach financially excluded people, and greater effort needs to be made to engage such individuals in the strategy. The FSA also needs to concentrate its activity on delivering financial capability alongside action promoting financial inclusion, such as helping people open bank accounts or providing debt advice. Action undertaken to promote financial capability must take place alongside efforts by the financial services industry to make their marketing and communication material clearer and more accessible. It is essential that the Department for Education and Skills ensure that those responsible for the school curriculum see financial education as a core issue.

The role of the Financial Services Authority

The FSA, as the statutory regulator for the financial services sector, has an important role to play in promoting financial inclusion. We recommend that the FSA make a commitment to take account of the need to promote financial inclusion in all its activities and report annually on how this commitment has influenced its work. We recommend that the FSA take account of the benefits of financial inclusion or the costs of financial exclusion in its cost benefit analyses of proposed regulation and that FSA's Treating Customers Fairly initiative encourages firms to think about the needs of financially excluded consumers when designing and marketing financial services products.

The Government's overall strategy for promoting financial inclusion

We welcome the establishment of the Financial Inclusion Taskforce. It has made significant progress in its first year and brought a welcome focus to financial inclusion issues. We believe its remit should be expanded to include the subjects of savings and insurance. The Financial Inclusion Fund of £120 million over three years represents a significant Government investment. However, it is disappointing that the impact of this money has been reduced by its dispersal across several Government departments, with different timescales for the bidding process which did not support the joined-up provision of services aimed at promoting financial inclusion. We welcome the action taken by the

devolved administrations to promote financial inclusion and call for the United Kingdom Government to ensure that lessons learned in one administration can be applied elsewhere. We recommend that the Government develop a long-term strategy for promoting financial inclusion and that the Treasury take the lead in developing this strategy. We call for this strategy to be published alongside the Comprehensive Spending Review, and note that the Comprehensive Spending Review needs to provide sustained and predictable funding for work aimed at promoting financial inclusion.

1 Introduction

Background

1. Government policy has an important role to play in promoting financial inclusion, which can be defined as the ability of individuals to access appropriate financial products and services. The Government needs to take on a leadership role and focus the attention of the financial services industry and community-based financial institutions on this issue. Promoting financial inclusion requires action by a range of Government departments, including those involved in tackling poverty, protecting consumers and promoting employment and economic growth. Promoting financial inclusion needs to be a key part of the Government's overall agenda to promote social inclusion.

2. In the 2004 Spending Review, the Government announced the establishment of a Financial Inclusion Fund to support initiatives to tackle financial exclusion and the creation of a Financial Inclusion Taskforce to monitor progress. The Spending Review also committed the Government to seek progress in three key areas by:

- working with the banks to identify a target for reducing the number of people without a bank account;
- working in partnership with the private and voluntary and community sectors to develop models which made more affordable loans available; and
- increasing the capacity to provide free face-to-face money advice for vulnerable consumers facing debt problems.[1]

3. In December of the same year, at the time of the 2004 Pre-Budget Report, the Government fleshed out some of the commitments in the 2004 Spending Review. The Treasury published an analysis of the extent of financial exclusion. It announced that the Financial Inclusion Fund would be allocated £120 million over three years.[2]

4. The FSA, as the statutory regulator for the financial services industry, has an important role to play in promoting financial inclusion. While regulation can play an important role in protecting the most vulnerable consumers, excessive regulation can prevent the development of cost effective financial products for people on low incomes. Conversely, the application by the FSA of a risk-based and appropriate regulatory regime for credit unions and other third sector providers can encourage their development and improve consumer confidence in them. Since 2003, the FSA has been leading and coordinating the National Strategy for Financial Capability. While increasing the supply of affordable financial products will go some way to promoting financial inclusion, a more informed and capable consumer is also required.

1 2004 Spending Review: New Public Spending Plans 2005–2008: Stability, security and opportunity for all: Investing for Britain's long-term future, HM Treasury, Cm 6237, July 2004, paras 5.24–5.28

2 Promoting financial inclusion, HM Treasury, December 2004

Our inquiry into financial inclusion

5. This Report is the last of three Reports arising from our broad inquiry into financial inclusion. The first Report gave more detailed information about the conduct of our inquiry, including evidence received and visits undertaken, and all of the published evidence is also included with that Report.[3] That Report examined access to affordable credit, savings, insurance and financial advice. The second Report covered access to banking services, including progress in reducing the number of the "unbanked", issues relating to the opening and operation of basic bank accounts and the Post Office Card Account.[4] In this concluding Report we examine the role of the Government and the FSA in promoting financial inclusion and improving financial capability.

Structure of this Report

6. The next chapter of this Report examines financial capability, including the progress with the national strategy for financial capability and the extent to which that strategy covers the needs of the financially excluded. We then examine the overall role of the FSA in promoting financial inclusion. Then, we look at the action the Government has taken to promote financial inclusion, including establishing a Financial Inclusion Taskforce, the provision of a £120 million Financial Inclusion Fund and the role of local government and the devolved administrations. In conclusion, we consider the Government's overall strategy and the provision of resources for promoting financial inclusion in the forthcoming Comprehensive Spending Review.

3 Treasury Committee, Twelfth Report of Session 2005–06, *Financial inclusion: credit, savings, advice and insurance*, HC 848–I and II. All references in this Report to oral evidence (in the form Q or Qq followed by a number) or to written evidence (in the form Ev followed by a page reference) are to evidence published with that Report unless otherwise stated.

4 Treasury Committee, Thirteenth Report of Session 2005–06, "*Banking the unbanked*": *banking services, the Post Office Card Account, and financial inclusion*, HC 1717

2 Financial capability

Introduction

7. Financial capability can be seen as the ability and confidence to choose and use appropriate financial services products. Improving financial capability is particularly important in the light of the increasingly complex financial decisions that people are required to make about credit, insurance and long-term saving products. Improving financial capability will contribute to a number of Government objectives, including minimising over-indebtedness and helping people plan for their retirement. The financial services industry would also benefit from increasingly capable and confident consumers who are better prepared to engage with the industry.

8. There was widespread recognition during our inquiry that, while the financial capability of the public had not got worse, it had not kept pace with the increasing sophistication of the financial products on offer. Rachel Lomax, Deputy Governor at the Bank of England, giving evidence on the work of the Monetary Policy Committee of the Bank of England, told us in March 2006 that

> people's understanding of financial matters has not kept pace with the opportunities on offer. People do not have the grasp of financial issues that is necessary to cope with the financial products available to them.[5]

9. In March 2006, the FSA published *Financial Capability in the UK: Establishing a Baseline*, a survey which was commissioned to "describe and measure the state of financial capability in the UK, including consumers' knowledge and understanding, skills and confidence and attitude".[6] The survey's findings led the FSA to conclude that it had serious concerns about the public's financial capability and that, "unless steps are taken to improve levels of financial capability, we are storing up trouble for the future".[7] The FSA also concluded that there is "a clear need for the FSA and others to take action … The survey … tells us, in ever greater detail than ever previously available, where the problems lie".[8] The survey found that:

- Large numbers of people, from all sections of society, are not taking basic steps to plan ahead.
- Over-indebtedness does not affect a large proportion of the population, but that when it does occur it is often severe.
- People do not take adequate steps to choose products that truly meet their needs.
- The under-40s are typically much less financially capable that their elders.

5 Treasury Committee, Bank of England February 2006 Inflation Report evidence, HC 973 Q 111

6 Ev 308

7 FSA, Financial capability in the UK, establishing a baseline, March 2006, p 1

8 Ibid, p 5

10. Some of our witnesses argued that financial education and initiatives aimed at improving financial capability had a crucial role to play in promoting financial inclusion. Citizens Advice told us that, "for those people who are financially excluded and have limited practical experience of choosing and using financial products, equipping them to do so should be integral to an effective financial inclusion strategy".[9] Services Against Financial Exclusion (SAFE) believed that "action to achieve financial inclusion rests on two key fundamentals: providing access to affordable products and building financial capability … It is generally agreed that financial capability is lowest among those people experiencing social exclusion and deprivation."[10] However, Advice UK believed that there was "misplaced confidence in the benefits of financial education to eradicate financial exclusion, increase saving and pension contributions and to deliver greater public understanding of financial services".[11] Other witnesses noted that improvements to wider financial capability would take a generation to have effect, a point recognised by the FSA.[12]

The FSA's National Strategy for Financial Capability

11. Since 2003, the FSA has been leading and coordinating the National Strategy for Financial Capability. The strategy encompasses seven target areas or so-called workstreams: schools; young adults; the workplace; consumer communications; on-line tools; new parents; and money advice. The FSA stated:

> In the three years since we launched the National Strategy for Financial Capability, many hundreds of thousands of people have received help, education and advice that was previously unavailable to them. With the sustained and relentless implementation of the programme, we will now extend this to reach millions of people across the UK.[13]

12. Mr John Tiner, the Chief Executive of the FSA, told us that "in all of the seven priorities which we have established [the FSA] had asked the teams to think about how they can include the financially excluded. There are specific proposals … to help reach those people", including a programme which was aimed at adults Not in Education, Employment or Training (NEET).[14] The FSA has also launched a Financial Capability Innovation Fund and a number of the organisations receiving assistance from this Fund provide support to people who have difficulty accessing financial services through mainstream channels.[15]

13. However, other witnesses felt that the FSA's strategy did not adequately address the needs of financially excluded individuals. SAFE believed that "Whilst the FSA has taken some responsibility for building financial capability, its future efforts are to focus on mainstream groups of people. There does not appear to be any clear attempt to promote

9 Ev 248

10 Ev 466

11 Ev 179

12 Qq 95, 712

13 FSA, Financial capability in the UK, establishing a baseline, March 2006, p 5

14 Q 717

15 http://www.fsa.gov.uk/financial_capability/innovation/who.html

financial inclusion”.[16] Ms Teresa Perchard, Director of Policy at Citizens Advice, believed that the question that needed to be asked was “What does [the FSA’s] strategy do for people who are financially excluded … Why are they bottom of priorities rather than the top?”[17] Professor Elaine Kempson believed that there was a danger that “attention will be focused on informing people on low-incomes about financial services, while the bigger barrier is in our opinion overcoming their resistance to use commercial financial services at all”.[18] Claire Whyley, Director of Policy at the National Consumer Council, told us that, rather than attempting to pool resources into meeting the needs of the hardest to reach, the FSA had effectively concentrated on those who were easiest to reach, aiming to reach the most people with the least input, “and that is how we have ended up so far from anything that is aimed at people who are financially excluded”.[19] **We welcome the limited steps the FSA has taken to improve financial capability amongst the financially excluded, such as some of the projects funded by the Financial Capability Innovation Fund. However, we are concerned that the FSA’s National Strategy for Financial Capability does not adequately address the needs of the financially excluded. We recommend that the FSA set and achieve targets to reach such individuals as part of its strategy. Reaching the financially excluded will require much more active engagement rather than just distributing leaflets or putting information on a web-site. We further recommend that the action undertaken by the FSA be coordinated with work by the Financial Inclusion Taskforce aimed at stimulating demand for financial services amongst previously excluded individuals.**

14. The majority of consumer bodies and other witnesses continued to believe that the FSA was the organisation that ought to be coordinating the strategy for financial capability.[20] Ms Perchard thought that it was difficult to argue that the FSA should not be playing a very prominent role in improving financial capability due to their statutory objective to promote consumer understanding of the financial system. She told us that, although the FSA had not succeeded yet, this was not a reason to conclude that the FSA had failed or that the FSA was not the right agency. This was partly because she was “not sure who else could pick it up”.[21] However, Mr McAteer, Principal Policy Adviser at Which?, disagreed, stating that he did not think the FSA was the best placed organisation to deliver the financial capability strategy and questioning whether it had the resources available. He believed that the only way that value for money could be obtained from action taken to improve financial capability was if the body responsible for the strategy was linked to the FSA, but operationally independent.[22] The Association of Investment Trust Companies called for the creation of a “Financial Education Agency” which would centralise the currently uncoordinated efforts of Government departments. Such an agency would fall under the “auspices of the FSA” but would have a “ring fenced budget and a separate board

16 Ev 467

17 Q 90

18 Ev 427

19 Q 93

20 Qq 89–93

21 Q 89

22 Q 95–97

and management structure to the FSA" and would "take on responsibility for the FSA's statutory duty to promote public understanding and report annually on its progress".[23]

15. Some witnesses questioned the progress made by the FSA. Ms Perchard, who had been a member of one of the FSA's working groups on improving financial capability, told us that

> What we have been doing in the FSA financial capability strategy is pushing around cold food about what we could do with no sense of where the resources might come from, which I think has ossified development [and] people's attention, when we are all actually wanting to do more in this area.[24]

16. Ms Whyley believed that

> It was admirable to construct the strategy as part of a really wide consultation, but I think with a consultation that wide you need quite a clear remit and you need to keep a strong grip on it, and I think that is the bit that slipped. Then I think [the FSA] had lots of working groups all working to slightly different agendas, and there was not really much of a backbone to it.[25]

17. Other bodies felt that more progress had been made. The Financial Services Consumer Panel argued that "the FSA has made a difference in a difficult area, by bringing Government, industry, educational and not-for-profit groups together in an effective partnership".[26] Mr Tiner did not feel that it was the FSA's role to deliver the strategy:

> That is not the best use of public funds or the best use of the FSA's levy funds … Our job is to lead this, corral people into participating … I do not want to build a delivery channel for Financial Capability, when there are numerous delivery channels that already exist which people trust.[27]

18. The key challenge identified by a number of witnesses was the lack of clarity about how the financial capability strategy would be funded.[28] In May 2004, the FSA stated that it "had identified around £35–40 million which is spent on financial capability work, funded by a combination of Government money, industry contributions, charitable trusts and the FSA. When the [seven] working groups report back with fully costed proposals it will be possible to estimate whether additional resources may be needed and if so, how much and who is best placed to provide the funding."[29] The FSA also indicated in May 2004 that, "in the meantime", the Steering Group would be "working to develop an appropriate funding strategy".[30]

23 Ev 199

24 Q 93

25 Q 93

26 Financial Services Consumer Panel, 2005/06 Annual Report, p 23,

27 Q 714

28 Ev 400, 423–425, 248, 198

29 FSA press release, The FSA sets out a path to build a National Strategy for Financial Capability, 27 May 2004

30 FSA, Building Financial Capability in the UK, May 2004, p 12

19. The most recent document from the FSA on its work on financial capability did not give any further information about a funding strategy or an estimate of whether the total amount spent on financial capability work by industry, Government, charitable trusts and the FSA had increased from that identified in 2004. Several of the workstreams contain estimates of spending, but it is not clear whether this only represents spending by the FSA.[31] In 2006–07, the FSA will spend up to £10 million on financial capability, through around 40 staff, funded, like all FSA spending, by a general levy on the regulated financial services industry. This is an increase from £4 million in 2004-05 and £8 million in 2005–06.[32] Witnesses suggested a number of possible funding sources for the financial capability strategy including central Government budgets, a levy on the financial services industry, and Lottery funding. There were also calls for part of the money released from dormant accounts to be used to fund the strategy.[33]

20. **The FSA's National Strategy for Financial Capability has been successful in bringing together the various Government, industry, consumer, voluntary and charitable organisations to discuss issues and improve coordination. We believe that the FSA is the right body to coordinate the national strategy for financial capability. We welcome the development of a baseline of overall financial capability and a pledge by the FSA to monitor overall progress in addition to the inputs and outcomes of individual projects. However, the FSA has made little progress in identifying and drawing in extra funding for financial capability work or developing a wider funding strategy. We recommend that the FSA accord a much higher priority to these areas.**

21. On 13 July 2006, the Economic Secretary to the Treasury announced that in the Autumn of 2006 the Treasury would publish "a 10-year strategy on financial capability … setting out the Government's plans for action in that important area".[34] In October the Government and the FSA hosted the first ever UK National Conference on Financial Capability. In a speech at this conference the Economic Secretary to the Treasury provided more detail about how the Government would develop the 10-year strategy. He said that

> I believe our first task as Government is to set out our long-term goals and ensure that they meet the scale of the challenge we have all identified … So as we prepare our long-term strategy for publication this autumn, I think these are the key questions we should answer: How ambitious should our goals be against the challenge? Once we have understood the challenge, can we set the right long-term, achievable objectives? Are we making best use of those opportunities and levers that we have at our disposal? How can we match the engagement of public services with the financial capability needs of the public at various key decision points—and how can both education and working age services play a role? Are the right resources in place more widely—what roles do the financial and voluntary sectors play at present

31 FSA, Financial Capability in the UK: Delivering Change, March 2006, pp 10–12

32 HC Deb, 2 May 2006, col 1444W

33 Ev 199–200, 400

34 HC Deb, 13 July 2006, col 1468

and what roles must they play in the future? And what are the gaps in current provision, and how can they be filled?[35]

22. **Improving financial capability will be a long-term project and we welcome the Government's announcement of a 10 year strategy for financial capability. This must establish a lead Department and improve coordination between the various Government departments involved and consider how much additional Government investment is required.**

Linking financial education to specific events

23. We received evidence emphasising the importance and benefit of education programmes linked to specific events, for example, when a consumer takes up a financial services product for the first time, rather than providing generic information in a classroom setting unrelated to the purchase of a product. Some witnesses noted that it was unreasonable to expect people to discuss their private financial affairs at classes or groups. For example, the Chartered Institute Of Housing found that the DfES Community Finance and Learning Initiative (CFLI) "did not strike much of a chord with residents partly because they did not want to share information in a classroom setting".[36]

24. We received numerous examples of financial capability programmes delivered alongside efforts to promote financial inclusion. For example, SAFE told us that, as well helping people to open bank accounts, it provided educational support to help people understand how to use the account in addition to basic budgeting information.[37] Credit unions and other third sector lenders provide money advice when extending affordable credit to low income individuals.[38] Citizens Advice Bureaux provide financial education programmes alongside debt advice, helping people to sort out their problems through better budgeting.[39] The Financial Inclusion Taskforce found that in the USA, "financial education tied to specific financial products and events e.g. account opening is successful in promoting better financial management behaviour among customers".[40] HBOS told us about an education programme provided to some customers opening a basic bank account which covered "the benefits of having a bank account and [taught] basic financial management such as budgeting."[41]

25. **The evidence we have received indicates that financial education linked to a specific event such as opening a bank account, obtaining credit or programmes of debt advice can be effective in promoting financial inclusion and deliver better value for money than the provision of generic information in a classroom setting. We recommend that the financial services industry explore the business case for providing education**

35 Speech by the Economic Secretary to the Treasury, Ed Balls MP, at the Financial Capability Conference, 18 October 2006

36 Chartered Institute of Housing, Life After Debt, February 2006, p 9

37 Ev 464

38 Ev 280

39 Ev 248

40 Not printed, Financial Inclusion Taskforce, report of visit to the USA

41 Ev 328

initiatives. We consider that it would be helpful if HBOS were to evaluate the success of their education programme by comparing the profitability and ability to manage their account of customers receiving this training against a sub-set of customers not participating in the programme.

Simplicity and clarity in marketing material and communications

26. In its Report on Restoring Confidence in Long-term Savings, the previous Treasury Committee concluded that it was "particularly important to see the work on improved customer understanding of financial issues as an addition to, rather than a replacement of, efforts to make the information available to consumers clearer and more accessible".[42] Ms Perchard thought that the financial services industry had "got a long way to go in terms of getting very simple language into information about financial products and also having the people on the front-line in firms … being able to explain things simply to consumers".[43] She noted the improvements that had resulted from the inquiry by the Treasury Committee in the previous Parliament into the transparency of credit card charges, including the introduction of a 'Summary Box', a standard, clear and concise method of presenting the key financial information of a credit card.[44] Citizens Advice told us that the inadequacy of information provided by the financial services industry was highlighted by the fact that in a recent pilot aimed at providing financial advice "many of the enquiries they dealt with involved the need for 'translation' to take place between the firm and the consumer who could not understand letters and contracts sent to them".[45]

27. The FSA survey on financial capability found that 40% of people who owned an equity ISA did not think that they had stock market exposure, and 15% of people who had a cash ISA thought that they did. We put it to the FSA that this level of knowledge indicated that there were major problems with the disclosure regime for product information and that it was failing to communicate simple messages to the majority of consumers. Mr Tiner agreed, saying that he

> did not dispute that at all. The product disclosure regime has actually become too complex itself. The documents are too long; there is too much jargon.[46]

28. Mr Tiner added that the FSA was looking very closely at the disclosure regime, but had been held up by the potential implications for the FSA's implementation of new regulations arising from the Markets in Financial Instruments Directive (MiFID).[47] In October 2006 Mr Tiner told us that 11 mandated documents[48] appeared "in front of a

42 Treasury Committee, Eighth Report of Session 2003–04, *Restoring confidence in Long-term Savings*, para 102

43 Q 94

44 Q 95

45 Ev 248

46 Q 716

47 Q716

48 These include: a business card; an Initial Disclosure Document (IDD); a menu of fees and commissions; a terms of business letter; a fee agreement; the terms and conditions of the product; a Key Features document / Simplified Prospectus; a personalised illustration (plus a consumer friendly Principles and Practices of Financial Management—CFPPFM—for with-profits business); a suitability letter or statement of demands and needs; a cancellation notice; and a post-sale Key Features document.

consumer who wants to buy an investment product in addition to any marketing literature provided". He noted that "we have had terribly elaborate 'key features' documents, where companies have gone to great lengths to explain every single risk in great detail; it has not served the consumer at all because they do not understand what they are reading, by and large, and is simply a way for the financial services industry to offload risk onto the consumer." He indicated then that the FSA was proposing to simplify the information provided and change the emphasis from "a very prescriptive approach to putting the onus on the distributor and on the product provider to be very clear with the consumer in brief and simple terms [telling them] what they need to know".[49]

29. **It is of vital importance that long-term work aimed at promoting financial capability takes place alongside efforts by the financial services industry to make their marketing and communication material clearer for consumers. The fact that over 40% of people with an equity ISA are not aware that its value fluctuates with stock market performance indicates that the current information disclosure regime is failing to get across key information to consumers. Consumers buying investment products are currently provided with 11 separate documents, in addition to the marketing material from the company selling the product. The current documentation, such as the 'Key features' document, is confusing for consumers. We recommend that the FSA attaches a greater priority to its work to simplify the disclosure regime and ensure that financial services companies provide consumers with simple and clear information. We further recommend that, the concept of Summary Boxes, giving clear and succinct information, should be expanded to more financial services products.**

Financial education in schools

30. It was widely noted in evidence that schools had an important role to play in improving the financial capability of young people. The Personal Finance Education Group (PFEG) told us that

> Schools are unique in having access to, and influence on, all young people across social, economic, ethnic and religious groups. If we can ensure that young people leave school as informed and independent consumers with the confidence to engage with the finance sector, this will provide a firm foundation and prevent many of them from getting into financial difficulties as adults.[50]

31. However they believed that "currently, personal finance education, if it happens at all, has a low status. It cannot be assumed to be happening in any given school at any time."[51] Professor Kempson told us that there was much more that needed to be done to promote financial education through schools and that "at present the situation regarding its place in the school curriculum varies across the four countries of the UK … and the work of [PFEG] and others has shown that provision is patchy, with most teachers lacking the skills and confidence to teach the subject".[52]

49 Evidence on the FSA's 2005/06 Annual Report, Q 154

50 Ev 423

51 Ibid

52 Ev 427

32. The FSA has recently undertaken a benchmark study on the existing provision of financial education within schools. This found that, while 48% of primary schools and 91% of secondary schools were delivering some form of personal financial education, in over 70% of cases it was in the form of occasional lessons, usually happening once or twice a term or less.[53] Only about half of schools in England had drawn on guidance from the Department for Education and Skills (DFES), but over two-thirds of schools in Scotland reported that they had drawn on guidance provided by Learning and Teaching Scotland. Only a minority of schools had received training in this area (9% of primary schools and 26% of secondary schools), but slightly more had received some other form of support (11% of primary and 40% of secondary schools). The proportion of schools which had received support was higher in Scotland than in England and Wales.[54] The Scottish Executive has supported the development of the Scottish Centre for Financial Education established by Learning and Teaching Scotland. The Welsh Assembly Government told us that they intended to emulate this approach in Wales and were working with the FSA and private sector investors to examine options for the establishment and funding of such a centre.[55]

33. DFES told us that, as part of the reforms to education for the 14–19 age group

> financial capability education will be taught more explicitly in the curriculum by including it in the new functional mathematics component of GCSE mathematics. But we also recognise that a range of other subjects, such as Personal, Social and Health Education, Citizenship, Business Studies and Careers Education, offer good opportunities and contexts for exploring and improving young people's understanding of financial issues.[56]

34. The *Ifs school of Finance*, a registered charity which provides financial education, has indicated concern that the Standards for Functional Mathematics published by the Qualifications and Curriculum Authority were inadequate. The *Ifs school of Finance* told us that the only reference to 'finance' of any type appears in just the two lowest levels and that there was no mention of anything to do with finance in Entry level 3 or in Levels 1 and 2 (GCSE level). They feared that "the concentration is on mathematical concepts such as arithmetic and basic geometry. What is being masqueraded as financial capability is confined to recognising notes and coins and simple calculations using money."[57] Moreover, they noted that "naming the course 'mathematics' immediately alienates students who have a fear or dislike of the subject".[58]

35. PFEG told us that while "it is relatively easy to attract funding for modest projects that are discrete, branded and time-limited, it has proved difficulty to acquire the necessary funding to achieve the step change identified by the FSA's national strategy". They noted

53 FSA, Personal finance education in schools: A UK benchmark study, June 2006, pp 3–4

54 Ibid, p 5

55 Ev 498

56 Ev 273

57 QCA Standards for Functional Mathematics – a response from the ifs School of Finance to the 'Standards', September 2006, p 1

58 Ibid, p 3

that "Government departments have indicated that [the additional funding for financial capability projects] is unlikely to come through the Department for Education and Skills".[59]

36. **Providing financial education in schools is an essential part of the FSA's National Strategy for Financial Capability. We welcome the change to address financial capability more explicitly in the 14-19 curriculum in England by including it in the new functional mathematics element of GCSE mathematics, although we are concerned that the content of this element will not be sufficiently focused on financial education. In over 70% of schools, personal finance education is only provided in the form of occasional lessons happening once or twice a term or less. It should be a priority for the Department for Education and Skills to ensure that the Qualifications and Curriculum Authority and those responsible for delivering the school curriculum see financial education as a core issue. Improving financial education in schools needs to be a major objective of the Government's ten-year strategy for improving financial capability.**

59 Ev 423

3 The role of the FSA

37. The Financial Services and Markets Act 2000 (FSMA) gives the FSA four statutory objectives:

- to maintain market confidence;
- to provide the appropriate degree of consumer protection;
- to promote public understanding of the financial system;
- and to reduce financial crime.

38. The FSA told us that it had translated these four statutory objectives into three strategic aims, which guided its day-to-day work:

- Helping retail consumers achieve a fair deal;
- Promoting efficient, orderly and fair markets, both retail and wholesale; and
- Improving the FSA's business capability and effectiveness.[60]

39. The FSA stated that, "in carrying out our general responsibilities we must also have regard to seven principles, including using our resources efficiently and economically, proportionality, and facilitating innovation and competition".[61] The FSA observed that, under the FSMA,

> we have no explicit statutory responsibility for financial inclusion. Nor is it included in the principles of good regulation as an issue to which we should formally have regard. However, we take the issue very seriously and have consistently tried to be thoughtful about and sensitive to the special requirements of those who find it difficult to gain access to financial services.[62]

40. The then Treasury Committee's Report examining financial regulation prior to the introduction of FSMA concluded that "the Government's agenda for extending access to such financial services as savings and pensions will involve the FSA in issues of social and financial inclusion. The FSA will want to develop adequate and sensitive systems for monitoring and regulating, to encourage innovative products suitable to the markets being served and to ensure that providers and consumers will not face unnecessary obstacles in gaining access to these particular markets."[63] In 1999 the Government stated that "it is strongly committed to working with a range of agencies and private bodies in combatting financial exclusion and expects that the FSA's role will bring it into contact with various

60 Ev 305

61 Ibid

62 Ibid

63 Treasury Committee, Third Report of Session 1998–99, *Financial Services Regulation*, para 38

aspects of this work. We believe however that adding to the FSA's objectives is unnecessary and could distract from the core role of the FSA as a financial regulator."[64]

41. The Joint Committee on Financial Services and Markets concluded in April 1999 that

> the FSA should not be given additional objectives. This would make life unnecessarily difficult for a regulator responsible for prudential supervision, and would damage lines of accountability. If the Government wishes to impose social or ethical obligations on financial service businesses, it should do so directly; it might then wish to involve the FSA in monitoring delivery. This is broadly the approach being followed in the USA.[65]

42. We compared the approach taken by the FSA with those taken by two other statutory regulators, Ofgem (the Office of Gas and Electricity Markets) and Ofcom (the Office of Communications). The Communications Act 2003 and the Universal Service Directive require Ofcom, in performing its duties, to have regard to a range of factors, including several relating to vulnerable consumers or other groups who may be disadvantaged. Amongst other things, Ofcom is required to take account of: the needs of persons with disabilities, of older people and of those on low incomes.[66]

43. Ofgem is the regulator of the UK's gas and electricity markets. Under the Utilities Act 2000, its principal statutory objective is to protect the interests of consumers, wherever appropriate by promoting effective competition. The Act also gives it secondary duties, one of which is to ensure that, the interests of vulnerable consumers, including the sick and disabled, those on low incomes and those in rural areas are met. One of Ofgem's key themes in its Corporate Strategy and plan was to help tackle fuel poverty by "promoting a holistic and targeted approach to fuel poverty" and taking "account of the particular needs of vulnerable consumers in all" their decisions.[67] Sir Callum McCarthy, who was previously Chairman of Ofgem before becoming Chairman of the FSA, has commented that he "was struck by the fact that the FSA had no statutory duty comparable to that placed upon Ofgem (and on its predecessors Ofgas and Offer) to have special regard for those on low incomes—an odd absence given the importance of financial services in our society."[68]

44. The FSA believed that "the reasons for rejecting a statutory objective on financial inclusion continue to hold good" and that a new requirement to "have regard to the principle of financial inclusion would make little material difference to how we operate since we already take financial inclusion into account in our work".[69] Mr Tiner was clear that it was "not the responsibility of a regulator—any regulator, indeed, of appointed people like me rather than elected people to be creating social policy. I think that is a Government responsibility."[70] He noted discussions at the time of the FSA's inception in

64 HM Treasury, Financial Services and Markets Bill: Progress report, March 1999

65 Joint Committee on Financial Services and Markets (1999-2000), First Report, para 62

66 OFCOM, OFCOM's consumer policy: a Consultation, February 2006 p 22

67 OFGEM, Corporate strategy and plan 2006-2011, p 20

68 Sir Callum McCarthy, Chairman, FSA, Speech, The London Chamber of Commerce and Industry, 27 June 2005

69 Ev 309

70 Q 674

1999 which had concluded that there was "an inherent conflict between having an objective for financial inclusion and an objective for prudential soundness and market confidence, in that [the FSA] may therefore direct companies, direct banks for example, to make decisions which were not in their commercial interest".[71]

45. In 2000, the FSA commissioned research from the Personal Finance Research Centre at Bristol University to provide the FSA with a comprehensive review of current research and action on the topic. The report arising from that research—*In or out? Financial Exclusion: a literature and research review*—provided a means of identifying areas where the FSA's efforts could best be focused.[72] This research has not been repeated, and it is not clear how the FSA has taken the results of that research into account in its regulatory approach or in any other of its activities.

46. Mr McAteer told us that "The FSA is already struggling hard enough to make markets work" and did not think the FSA "could actually cope with the practicalities of absorbing" a new financial inclusion objective.[73] The NCC believed "the FSA should make a specific and sustained commitment to long-term work on financial inclusion, promoting the specific needs of financially excluded consumers. The FSA does not have explicit responsibility for tackling financial exclusion. However, its overall aim is to promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal … the regulator should interpret its aims and objectives in the widest sense to ensure that financially excluded consumers are also protected, have confidence in the market and are offered a fair deal, so that they have access to appropriate financial products."[74] Ms Whyley of the NCC called for "greater clarity at the FSA about its responsibility for the financially excluded".[75]

47. **The FSA, as the statutory regulator for financial services, has an important role to play in promoting financial inclusion. It has been successful in some areas, notably in producing a proportionate regime for the regulation of credit unions and other third sector lenders. In other areas, such as in ensuring that the financially excluded are adequately prioritised within the National Strategy for Financial Capability, there is a need for much further progress. While we do not recommend any changes to the FSA's statutory duties under the Financial Services and Markets Act, we recommend that the FSA make a commitment to take account of the need to promote financial inclusion in all its activities and report annually on how this commitment has influenced its work. The FSA should also commission research into the markets it regulates to determine the extent of any problems of financial exclusion and where it could best focus its resources. The Government should commission the FSA to monitor the extent of financial exclusion.**

71 Q 671

72 FSA, Consumer Research No. 3, In or out? Financial Exclusion: a literature and research review, July 2000

73 Qq 100–102

74 Ev 404

75 Q 94

Regulation

48. The regulatory regime for the financial services sector can have an important impact on financial exclusion. For example, stringent regulations to prevent money laundering can exclude people lacking the necessary forms of identification from accessing financial services.[76] Over-stringent regulation of the sales process could make it uneconomic for the financial services industry to serve the low-income consumers.[77] The FSA is required, under the FSMA, to conduct and publish a Cost-Benefit Analysis (CBA) of all proposed rule changes. The CBA should quantify the compliance costs and potential benefits of the proposed regulation and examine any other impacts that regulation might have on the market.[78]

49. The Financial Service Consumer Panel (FSCP) cautioned that "The FSA does not regulate the products themselves, and may not be in a position to act beyond encouraging firms to ensure adequate provision of products or services which meets the needs of the financially excluded".[79] We asked Mr Tiner whether he regarded it as the FSA's job to encourage the industry to develop products or services that cater for the needs of different groups who would otherwise be excluded. He told us that it was not the FSA's job "to encourage them per se.[But] if [the FSA's] rules somehow prevent the creation of products that might be in demand in the community, then we should seek to look at those rules very carefully … Our view is that is up to the market to determine what products they should create, and then to stimulate demand for those products".[80] He gave two examples of occasions where the FSA had changed rules to allow products to develop. These were: "widening the assets that can be held within investment trusts" and "the reform of collective investment schemes which were quite old fashioned … We have liberated the market quite a bit to allow property funds to emerge."[81]

50. The ABI noted that

> a range of regulatory requirements, such as restrictions on financial promotions and suitability rules add to compliance cost and can restrict access, particularly by the low paid, to key financial services … the answer is clearly not to dismiss all regulation, but to examine more carefully the costs and benefits of regulation. 'Costs' should cover not just direct compliance costs but all the likely impacts of the regulation on consumers. Such cost-benefit analysis should pay particular attention to ensuring that sections of the population will not be disproportionately affected by regulation. The FSA needs to be aware of the detrimental impact its regulations can have on access to savings products, particularly among those on low incomes with little practical access to commercially paid-for financial advice. If we are to avoid a situation in which it is only commercially viable to market savings products to the relatively prosperous, cultural change is needed at the FSA. We believe the

76 HC 1717, para 48

77 Ev 194

78 NERA, The FSA's methodology for Cost-Benefit Analysis, November 2004

79 Ev 320

80 Q 673

81 Qq 673–674

Government should amend the FSA's statutory objectives to achieve this by ensuring it pays due regard to the impact of regulation on the availability of products.[82]

51. A report commissioned by the FSA and undertaken by Oxera to develop a framework for assessing the benefits of financial regulation states that "Even if markets were operating efficiently, financial services provision may not be adequate to meet all consumer needs, or it may be unaffordable by some … Financial exclusion is a detrimental market outcome for some consumers, and the reverse [is] a potential benefit that regulation could be delivering. Although the FSA objectives are not in general targeted at improving distributional outcomes in the market, the framework can be extended to capture benefits along this dimension."[83]

52. Mr Tiner told us that, where vulnerable groups were potentially being targeted in a way that could take advantage of that vulnerability, the FSA would definitely consider preventing that as part of the FSA's consumer protection objective.[84] He did express concerns that, "by lightening the regulatory touch for the more vulnerable people, you are reducing the protections to the people who need it most".[85] He acknowledged that some consumers could currently be excluded from accessing financial advice due to the weight of regulation, noting that "the cost to companies of the sales process is quite high. A fact find might take two to two and half hours, which is expensive and time consuming … the full advice market does cut out a number of people who need access to advice."[86] He referred to the cut-down process of Basic Advice, which we discussed in our earlier Report on access to credit, savings, advice and insurance.[87]

53. **We recommend that, when conducting cost-benefit analyses, the FSA examine and report on whether regulation could affect financial inclusion by reducing access amongst low-income groups. The FSA's work on a framework for assessing the benefits of financial regulation should attempt to measure any benefits of greater financial inclusion that stem from FSA regulation. It is important that the FSA avoids creating burdensome and uneconomic regulatory regimes that might force providers out of the market. However, as acknowledged by Mr Tiner, the FSA will also need to be aware that by lightening the regulatory touch for the more vulnerable it may be reducing the protection afforded by regulation to those consumers who need it most.**

54. We asked the FSA whether promoting financial inclusion was a criterion for deciding which sectors of the financial services market would be a priority for investigation. Mr Briault, Managing Director of Retail Markets at the FSA, told us that the FSA did not take into account the need to promote "financial inclusion explicitly … but …we do take into account the vulnerability of particular group of consumers involved [and] whether or not people are making clear the nature of the product, and whether or not people are selling in

82 Ev 194

83 A framework for assessing the benefits of financial regulation: Report prepared for the Financial Services Authority, Oxera, June 2006, p 2

84 Q 677

85 Q 695

86 Q 978

87 HC 848–I, paras 93–96

a way which takes into account the particular circumstances of the consumer".[88] **We welcome the fact that the FSA takes into account the vulnerability of consumers when deciding on priority sectors for investigation.**

Treating Customers Fairly

55. The FSA's Treating Customers Fairly (TCF) initiative aims to ensure that Principle 6 of the FSA's rules—"A firm must pay due regard to its customers and treat them fairly"—is reflected in all aspects of firms' strategy, culture and operations.[89] The FSA has said that the framework for Treating Customers Fairly meant considering how this principle could be embedded throughout what the FSA termed the "product life-cycle". The FSA has indicated that financial services firms should be considering how to Treat Customers Fairly in respect of a firm's activities in product design, marketing, the sales process, staff remuneration, complaint handling and management information.[90]

56. The Financial Services Consumer Panel believed that the "Treating Customers Fairly initiative could well be used to address issues surrounding financial inclusion".[91] The NCC argued that "the FSA should ensure that Treating Customers Fairly means providing all consumers, including those who are currently excluded, with access to the financial services market and its basic products".[92] However, Mr Tiner told us that Treating Customer's Fairly did not explicitly cover financial exclusion because the initiative was about customers who were currently being serviced by the financial industry, rather than going out and seeking people who were not currently engaged.[93] Mr Briault said that the Treating Customers Fairly initiative looked at the product life cycle including the way in which firms designed products and how they communicated information about these products, the quality of advice provided and the handling of complaints "[Treating Customers Fairly] does not seek to reach out to the financially excluded."[94] **We recommend that the FSA ensure that the Treating Customers Fairly initiative encourages firms to think about the need to improve access of financially excluded consumers to financial services products. The Treating Customers Fairly initiative should also encourage the financial services industry to develop products which meet the needs of the financially excluded.**

88 Q 704

89 FSA, Annual Report 2005/06, p 27

90 FSA, Treating Customers Fairly, Building on progress – building on progress, July 2005

91 Ev 320

92 Ev 404

93 Q 672

94 Ibid

Savings clubs

57. In our first Report on financial inclusion, we concluded that "savings, and the problems of making saving worthwhile and beneficial for those on lower incomes, are integral to any effective strategy on financial inclusion".[95] In that Report, we also indicated our intention to return in this Report to the issue of savings clubs.[96]

58. On 13 October 2006, Farepak, the Christmas hamper company, was placed into administration. It is estimated that over 100,000 people lost savings with a value of over £43 million when the company collapsed.[97] In a debate in Westminster Hall on 7 November 2006, the Minister for Trade, Mr Ian McCartney MP, said

> The impact on so many family Christmases, in so many parts of Britain, can only be imagined. I fully share the concern that so many hon. Members have expressed about the effect on hard-working people, many of them among the least well-off, who aimed to put by something for Christmas, so that when that happy time of year came round again, they could be sure of participating without getting into debt.

59. He noted that the situation was under investigation by the Administrator, BDO Stoy Hayward, and officers from the DTI's Companies Investigation Branch.[98] He announced the establishment of the "Farepak response fund" which will be operated by the "Family Fund", a registered charity. This fund, which will grant vouchers to affected families, will be independent and will accept donations from any organisation willing to help.[99] A number of major companies have announced donations to this fund.

60. Whether a company accepting deposits is regulated by the FSA will depend on whether the company meets the definition set out in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. Article 5 of this Order states that deposit means "a sum of money … paid on terms … under which [the money] will be repaid, with or without interest or premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it". This indicates that if the money is paid over on terms that it won't be repaid, and that the purchaser will get goods in return, then the money is not classified as a deposit under the regulation and the company involved does not have to be regulated by the FSA.

61. We raised the issue of the regulation of Farepak and other savings clubs during our oral evidence on the FSA's annual report for 2005–06. Sir Callum McCarthy expressed "huge sympathy for the people who have lost money in this way" but noted that "the FSA has no responsibility whatsoever at the moment, as the law is drafted, for this sort of scheme. It would require a change of law to give us responsibilities."[100] Sir Callum pledged to discuss

95 HC 848–I, para 118

96 Ibid

97 Information from DTI

98 HC Deb, 7 Nov, col 207WH

99 Ibid

100 FSA Annual Report Scrutiny, 24 October, Q 240

the issue of possible changes to the regulatory regime with the Trade Minister, Ian McCartney MP.[101] In reply to a letter from our Chairman, Sir Callum told us that the FSA

> Had great sympathy for the people affected by this failure. However, we can only discharge the responsibilities given to us by Parliament. Farepak was not authorised by the FSA and, as we understand the position, the way in which it conducted its business did not require it to be. It follows that those affected cannot benefit from the Financial Services Compensation Scheme. Ian McCartney, the Minister of State for Trade, Investment and Foreign Affairs, has written to MPs who took part in the Westminster Hall debate on 7 November explaining the position. The Minister also announced that he met the Chief Executive of the Office of Fair Trading (OFT) on 8 November and asked that the OFT work with the FSA and DTI officials to look at the regulatory framework in which Farepak operated, and to consider options to address any issues raised. A report will be made to him at the earliest opportunity. We will contribute fully to this work.

62. **As part of the Government's agenda to promote savings it is vital that people are given confidence that their money will be protected. We note that the Farepak scheme was not regulated by the FSA and is outside the scope of the Financial Services Compensation Scheme. We recommend that as a matter of urgency the Government, in conjunction with the OFT and FSA, consider whether appropriate safeguards are in place to protect those who have entrusted their money to others. This should include examination of whether an expansion of the FSA's regulatory responsibilities is necessary, or whether the appropriate degree of regulation could be accomplished through other mechanisms. The Farepak case has highlighted a serious lack of consumer protection which could have much wider implications for savings products of this kind. Given the level of public concern, we want the Government to address this issue with urgency and we want to see evidence of substantial progress by the end of January 2007.**

101 Ibid, Q 241

4 The role of the Government

Financial Inclusion Taskforce

63. The Financial Inclusion Taskforce was established by the Treasury to advise Government and others on progress towards tackling financial exclusion and was launched in February 2005. The Taskforce's terms of reference, defined by HM Treasury, cover three priority areas identified by the Government. These are: access to banking, affordable credit and free face-to-face money advice.[102]

64. The terms of reference of the Taskforce are to

- report to HM Treasury and the banking industry on progress towards the shared goal of halving the number of adults in households without a bank account, and of having made significant progress in that direction within two years;
- monitor provision of banking services to the financially excluded, including access, and report to the banks and HM Treasury on findings;
- consider ways in which the capacity and skills of volunteers and staff within third sector lenders can be enhanced;
- monitor the increase in provision of affordable credit by third sector institutions. This information could then be used by HM Treasury and the DWP to inform the distribution of financial support to third sector lenders and evaluate outcomes;
- monitor the scheme whereby, under certain circumstances, loan repayments could be made by deduction from benefits and make recommendations to HM Treasury and the DWP following the outcome of the evaluation of the scheme;
- identify areas of best practice, and gaps, in the provision of free face-to-face money advice. This information could then be used by HM Treasury and the DTI to inform the distribution of financial support for face-to-face money advice and evaluate outcomes;
- monitor the progress of the debt outreach pilots, and consider the outcomes of the evaluation of the scheme;
- make recommendations to HM Treasury on tackling financial exclusion in areas not covered by PBR proposals.

65. The Taskforce is chaired by Brian Pomeroy, a former senior partner of Deloitte Consulting. The Taskforce met six times in its first year. Mr Pomeroy told us that, in its first year, the Taskforce had concentrated on a number of areas, including establishing frameworks for monitoring progress and engaging with the Government on the design of the Financial Inclusion Fund; worked with intermediaries to increase the demand for financial products amongst the financially excluded; commissioned workshops talking

102 Ev 298

directly to financially excluded people about the type of financial products they want; and filling gaps in its knowledge by commissioning research.[103] The Taskforce had a budget of £3 million over three years, but had only spent around £500,000 in its first full year of operation.[104]

66. Witnesses were generally positive about the Taskforce, with Action 4 employment (A4e) noting that it had brought welcome focus to the issue.[105] The NCC noted that, while the first level priorities of access to banking, credit and advice were appropriate, it was important that "its second level priorities, including insurance, savings and other asset accumulation are not forgotten".[106] We asked Mr Pomeroy whether the Taskforce's remit should be extended to include insurance and savings. He told us that, if the Treasury were to ask the Taskforce to consider these areas, the Taskforce would be willing to do so, but "would wish to be sure that this did not prevent the Taskforce from continuing with the considerable amount of further work needed to address the core areas of financial exclusion identified in the current terms of reference".[107]

67. In our previous Report into credit, savings advice and insurance, we concluded that:

> Saving is not accorded the same priority in the Government's strategy for promoting financial inclusion as credit, advice and banking. The evidence we have received suggests that savings, and the problems of making saving worthwhile and beneficial for those on lower incomes, are integral to any effective strategy on financial inclusion.[108]

68. **We welcome the establishment of the Financial Inclusion Taskforce and its progress during the first 18 months of work. It has brought a much needed focus to the issue of financial inclusion and ensured wide consultation with those throughout the financial services industry and voluntary sectors who have a role to play in promoting financial inclusion. The Taskforce has made much progress in its work programme under the chairmanship of Brian Pomeroy. We believe its remit should be expanded to include access to savings and insurance. The Treasury should ensure that additional resources are provided to the Taskforce so that the expansion of its remit does not limit the ability of the Taskforce to complete its substantial programme of current work.**

69. The Taskforce has twelve members drawn from financial services, the voluntary sector and academia. However, we note the absence of two significant groups, the Post Office and a representative from a housing association. **While we recognise the need to keep the Financial Inclusion Taskforce at a workable size, the Taskforce needs to engage with other partners that can help promote financial inclusion, such as the Post Office and housing associations.**

103 Q 461

104 Qq 464–467

105 Ev 169, 405, 250

106 Ev 405

107 Ev 304

108 HC 848–I, para 118

Financial Inclusion Fund

70. The Financial Inclusion Fund of £120 million over three years (2005-06, 2006-07 and 2007-08) was announced in the 2004 Pre-Budget Report in December 2004.[109] The Fund is supporting initiatives to tackle financial exclusion:

- £45 million will be used to support an increase in provision of face-to-face money advice and will be administered by the Department of Trade and Industry.
- £6 million will be used by the Legal Services Commission to pilot mechanisms of money advice outreach aimed at those who do not normally present themselves to debt advisers.
- £10 million will be available to provide the necessary support to administer the scheme whereby, under certain circumstances, lenders can apply for repayment to be made by deduction from benefit where normal repayment arrangements have broken down, and the administration of the growth fund for third sector lenders.
- £36 million will be made available for a growth fund to support the coverage, capacity and sustainability of third sector lenders. The growth fund will be administered by the Department for Work and Pensions .
- £20 million will be made available for broader financial inclusion objectives, including stimulating demand for mainstream financial services. This will be administered by HM Treasury.
- The Financial Inclusion Taskforce will have a budget of £3 million with which to pursue their objectives, including improving the knowledge base of financial exclusion issues.[110]

71. SAFE told us that, "whilst the Financial Inclusion Fund is very welcome it is short term; and different portions come on line at different times administered by different government departments which does not support holistic service provision or joined up thinking across different areas".[111] SAFE also told us that "the administration of the Financial Inclusion Fund does not appear to fit into a wider Government funding strategy or link to other funding streams (for instance, Phoenix Fund, DWP funding for access to banking and pre-retirement planning, Legal Service Commission or other funding for debt advice provision etc)."[112]

72. The proposition that the Financial Inclusion Fund did not support joined-up and coordinated solutions was also advanced by other witnesses. Mr Lyonette, Chief Executive of the Association of British Credit Unions, indicated that credit unions "have been working for the last year with Citizens' Advice, and it has been incredibly hard to connect anything happening through the growth fund of DWP and the money advice fund of DTI

109 HM Treasury, 2004 Pre-Budget Report, December 2004, para 5.46

110 http://www.hm-treasury.gov.uk/documents/financial_services/financial_inclusion/Financial_inclusion_index.cfm

111 Ev 468

112 Ibid

… the mechanisms of government can often just get in the way of trying to join things up."[113] Ms Morgan, Chief Executive of the Community Development Finance Association (CDFA), told us that "it would have been helpful to have had the fund in one place, because it is very hard to get the relationships you need across Government to be able to make the fund work as well as it could".[114]

73. The Scarman Trust noted the positive benefits that would come from joining up credit unions and CDFIs with advice services and financial education programmes, but commented that "as often as not, financial services offered to low-income communities are fragmented and poorly coordinated."[115] A4e believed that spreading out the resources from the Fund amongst a number of different Government departments "has led to some dilution of the Fund's impact, and has resulted in an under-utilised and uncoordinated landscape of provision".[116]

74. **We welcome the establishment of the £120 million Financial Inclusion Fund as a substantial Government investment. However, evidence we received suggested that, because the Fund's resources have been administered by several different Government departments, with different portions coming on stream at different times, it has been difficult to join-up provision of affordable credit and money advice services. Given the substantial evidence of the benefits that could be achieved from a joined-up approach to promoting financial inclusion, this is unfortunate. In the future, we believe the Government should ensure that Government money invested in promoting financial inclusion is administered by one department or that the bidding process clearly supports joined-up provision.**

75. Concern was also expressed by a number of witnesses that resources from the Financial Inclusion Fund could be provided to those geographical areas that already have sufficient capacity in affordable credit and debt advice, rather than attempting to fill gaps in existing provision.[117] **In addition to supporting existing projects, the Financial Inclusion Fund and future Government investment in promoting financial inclusion should ensure that, in the allocation of funding, appropriate priority is given to localities that currently lack access to affordable credit and debt advice. The allocation should be informed by mapping existing provision of affordable credit and access to money advice, combined with analysis we recommend below aimed at identifying which areas of the country contain concentrated pockets of financial exclusion.**

The local dimension

76. The Treasury has previously suggested that financially excluded groups are concentrated in certain geographical areas of the country. They found that "68 per cent" of the financially excluded "live in the ten per cent most financially excluded postcode districts" and that "25 per cent live in the three per cent of postcodes with the highest

113 Q 285

114 Q 311

115 Ev 461

116 Ev 169

117 Ev 257, 428

concentrations of financial exclusion. These postcodes are concentrated in areas including parts of East and South-East London, Middlesbrough, Manchester, Bradford, Birmingham, Glasgow and Liverpool."[118] The Treasury indicated that policy proposals should be focused in these areas, at least initially.[119]

77. The previous Treasury Committee recommended that the Treasury "share the list of postcodes where there is concentrated financial exclusion with the Post Office and other organisations that can help tackle the disadvantage that people living in those areas face".[120] The Treasury initially refused to disclose the information, stating that "The terms of the contract with the company that provided the postcode analysis of areas of concentrated financial exclusion means that the Government is unable to share the raw data with any third party".[121] In December 2005, the then Economic Secretary to the Treasury, Ivan Lewis MP, wrote to us indicating that he would share this information with the Committee, on condition that it was not passed on to any third party. He also indicated that the maps and postcodes were based on data which is now out of date, because UK postcodes have changed since the data was supplied and Financial Acorn (the database used to categorise the postcodes into groups based on affluence) had since been re-structured to include more accurate data sets.[122]

78. **We recommend that the Treasury conducts analysis to determine which areas of the country and which cities contain concentrated pockets of financial exclusion. The Government should then use this information to target resources at these areas and share this information with the Post Office, advice agencies and other bodies which can help tackle the disadvantage faced by people living in these communities.**

79. In order to promote financial inclusion in local areas, constructive engagement between community leaders, local government and the financial services industry can help to develop a business case for a financial services company to expand into their area. Mr Pomeroy noted that "whether or not a market is profitable may depend on the time scale over which you view it … We could well see that there might be some communities in this country (let us say working class communities with a high proportion of newly arrived immigrants) which might not be profitable today but, if you took a five or ten year look, as people become more upwardly mobile, become more economically successful, may well be profitable."[123] We heard evidence of local communities taking the initiative to approach banks with propositions to provide service to their areas. The Wester-Hailes community banking agreement was a partnership between the Wester-Hailes Representative Council in Edinburgh and the Bank of Scotland. The Scarman Trust told us that, as part of this scheme, local community groups "were able to construct a business case for the banks which made the community credible and relevant in the banks eyes … Collating, analysing and presenting local data that enhanced the market potential of the local area was the first

118 HM Treasury, Promoting Financial Inclusion, p 4

119 Ibid

120 Treasury Committee, Fifth Report of Session 2004–05, *Cash machine charges*, HC191

121 Treasury Committee, First Special Report of Session 2005–06, recommendation 35

122 Letter from Economic Secretary, 14 December 2005, Not printed

123 Q 487

step for the community in developing its collective bargaining power with the bank."[124] The Chartered Institute of Housing also listed similar initiatives between registered social landlords and financial services companies to provide services to tenants.[125] **We recommend that the Government and local authorities identify sources of seed funding to enable local communities to prepare business cases and support pilot schemes to bring in the support of mainstream financial institutions and to develop innovative models of delivery of financial services products.**

80. Local authorities have an important role to play in promoting financial inclusion through their day-to-day contact with financially excluded individuals, as funders and providers of money advice, and through local initiatives. The Neighbourhood Renewal Unit within the Department for Communities and Local Government (DCLG) administers a number of the Government's cross-sector regeneration programmes. These include the New Deal for Communities and the Local Enterprise Growth Initiative. In addition, the DCLG operates the Beacon Scheme which recognises excellence in local government and supports the dissemination of best practice. The application brochure for Round 8 of the Beacon Scheme included the theme "Promoting Financial Inclusion and Tackling Over-indebtedness".[126] **We recommend that the Department for Communities and Local Government ensure that financial inclusion is appropriately prioritised within the programmes administered by the Neighbourhood Renewal Unit. We welcome the recognition of promoting financial inclusion as an important role for local authorities and its inclusion in the Beacon Scheme.**

The devolved administrations

81. There is some evidence that financial exclusion may be a greater problem in Scotland, Wales and Northern Ireland than in England taken as a whole. For example, in the UK, 8% of households lack access to a bank account. This compares to a figure of 11% in Scotland, 14% in Wales and 13% in Northern Ireland.[127] The Scottish Executive has developed a Financial Inclusion Action Plan as part of its *Closing the Opportunity Gap* approach to tackling poverty. The Scottish Executive has set a target that by 2008 it will increase the availability of appropriate financial services and money advice in disadvantaged communities.[128] The Welsh Assembly Government submitted a memorandum laying out a number of steps they were taking to promote financial inclusion.[129] These included, improving the standard and extent of financial literacy education in schools, supporting credit unions in the Welsh coalfields, and investigating co-working with utility companies to reduce the burden of bill payment on financially excluded groups.[130]

124 Ev 462–463

125 Ev 231

126 DCLG, The Beacon Scheme: Excellence in Local Government, Application Brochure 2006, Round 8, p 7

127 HM Treasury, Promoting financial inclusion, November 2004; Scottish Executive, Financial inclusion action plan, November 2005; Wales Consumer Council, Figuring out finance: An overview of financial exclusion in Wales, November 2005; Northern Ireland, submission from the GCCNI, not printed

128 Scottish Executive, Financial Inclusion Action Plan, November 2005

129 Ev 498

130 Ibid

82. In September 2006, our Chairman visited Northern Ireland. He met local politicians, representatives from Credit Unions, Citizens Advice Bureaux and the General Consumer Council.[131] The General Consumer Council for Northern Ireland (GCCNI) noted that 17% of Northern Ireland consumers did not have a current account, which in part reflects "the poor deal offered to consumers by the big four banks in Northern Ireland and the lack of competition in the personal current account market"—an issue currently being investigated by the Competition Commission.[132] The GCCNI noted that the FSA's baseline survey indicated that Northern Ireland seems to be "lagging behind the UK in terms of financial capability. Northern Ireland consumers were lower than the rest of the UK on planning ahead, choosing financial products and staying informed about financial matters."[133] The GCCNI told us that "consumers [in Northern Ireland] are unaware of the information and assistance that can be accessed through the FSA's web-site and consumer helpline because of the FSA's low profile in Northern Ireland".[134] Citizens Advice (Northern Ireland) told us about a range of projects they were involved in to improve financial capability. They welcomed the "additional funding for money advice provided by the Department of Enterprise, Trade and Investment (DETI) in Northern Ireland which will provide 12 money advice workers across Northern Ireland" and "will enable Citizens Advice Bureaux to help many more people over the next three years".[135]

83. **We welcome the action taken in devolved administrations aimed at promoting financial inclusion. Given the evidence that financial inclusion represents a significant challenge in Scotland, Wales and Northern Ireland we expect that the devolved administrations will continue to attach priority to financial inclusion in their spending allocations, develop appropriate longer term strategies and set specific outcome based targets for areas in the sphere of their responsibilities. We recommend that the United Kingdom Government ensure that arrangements to share experiences and best practice for policies aimed at promoting financial inclusion are in place between the devolved administrations and the United Kingdom Government.**

The Government's overall approach

84. The broad nature of promoting financial inclusion is such that it will require a multi-faceted approach through the policies of a range of Government departments, including, HM Treasury, DWP, DTI, DFES, DCLG and the Home Office. SAFE told us that their "one key concern about Government's role is that whilst there are a number of different Government initiatives to promote financial inclusion and/or capability it is not clear how these initiatives link together or are coordinated. There does not appear to be any national strategy for ensuring financial inclusion is achieved."[136] The NCC welcomed the fact that "the Government has taken on a leadership role by making financial inclusion a policy priority. It has been instrumental in stimulating debate and focusing the policy work of

131 Rt Hon John McFall MP, press release, Treasury Committee chairman visits Northern Ireland, 12 September 2006

132 General Consumer Council for Northern Ireland, p 7: not printed

133 Ibid, p 11

134 Ibid, p 14

135 Citizens Advice, Northern Ireland, para 6.3, Not printed

136 Ev 468

relevant stakeholders on this issue … If longer term financial inclusion is to be achieved this level of leadership and commitment needs to continue. The Government also needs to lead by example by taking a consumer-focused, joined-up and consistent approach to financial inclusion".[137] Citizens Advice noted that while "the availability of funds is extremely welcome" there was a "need to maintain momentum and have a longer (at least medium term) strategy which all engaged partners can work to". They believed that amongst other factors the Government's strategy needed expanding to encompass "reform of the Social Fund—its approach, design and delivery; a full range of financial services such as insurance, mortgage borrowing, savings and pensions…action to improve the financial capability of consumers experiencing financial exclusion; and action to identify and promote the business case for financial inclusion to UK plc, i.e the Government and the private sector, including potentially increased need for incentives for firms and the voluntary and local government sector to join in and deliver together."[138]

85. The Economic Secretary to the Treasury told us that "the Treasury has the lead in Whitehall on financial inclusion and therefore it is my responsibility to make sure that the Government is effectively working together with the FSA and the wider community to implement [the strategy] for financial inclusion [set out in Treasury documents]".[139] Clive Maxwell, Director, Financial Services, HM Treasury, told us that, while "individual departments" were responsible for spending the money allocated to them for improving financial inclusion, the Treasury was "in charge of the overall [financial inclusion] strategy" and "of making sure that the different elements of that strategy add up to something that works."[140] The Economic Secretary to the Treasury believed that "there is a far more integrated, joined-up approach to the delivery of the financial inclusion agenda across government departments as well as with the wider sector than was the case two years ago. Personally I think we can make it even better."[141] It is not yet readily apparent how the financial inclusion agenda will be coordinated with the responsibilities of the Cabinet Office for combating broader social exclusion, the new Social Exclusion Taskforce or the role of Cabinet Office Minister Hilary Armstrong MP, who has been given responsibility for tackling social exclusion across Government.[142]

86. In this and our previous Reports on financial inclusion we have made a number of recommendations aimed at Government policy. These include:

- Expansion of enforcement action against illegal lenders;
- A new Credit Unions Act to institute a long term framework to support the development of credit unions;
- Expansion and reform of Community Investment Tax Relief;

137 Ev 403

138 Ev 250–251

139 Q 974

140 Q 1041

141 Q 1039

142 Cabinet Office, press release, Tackling deep-seated social exclusion: Hilary Armstrong announces next steps and new arrangements in government, 13 June 2006

- Wide-scale reform of the Social Fund's lending activities;
- Using existing relationships between financially excluded people and Government agencies to improve access to financial services, such as by helping people to prove their identity so they can open a bank account or referring rejected applicants from the Social Fund to other sources of affordable credit;
- Reform of the third party deduction scheme;
- An approach to the future of the Post Office Card Account that maximises the ability of the Post Office network to promote financial inclusion;
- Expansion of the Saving Gateway scheme;
- The DFES attaching a higher priority to financial education in schools.

87. **We welcome the action taken by the Government to promote financial inclusion and the progress that has been made on access to banking services, affordable credit and money advice. Longer term strategic planning and the involvement of all Government departments is vital in promoting financial inclusion. We recommend that, in consultation with key stakeholders and the Financial Inclusion Taskforce, the Government develop a long-term strategy for promoting financial inclusion. This should be published alongside the Comprehensive Spending Review. We recommend the Treasury take the lead in developing this strategy, although it is clear that, in order to be successful, policies aimed at improving financial inclusion will need to be implemented by all Government departments.**

The Comprehensive Spending Review

88. The Government has indicated that it will be conducting a second Comprehensive Spending Review in 2007, which will set departmental spending plans and priorities for the years 2008-09, 2009-10 and 2010-11. This will include a set of zero-based reviews of departments' baseline expenditure to assess its effectiveness in delivering the Government's long-term objectives. The 2006 Budget announced that the Government planned to initiate a national debate on the future priorities for public spending and public services to inform the Comprehensive Spending Review.[143] It has yet to become clear exactly what form this national debate will take, but amongst other factors, the Government believes that it is critical that its priorities for public spending and the reform of public services are informed by "consultation with front line professionals and the third sector".[144]

89. The NCC believed that "sustained funding for financial inclusion work is essential to ensure that policies designed to address this issue are successful".[145] Citizens Advice noted that "The existing fund is time-limited and this creates problems about securing value for money and building capacity only to lose it. The impending Spending Round will be

143 HM Treasury, Budget 2006, box 6.1, p 131

144 Ibid

145 Ev 406

critical to whether the investment being made here can continue and be shown to have made a substantial difference to people, over time."[146]

90. In our previous Report into access to credit, savings advice and insurance we welcomed the additional £45 million of funding up to 2007-08 allocated as part of the Financial Inclusion Fund which will allow the recruitment of over 450 debt advisers and provide help for over 100,000 people. However, we noted that "the short-term nature of the funding offered so far places those debt advisers at risk of redundancy almost as soon as they have developed their expertise."

91. The Economic Secretary to the Treasury told us that a priority for him as the Treasury Minister responsible for financial inclusion "will be to make sure that between now and the end of the spending review [the Treasury] come up with a credible strategy, with support within Government and across the broader sector, which can take forward these initiatives, learning from where we have got to in the work of the Taskforce, to the period beyond 2008. I want to make sure that financial inclusion plays an important part in the spending review."[147]

92. **Sustained and predictable funding for work aimed at promoting financial inclusion is essential. For example, if long-term funding is not forthcoming then the increase in the availability of debt advice as a result of the money from the Financial Inclusion Fund will not be sustained. It would be a wasted opportunity if the debt advisers with valuable expertise recruited as part of this initiative were made redundant. We welcome the Economic Secretary to the Treasury's intention that financial inclusion should play an important part in the forthcoming Comprehensive Spending Review. We recommend that the Government initiate a wide-ranging debate about the key priorities for the Spending Review in terms of funding for financial inclusion programmes. This should involve full consultation with front-line professionals in the third sector and with the Financial Inclusion Taskforce**

146 Ev 250

147 Q 997

Conclusions and recommendations

Financial capability

The FSA's National Strategy for Financial Capability

1. We welcome the limited steps the FSA has taken to improve financial capability amongst the financially excluded, such as some of the projects funded by the Financial Capability Innovation Fund. However, we are concerned that the FSA's National Strategy for Financial Capability does not adequately address the needs of the financially excluded. We recommend that the FSA set and achieve targets to reach such individuals as part of its strategy. Reaching the financially excluded will require much more active engagement rather than just distributing leaflets or putting information on a web-site. We further recommend that the action undertaken by the FSA be coordinated with work by the Financial Inclusion Taskforce aimed at stimulating demand for financial services amongst previously excluded individuals. (Paragraph 13)

2. The FSA's National Strategy for Financial Capability has been successful in bringing together the various Government, industry, consumer, voluntary and charitable organisations to discuss issues and improve coordination. We believe that the FSA is the right body to coordinate the national strategy for financial capability. We welcome the development of a baseline of overall financial capability and a pledge by the FSA to monitor overall progress in addition to the inputs and outcomes of individual projects. However, the FSA has made little progress in identifying and drawing in extra funding for financial capability work or developing a wider funding strategy. We recommend that the FSA accord a much higher priority to these areas. (Paragraph 20)

3. Improving financial capability will be a long-term project and we welcome the Government's announcement of a 10 year strategy for financial capability. This must establish a lead Department and improve coordination between the various Government departments involved and consider how much additional Government investment is required. (Paragraph 22)

Linking financial education to specific events

4. The evidence we have received indicates that financial education linked to a specific event such as opening a bank account, obtaining credit or programmes of debt advice can be effective in promoting financial inclusion and deliver better value for money than the provision of generic information in a classroom setting. We recommend that the financial services industry explore the business case for providing education initiatives. We consider that it would be helpful if HBOS were to evaluate the success of their education programme by comparing the profitability and ability to manage their account of customers receiving this training against a sub-set of customers not participating in the programme. (Paragraph 25)

Simplicity and clarity in marketing material and communications

5. It is of vital importance that long-term work aimed at promoting financial capability takes place alongside efforts by the financial services industry to make their marketing and communication material clearer for consumers. The fact that over 40% of people with an equity ISA are not aware that its value fluctuates with stock market performance indicates that the current information disclosure regime is failing to get across key information to consumers. Consumers buying investment products are currently provided with 11 separate documents, in addition to the marketing material from the company selling the product. The current documentation, such as the 'Key features' document, is confusing for consumers. **We recommend that the FSA attaches a greater priority to its work to simplify the disclosure regime and ensure that financial services companies provide consumers with simple and clear information. We further recommend that, the concept of Summary Boxes, giving clear and succinct information, should be expanded to more financial services products.** (Paragraph 29)

Financial education in schools

6. Providing financial education in schools is an essential part of the FSA's National Strategy for Financial Capability. We welcome the change to address financial capability more explicitly in the 14-19 curriculum in England by including it in the new functional mathematics element of GCSE mathematics, although we are concerned that the content of this element will not be sufficiently focused on financial education. In over 70% of schools, personal finance education is only provided in the form of occasional lessons happening once or twice a term or less. **It should be a priority for the Department for Education and Skills to ensure that the Qualifications and Curriculum Authority and those responsible for delivering the school curriculum see financial education as a core issue. Improving financial education in schools needs to be a major objective of the Government's ten-year strategy for improving financial capability.** (Paragraph 36)

The role of the FSA

7. The FSA, as the statutory regulator for financial services, has an important role to play in promoting financial inclusion. It has been successful in some areas, notably in producing a proportionate regime for the regulation of credit unions and other third sector lenders. In other areas, such as in ensuring that the financially excluded are adequately prioritised within the National Strategy for Financial Capability, there is a need for much further progress. **While we do not recommend any changes to the FSA's statutory duties under the Financial Services and Markets Act, we recommend that the FSA make a commitment to take account of the need to promote financial inclusion in all its activities and report annually on how this commitment has influenced its work. The FSA should also commission research into the markets it regulates to determine the extent of any problems of financial exclusion and where it could best focus its resources. The Government should commission the FSA to monitor the extent of financial exclusion.** (Paragraph 47)

Regulation

8. We recommend that, when conducting cost-benefit analyses, the FSA examine and report on whether regulation could affect financial inclusion by reducing access amongst low-income groups. The FSA's work on a framework for assessing the benefits of financial regulation should attempt to measure any benefits of greater financial inclusion that stem from FSA regulation. It is important that the FSA avoids creating burdensome and uneconomic regulatory regimes that might force providers out of the market. However, as acknowledged by Mr Tiner, the FSA will also need to be aware that by lightening the regulatory touch for the more vulnerable it may be reducing the protection afforded by regulation to those consumers who need it most. (Paragraph 53)

9. We welcome the fact that the FSA takes into account the vulnerability of consumers when deciding on priority sectors for investigation. (Paragraph 54)

10. We recommend that the FSA ensure that the Treating Customers Fairly initiative encourages firms to think about the need to improve access of financially excluded consumers to financial services products. The Treating Customers Fairly initiative should also encourage the financial services industry to develop products which meet the needs of the financially excluded. (Paragraph 56)

Savings clubs

11. As part of the Government's agenda to promote savings it is vital that people are given confidence that their money will be protected. We note that the Farepak scheme was not regulated by the FSA and is outside the scope of the Financial Services Compensation Scheme. We recommend that as a matter of urgency the Government, in conjunction with the OFT and FSA, consider whether appropriate safeguards are in place to protect those who have entrusted their money to others. This should include examination of whether an expansion of the FSA's regulatory responsibilities is necessary, or whether the appropriate degree of regulation could be accomplished through other mechanisms. The Farepak case has highlighted a serious lack of consumer protection which could have much wider implications for savings products of this kind. Given the level of public concern, we want the Government to address this issue with urgency and we want to see evidence of substantial progress by the end of January 2007. (Paragraph 62)

The role of the Government

The Financial Inclusion Taskforce

12. We welcome the establishment of the Financial Inclusion Taskforce and its progress during the first 18 months of work. It has brought a much needed focus to the issue of financial inclusion and ensured wide consultation with those throughout the financial services industry and voluntary sectors who have a role to play in promoting financial inclusion. The Taskforce has made much progress in its work programme under the chairmanship of Brian Pomeroy. We believe its remit should be expanded to include access to savings and insurance. The Treasury should ensure that additional resources are provided to the Taskforce so that the expansion of its remit does not limit the ability of the Taskforce to complete its substantial programme of current work. (Paragraph 68)

13. While we recognise the need to keep the Financial Inclusion Taskforce at a workable size, the Taskforce needs to engage with other partners that can help promote financial inclusion, such as the Post Office and housing associations. (Paragraph 69)

The Financial Inclusion Fund

14. We welcome the establishment of the £120 million Financial Inclusion Fund as a substantial Government investment. However, evidence we received suggested that, because the Fund's resources have been administered by several different Government departments, with different portions coming on stream at different times, it has been difficult to join-up provision of affordable credit and money advice services. Given the substantial evidence of the benefits that could be achieved from a joined-up approach to promoting financial inclusion, this is unfortunate. In the future, we believe the Government should ensure that Government money invested in promoting financial inclusion is administered by one department or that the bidding process clearly supports joined-up provision. (Paragraph 74)

15. In addition to supporting existing projects, the Financial Inclusion Fund and future Government investment in promoting financial inclusion should ensure that, in the allocation of funding, appropriate priority is given to localities that currently lack access to affordable credit and debt advice. The allocation should be informed by mapping existing provision of affordable credit and access to money advice, combined with analysis we recommend below aimed at identifying which areas of the country contain concentrated pockets of financial exclusion. (Paragraph 75)

The local dimension

16. We recommend that the Treasury conducts analysis to determine which areas of the country and which cities contain concentrated pockets of financial exclusion. The Government should then use this information to target resources at these areas and share this information with the Post Office, advice agencies and other bodies which can help tackle the disadvantage faced by people living in these communities. (Paragraph 78)

17. We recommend that the Government and local authorities identify sources of seed funding to enable local communities to prepare business cases and support pilot schemes to bring in the support of mainstream financial institutions and to develop innovative models of delivery of financial services products. (Paragraph 79)

18. We recommend that the Department for Communities and Local Government ensure that financial inclusion is appropriately prioritised within the programmes administered by the Neighbourhood Renewal Unit. We welcome the recognition of promoting financial inclusion as an important role for local authorities and its inclusion in the Beacon Scheme. (Paragraph 80)

The devolved administration

19. We welcome the action taken in devolved administrations aimed at promoting financial inclusion. Given the evidence that financial inclusion represents a significant challenge in Scotland, Wales and Northern Ireland we expect that the devolved administrations will continue to attach priority to financial inclusion in their spending allocations, develop appropriate longer term strategies and set specific outcome based targets for areas in the sphere of their responsibilities. We recommend that the United Kingdom Government ensure that arrangements to share experiences and best practice for policies aimed at promoting financial inclusion are in place between the devolved administrations and the United Kingdom Government. (Paragraph 83)

The Government's overall approach

20. We welcome the action taken by the Government to promote financial inclusion and the progress that has been made on access to banking services, affordable credit and money advice. Longer term strategic planning and the involvement of all Government departments is vital in promoting financial inclusion. We recommend that, in consultation with key stakeholders and the Financial Inclusion Taskforce, the Government develop a long-term strategy for promoting financial inclusion. This should be published alongside the Comprehensive Spending Review. We recommend the Treasury take the lead in developing this strategy, although it is clear that, in order to be successful, policies aimed at improving financial inclusion will need to be implemented by all Government departments. (Paragraph 87)

The Comprehensive Spending Review

21. Sustained and predictable funding for work aimed at promoting financial inclusion is essential. For example, if long-term funding is not forthcoming then the increase in the availability of debt advice as a result of the money from the Financial Inclusion Fund will not be sustained. It would be a wasted opportunity if the debt advisers with valuable expertise recruited as part of this initiative were made redundant. We welcome the Economic Secretary to the Treasury's intention that financial inclusion should play an important part in the forthcoming Comprehensive Spending Review. We recommend that the Government initiate a wide-ranging debate about the key priorities for the Spending Review in terms of funding for financial inclusion programmes. This should involve full consultation with front-line professionals in the third sector and with the Financial Inclusion Taskforce (Paragraph 92)

Formal minutes

Tuesday 21 November 2006

Members present:

Mr John McFall, in the Chair

Mr Colin Breed
Jim Cousins
Angela Eagle
Mr Michael Fallon
Mr David Gauke
Sally Keeble
Mr Andrew Love
Kerry McCarthy
Mr George Mudie
Mr Brooks Newmark
John Thurso
Mr Mark Todd
Peter Viggers

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Financial inclusion: the roles of the Government and the FSA, and financial capability

The Committee considered this matter.

Draft Report (Financial inclusion: the roles of the Government and the FSA, and financial capability), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 12 read and agreed to.

Paragraph 13 read, amended and agreed to.

Paragraphs 14 to 21 read and agreed to.

Paragraph 22 read, amended and agreed to.

Paragraphs 23 to 27 read and agreed to.

Paragraphs 28 and 29 read, amended and agreed to.

Paragraphs 30 to 35 read and agreed to.

Paragraph 36 read, amended and agreed to.

Paragraphs 37 to 46 read and agreed to.

Paragraph 47 read, amended and agreed to.

Paragraphs 48 to 57 read and agreed to.

Paragraph 58 read, amended and agreed to.

Paragraphs 59 to 61 read and agreed to.

Paragraph 62 read, amended and agreed to.

Paragraphs 63 to 92 read and agreed to.

Summary read, amended and agreed to.

Resolved, That the Report, as amended, be the First Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available in accordance with the provisions of Standing Order No. 134 (Select committees (reports)).

[Adjourned till Thursday 23 November at 9.15 am.

List of Reports from the Treasury Committee during the current Parliament

Session 2005–06

		Report
First Report	The Monetary Policy Committee of the Bank of England: appointment hearings	HC 525
Second Report	The 2005 Pre-Budget Report	HC 739
Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
Fourth Report	The 2006 Budget	HC 994
Fifth Report	The design of a National Pension Savings Scheme and the role of financial services regulation	HC 1074
Sixth Report	The administration of tax credits	HC 811
Seventh Report	European financial services regulation	HC 778
Eighth Report	Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower	HC 1121
Ninth Report	Globalisation: the role of the IMF	HC 875
Tenth Report	Independence for statistics	HC 1111
Eleventh Report	The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	HC 1595
Twelfth Report	Financial inclusion: credit, savings, advice and insurance	HC 848
Thirteenth Report	“Banking the unbanked”: banking services, the Post Office Card Account, and financial inclusion	HC 1717