



# Meeting the core financial needs of consumers excluded from markets

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# About The Financial Inclusion Centre

- Independent, NFP, think-tank dedicated to promoting
  - financial inclusion and provision
  - fair, efficient, competitive, and accountable financial markets
- Focus on core groups of consumers:
  - chronically financially excluded,
  - ‘working poor’
  - ‘underprovided’
- Core activities:
  - research and analysis
  - innovation and partnership – practical solutions
  - strategic planning with partner organisations

# Impact of the financial crisis

- Unprecedented crisis, equally unprecedented interventions (direct costs 3.5% GDP £50 bn)
- Priority stabilising banking and financial system, protecting deposits, slashing interest rates
- But must not forget impact on the most vulnerable – even if economy stages strong recovery, and despite welcome support measures
- Age of austerity, politics of envy
- Deficit reduction plans will hit vulnerable hardest – regional impacts, Support for Mortgage Interest (ISMI)
- In short-medium term, higher risk of unemployment/ reduction in incomes (especially the regions), repossessions, unfair financial practices
- In long term, crisis fundamentally reshaping UK financial system, serious consequences of forcing banks and insurers to behave more prudently
- Massive ‘deleveraging’/ chronic overindebtedness to unwind
- Retail financial services more focused on medium-higher income/ lower risk consumers
- Higher price for access, pushed into sub-prime, denied access altogether
- Chronic financial exclusion crisis exacerbated by crisis

# Consumer Impact Summary

- **General banking:** higher charges, restricted access to fully functional accounts, further branch closures
- **Housing/ mortgages:** sustained high levels of arrears/ repossessions (published data underestimates SRB effect – 50,000 transactions, and cushioning effects of ISMI), aggressive sub-prime lenders, borrowers trapped in high price mortgages, restricted access to mortgage credit, anti-competitive practices, rental affordability
- **Unsecured credit/ overindebtedness:** deleveraging generational problem, access to fair/ affordable credit, lending margins record levels, distressed debt sales
- **Debt advice/ financial scams:** aggressive practices, growth in commercial DMPs, demand pressures for NFP advice in ‘age of austerity’
- **Savings/ insurance:** many households unable to afford save or insure whether to protect against short-term risks or longer term needs

# Consumer Impact Summary

- Consumers not homogenous, impact determined by complex set of factors: region, ethnicity, gender, age, income, assets, job security
- Complex interactions but number of groups affected to varying degrees:
  - well-off: asset rich, high-income
  - mass-affluent earners: comfortably-off, homeowners, secure employment/ pensions, medium income/ assets
  - ‘working-poor’: increased insecurity, little-no savings/ insurance, highly overindebted
  - chronically financially excluded: no assets/ low income, heavily dependent on benefits/ state, always vulnerable to loan sharks/ scams
  - specific older group of asset-rich/ income poor (long term care particular issue),
  - younger generations with high debts, low savings, future taxation
  - age-related issues and intergenerational transfers (politics of envy in age of austerity)

# New vision for financial inclusion

- We must fundamentally change the way we think about financial inclusion
- Inclusion not about ‘opportunities’, ‘access’ or number of products held – what matters are outcomes
- We should adopt an equity/ outcomes definition guided by vision of fairness and social justice (healthcare, education)
- Financial products are means to an end – exist to meet consumers ***core financial needs***
- The Centre’s defines inclusion as: a consumer is fully financially included if core financial needs are met by fair, affordable, accessible, secure and appropriate products/services (neutral as to who best to deliver)
- 3 conditions must be met:
  - equivalent rights of access and redress where appropriate
  - necessary information, support and advice to make appropriate choices/ decisions
  - necessary financial capability to use products/ services effectively

# A new vision and definition in practice

- Prevailing approach which focuses on removing barriers in expectation that market will provide or 'encouraging' market to provide (basic bank accounts) has failed in our view
- Underestimates the scale of exclusion, impact on vulnerable consumers, and undermined efforts to promote genuine inclusion by allowing self-regulation to be promoted as the proportionate response
- A vision based on fairness and social justice means policymakers and civil society would
  - recognise consumers are excluded if penalised for being economically or socially disadvantaged
  - understand not enough to provide access to markets or opportunities, must ensure needs are met
  - provide support to ensure fair treatment, where necessary intervene to ensure fairness/ social justice/ rights to fair treatment and suitable products enforced
  - refuse to accept that it is somehow 'natural that 'poor pay more'
  - neutral on delivery: sometimes the market works best, sometimes NFP organisations best, for other vulnerable groups regulation or state is only realistic option

# A Financial Inclusion Manifesto

- 30 measures to protect consumers and promote sustainable long term inclusion
- Combination of regulation, financial education, and innovation (where HAs come in) (see [www.inclusioncentre.org.uk](http://www.inclusioncentre.org.uk) for details)
- Priority consumer measures including:
  - Statutory FIDs, financial inclusion audits, Financial Inclusion Protected Zones
  - Transparency on mortgage arrears/ repossessions (FSA mortgage market review)
  - Regulating sub-prime mortgage market
  - A Be Fair! Checklist for lenders
  - A National Mortgage Rescue Scheme
  - Investigation into irresponsible lending, unfair contracts, pricing and practices in lending markets
  - Sale and rent back schemes
  - Regulating commercial DMP providers/ distressed debt sales
  - Capping charges on expensive loans
  - Improving Growth and Social Funds, Loan Shark Rescue Fund
  - A new Community Money Adviser Service (using Housing Associations)

# A Financial Inclusion Manifesto

- Regulatory and structural reforms to promote sustainable, fair and inclusive financial system meets the needs of all
  - New CPMA being created, push for new statutory financial regulatory objectives (consumer protection, market efficiency, financial capability and provision (inc. Inclusion))
  - Annual financial inclusion levy
  - USO/ right of access to banking
  - New approach to regulating consumer lending
  - Promoting long term savings and asset building
  - Financial Inclusion Innovation Fund
  - Social Investment Bonds/ Social Investment Bank (provide capital for HAs)
  - Competition in the banking/ mortgage market
  - A new banking landscape – national mortgage bank (NMB), remutualisation, A People's bank

# Summary and conclusion

- The financial crisis exacerbating chronic financial exclusion crisis in UK
- Obvious short term effects on the most vulnerable consumers
- Deficit reduction programme must affect vulnerable most
- Emergency measures needed
- But we must recognise long term fundamental reshaping of financial system
- Hidden victims affected by lost decade of lower growth/overindebtedness
- We argue for radical new vision of financial inclusion based on fairness and social justice, not market principles of access and opportunities
- Less talking / theorising, more action – pretty obvious what needs to be done, where market can't deliver
- Publication of Financial Inclusion Manifesto
- Credit Unions/ Community Lenders have huge role to play
- Hope provides ideas, let's work together