Financial Inclusion Commission: Call for evidence

This response is being submitted by Leeds City Council. The Council has been working in partnership with other public, third and private sector partners for over a decade to tackle financial inclusion in Leeds.

1. **What policy change would most support increased financial inclusion for the client group you represent?**

   For many decades the mainstream banks have been withdrawing services from poorer communities in the UK, leaving a gap which has been filled by high-cost lenders. Legislation to enforce banks to look more equitably at where they provide their services should be considered. This could be based on the Community Reinvestment Act (CRA) which has been in place in the United States since the 1970's. This would oblige banks to divulge data about the population groups that they serve to ensure that they can evidence that they are serving more deprived communities in our cities and rural communities.

2. **What do you see as the role of the regulator, government and financial services in promoting inclusion?**

   Regulators and the state should ensure that consumers are protected. The FCA, whilst having a responsibility for regulation of financial services sector, is also funded by and highly represented within its ranks by the financial services sector. The recent consultation on capping the cost of credit is a clear example where the regulator seemed more concerned with the protection of the high-cost lending sector than the interests of consumers. It is also disappointing and arguably a missed opportunity that the FCA's cap on credit is limited to payday lenders and not the wider financial services market.

   If the FCA continues to be the regulator for this market it is essential that representatives of consumers have a powerful say and influence over regulatory policy. It would be better, if the regulator was a truly independent body, which was able to ensure that the interests of the consumer was paramount in determining appropriate regulatory regimes.

3. **Do you have any practical examples of financial inclusion initiatives that have been successful?**

   In Leeds the public, private and third sector have been working in partnership for over a decade to promote financial inclusion. The **Financial Inclusion Steering Group** (FISG), oversees the work, developing specific proposals aimed at bringing about financial inclusion and liaising with partners to secure agreement for their implementation. As a result Leeds has delivered a strategy to tackle financial inclusion that has been nationally acclaimed, and has involved putting in place improved advice services and mechanisms to assist people maximise their incomes, manage their debts and provide an alternative to high interest lenders and loan sharks. A great number of successful initiatives have been put in place by dedicated and consistent action both on the ground and at policy level. Initiatives include;

- **Leeds City Credit Union (LCCU)** – LCCU works closely with the Council and partners to develop support and expand delivery of affordable financial services for residents who do not have access to affordable banking services. In practise this has meant developing the best products and services in the best locations for their clients. As a result over the past decade membership of LCCU has more than doubled (from 11,000 Leeds members in 2005 to 28,000 members currently). Initiatives have included;
    - Expanding its branch network across the city from 2 branches in 2004 to 6 in 2014 (plus 3 information points).
    - Establishing a CDFI (Headrow Money Line) in order to expand the availability of affordable financial services to those the credit union are unable to assist.
    - Opening the new 'Your Loan Shop' to compete directly on the high street with high cost cash shops.
    - Having dedicated members of staff working in housing offices across the city helping tenants with household budgeting.
    - Launching a new website which enables speeder membership and loan applications.
    - A marketing promotion campaigns in partnership with the council, which has included; advertising at Leeds railway station, bus and bus shelter adverts, door drop to 51,000 households, Leeds City Council payslip adverts and social media - Facebook posts and twitter; and PR activity.

    Future projects include developing an affordable payday lending product and investigating the possibility of opening a rent to buy shop. Overall the credit union has an ambition to build its loan book to £20m (currently £8m) to make a material impact on the estimated £90m high cost lending market in Leeds.

- **Telephone Gateway –** Advice agencies and partners work together in Leeds to coordinate and integrate debt advice provision across the city, to best meet the ever growing demand for their services. A good example of this in practise is the telephone gateway referral system, which enables clients to access the right advice at the right level more easily.

Callers receive a diagnostic assessment designed to identify the key issues and challenges being faced, at the end of which it is possible for the client or the adviser to make an informed decision or recommendation as to the next most appropriate action, whether that requires deeper involvement in the service, or referral elsewhere. The gateway project is aiming to link together the appointment systems of all the main Leeds advice agencies.

- The **Leeds Money Buddies Project** was developed to ensure that when clients receive debt and money advice they are then well equipped with the skills and knowledge to better manage their finances, and do not need to return to the service.

  The aim of the Leeds Money Buddy project is to provide a service to support those clients who need it, after receiving debt advice. The service is delivered by volunteers. A Money Buddy training course has been developed in order to train volunteers and deliver the project across the city. The service has been very successful with 733 clients since April 2012. This has meant that debt advisors are free to concentrate on legal debt advice and therefore see new clients in order to meet targets. Money Buddies take up the support element in dealing with clients and debt advisors act as consultant to the volunteers. This resulted in a considerable reduction in the number of clients who previously repeatedly attended advice agencies.

  Volunteers have the opportunity to go on to access the Qualifications and Credit Framework (QCF – previously NVQ) Level 2 training and also QCF Level 3 training in Legal Advice. They are also encouraged to recruit and train further volunteers within their communities. Over the past two years, 17 volunteers have left the service for paid employment.

- **Campaign against high cost lending:** A joint campaign to address high cost lending in the city is being developed by Leeds City Council with voluntary, private and public sector partners. The ambition is to make Leeds a high cost lender free city. Key initiatives include:
  - Launching the official campaign against high cost lenders at a national conference (Take-A-Stand campaign).
  - Launching the Money Information Centre website (www.leedsmic.org.uk) to signpost people across the city to affordable financial services and free advice.
  - Blocking payday lenders websites from all internal council and public access computers.
  - Working with the major sporting organisations and the universities in the city to ban advertising of high cost lenders within their facilities.
  - Lobbying government to tighten regulation on the industry.

4. What impact, positive or negative, does the increasingly digital delivery of financial services (e.g. prepaid cards, online banking) have on financial inclusion?

The biggest negative impact of technology and its easy access via PCs and smart phones is the prevalence of the high-cost lending market. Many of the payday lenders generate much business from the simplicity with which people can access high-cost loans in a very short space of time. Often this results in consumers taking out unaffordable credit and ending up with significant levels of debt.

Unfortunately the expansion of online banking has not resulted in increasing financial inclusion because it is often not accessible to households in poorer communities. This is partly due to lack of access to technology but also due to the reluctance of banks to offer services to this market. However, credit unions could utilise online banking much more extensively in order to make their services more accessible. Credit unions have not universally taken on board this technology partly due to the relatively high development costs but also the requirement to pay high fees to the large banks and others for the entry to the banking systems in order to deliver financial products. Also credit unions have been constrained by their tight operating models and legislation. There is nevertheless a big opportunity for credit unions to expand their services if the development costs could be overcome.

In terms of the positive impacts of increasing digital delivery, prepaid cards have become a very useful part of the armoury employed by credit unions. Many consumers from poorer communities still rely heavily on cash for their financial transactions. Providing cash services can be expensive but the prepaid card has enabled many credit unions to provide services in locations where it would not be possible to deliver a full cash service due to the costs involved.

5. What opportunities are there to use technology to facilitate financial inclusion?

In order to facilitate financial inclusion using technology needs to become the norm and support and guidance to enable people to use the technology is essential. For example the government and relevant bodies should be working to;

- Increase online application processes for benefit claims and self-service facilities to encourage people to view Council Tax accounts and set up appropriate payment arrangements via online tool.
- Provide support within the relevant public buildings to encourage people to access online facilities to assist in job searches, benefits applications and accessing financial/ budgeting information. With IT skills training offered within these settings which promote the benefits of being “digitally included”.
- Free the barriers in the banking system which;
    - Prevent or restrict credit union online automation.

- Prevent banks from accepting electronic identification for opening bank accounts (as for benefit applications).
- Restrict the portability of bank accounts from one institution to another.

6. How has the financial downturn changed the nature of financial inclusion?

The city council has undertaken extensive research over the past decade to determine the nature and extent of financial exclusion in the city. A major research study was undertaken in 2004 and this study was repeated again in 2010. The study included a household survey with an extensive questionnaire.

In 2004 this survey was conducted exclusively in the more deprived communities of the

city. However, in 2010, in addition to surveying households in the more deprived communities, there was an extended survey undertaken in the economically average communities in the city.

In comparing these two studies the results were clear. By 2010, financial exclusion had worsened significantly in the more deprived communities. However, the economically average communities also saw a significant deterioration in their situation and financial exclusion was also very apparent in these communities. In fact, financial exclusion in the economically average communities in 2010 very much mirrored the situation in the more deprived communities that was seen in 2004.

Overall, the conclusion of the studies was that in six years between 2004 and 2010, financial exclusion became worse in the more deprived communities of the city but also expanded into those areas that previously would not have been regarded as financially excluded.

7. What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?

The more general impact of welfare reform has been to reduce income for a significant number of groups who are affected by the changes. This is primarily a result of the impact of the spare room subsidy, the benefits cap, reduction in national funding for council tax support and an increase in the use of sanctions by JobCentre. This latter measure has been reported by our debt advice partners as being a significant factor in difficulties being faced by their clients.

In Leeds as a result of welfare reform we have seen more tenants fall into arrears with their rent and council tax. A number of support mechanisms have been put in place to help mitigate these changes;

- Changes in the recovery process for both council tax recovery and rent arrears recovery by instigating earlier intervention and additional time.
- Advice on alternative and affordable banking options by referrals to the credit union.
- Operating a Local Welfare Support scheme offering emergency support and basic household items to vulnerable people suffering the effects of welfare reform changes.
- A new advice contract awarded to the Leeds Advice Consortium (comprising Leeds CAB, Chapeltown CAB and Better Leeds Communities) commenced on 1 April 2014. The aim is to develop a much more integrated advice service which is more universally available but also concentrates more on areas of the greatest need. Work over the next three years will be towards delivering improvements to the type and amount of advice that is delivered across the city.

We have also piloted three projects which are aimed at providing support to residents and tenants who are prepared to engage with the council about their arrears;

- Council Tax Hardship fund – an element of funding was made available to help people in arrears with their Council Tax who were prepared to engage with the council to look at ways of improving their financial situation.

- Multi Storey Flats initiative - This initiative focuses on tenants affected by the Housing Benefit under-occupancy rules. The pilot sees key workers working with tenants to identify the right package of support to help tenants improve their financial situation and, where appropriate, help to improve their employment prospects. The additional support, which also includes help to deal with the shortfall in benefit caused by the under-occupancy rules, is conditional on tenants fully engaging with the initiative.

- Discretionary Housing Payments (DHP) and debt -The overall aim of this initiative is to encourage DHP applicants to engage in activity which will ultimately lead to them having greater financial independence. Any customer making a claim for DHP with debt levels who would benefit financially from engagement with welfare and advice services will be considered for the pilot.

In addition, although not apparent in Leeds at this point in time, the introduction of Universal Credit (UC) is forecast to have a significant impact on families in the city when it is introduced. One of the primary factors will be the fact that claimants will have to wait up to 6 weeks before payment is received and the financial consequences faced by families resulting from this gap in funding.

8. **What transactional services do households on low or unpredictable incomes, or who have experienced a life shock, need and want?**

   One of the facilities which has been seen to assist families in this situation are bank accounts which automatically assist in managing an individuals income and expenditure. Leeds City Credit Union has developed an account which manages the account holders money in a detailed way and has a strong emphasis on enforcing a clearer budgeting approach to family income. These type of accounts are often referred to as jam jar accounts.

   In addition the further expansion of the availability of affordable short-term credit is needed, so that people have a genuine alternative to high cost credit, which in most cases only perpetuates financial distress.

9. **What improvements are needed to make basic banking fit for purpose?**

   There is significant anecdotal evidence that basic bank accounts have never been well supported or promoted by the banking industry. So, in the first instance, if basic bank accounts are to be effective, banks have to support the idea and promote them within their branches. Unfortunately, basic bank accounts have limited functionality and it is questionable whether they are in fact the best option for people facing financial exclusion. If banks are reluctant to service such accounts consideration should be given to contracting out such accounts to credit unions under agency banking arrangements that are equitable for both banks and credit unions.

10. **Can technology help deliver better transactional banking services for people on low or unpredictable incomes?**

    As indicated above market forces have made it challenging for credit unions to move at the same pace as the banks in the development and introduction of technology.

    Nevertheless, and without under emphasising the concerns that some groups still have little access to technology, it is clear from many studies that younger age groups in particular are not using desk top PC’s and are moving straight to mobile or ‘smart’ technologies, and at the same time actively using these platforms to access banking services. For example half of all visits to Leeds City Credit Union’s web site are now from ‘smart’ devices rather than PC’s.

    Therefore it is becoming clear that technology can and will help many, including those facing financial exclusion, to receive better transactional banking.

    Leeds City Credit Union has moved to improve the use of technology, building online capability and developing ‘through processing’. It was the first credit union to introduce a mobile ‘App.’

However, there is a high cost to the development of such technologies and assistance should still be given to credit unions, for example through the DWP Credit Union Expansion Programme.

It should be noted that whilst innovative credit unions such as Leeds City Credit Union are moving as fast as possible to adopt new technologies, the high cost lending sector will also be moving with speed.

11. Is there scope to bring people into mainstream credit who are currently excluded, while also ensuring that this does not risk financial difficulty?

Many people require low value relatively short-term borrowing. The banks are generally not prepared to lend less than £1000 or less than a 12 month term. Shorter term low value loans tend to be the kind that are favoured by people on low incomes or facing financial exclusion.

Banks do offer overdraft facilities but this assumes that people have accounts with the mainstream banks in the first place, which is not always the case. There are many issues with bank overdraft systems. Whilst agreed and authorised overdrafts can be helpful in some circumstances the interest charges levied by most banks are little more favourable than can be obtained through a credit union. The greatest danger with reliance on overdraft is if these are taken on an unauthorised basis. In these cases the representative interest rates charged are astronomical high, on occasions even higher than some of the highest rates charged by payday lenders. The issue of bank charges and particularly overdraft charges is an area that the regulators have been reluctant to address.

In order to bring people into the mainstream credit the banking sector would have to seriously consider being able to offer low value loans at a reasonable rate of interest. It is questionable whether banks are prepared to do this. Please see also reference to question 1.

Accessibility is also a key issue; in this regard the Post Office with its comprehensive network could also play a much more significant role in delivering financial inclusion. The government should oblige the Post Office to regard financial inclusion as a key for its remit in delivering services.

12. For people who are unlikely to qualify for mainstream credit, what might affordable alternatives be? Should banks, building societies and others play a role in provision?

The only effective alternative provision to mainstream banks are credit unions and community development finance institutions (CDFI). Given the comments made in answer to question 11, it is unlikely that banks and building societies and similar providers will be willing to play a role although this would obviously significantly improve the situation if they were prepared to.

If they are unprepared to offer affordable options, mainstream credit suppliers could pre-screen customers before carrying out a full credit check, and if they are likely to decline credit to customers, or negatively impact their credit score, they should refer customers to credit unions and CDFIs.

For example Lloyds Bank /Halifax have run a successful scheme to refer declined loan applicants to Leeds City Credit Union. However, such referral schemes need to be adopted universally by the banks as part of standard process and in such a way that helps to build sustainable capacity in credit unions.

13. **How does credit scoring contribute to financial exclusion, and are there viable alternatives to traditional credit scoring?**

Credit scoring is a crude tool which does not fully investigate the personal circumstances of the applicant. It is used because it can be part of an automated system and therefore offer a low-cost method to assess credit worthiness compared to systems involving personal intervention. Such systems have been built principally for the banking industry and are designed to identify the most credit worthy with little regard for the more complex circumstances of some who are financially excluded. Credit unions, whilst using credit scoring systems, also have manual intervention which can often enable an individual to be provided with a service who might be automatically turned down a crude credit scoring system.

It has also been a serious issue (only now beginning to be addressed by the FCA) that high cost credit providers and pay day loan companies have not released their credit information to the credit agencies. This has prevented organisations who are concerned about properly assessing an applicant’s circumstances, such as credit unions, from being able to see a full picture of the persons circumstances. The FCA have only recently begun to recognise this as a problem.

The Rental Exchange administered by Experian is being considered by Housing Leeds (manages Leeds council housing stock) as a way of enabling tenants to build up a credit history. This will assist tenants to get access to more affordable credit. The scheme requires that Housing Leeds supplies regular information about tenants rent payments. The information will only be accessed when a tenant applies for goods or services where a credit or identity check is made through an organisation using Experian’s database. Tenants will be made fully aware about data sharing of their rent details by Housing Leeds and the scheme complies with the Data Protection Act 1988.

14. **What reforms could be considered to ensure consumers are getting into financial difficulty are protected including those who become insolvent?**

    There is often reluctance on the part of creditors to agree to reschedule debts when someone advises that they are facing financial difficulty. This is sometimes not possible until the debt is referred to a debt collection agency by which time it is likely that the debt has increased considerably and the situation of the client has become potentially desperate. The OFT produced a publication "Debt Collection Guidance" but this only had the authority of guidance and creditors could ignore it if they wished. It would be appropriate for the FCA to look at adopting a similar approach but it should be introduced with a greater obligation upon creditors to accept the principles and procedures laid down.

    The banks show a distinct reluctance, and in most cases a refusal, to allow people who are declared insolvent from opening accounts. Only one or two banks have been prepared to do this. This is not helpful to enabling such individuals to readjust their finances and get themselves back to a more stable situation.

15. **What role should the state and the insurance sector play in providing a financial safety net in the event of an unexpected life event? e.g. bereavement, family breakdown, unemployment and illness.**

    Traditionally the insurance sector has not played a significant part in these kinds of life events. The state Social Security system has traditionally been seen as the vehicle to assist people who find themselves in these situations. In recent years there is evidence that the system is not supporting individuals to the extent that it did in previous decades. This is highlighted by the recent All-Party Parliamentary Inquiry into hunger in the UK which found that benefit related problems was the single biggest reason given for food bank referrals, and that many families are just one unexpected bill away from financial crisis. There needs to be a greater emphasis and resource from Government departments on working to ensure that benefits are calculated and awarded accurately.

    The current way in which benefits are calculated based on actual immediate earnings can cause difficulties. In situations where a claimant has earnings which fluctuate, benefits can vary considerably over a relatively short period. These peaks and troughs in earnings are often exacerbated by benefits payments which equate to previous earnings not immediately current earnings. This can make the job of managing household budgets extremely difficult and this is on top of the general problems of budgeting on low income. There should be some mechanism for making benefits match an average of earnings over a period or in finding some means of "smoothing" payments so that there is a more consistent income flow for households in receipt of benefits.

We know that life events such as bereavement and family breakdown can have consequential effects which can result in people getting into financial difficulties. In these cases there needs to be adequate support for accessible advice services which are easily accessible in order to ensure that people get the help they need to prevent them from falling into debt.

16. Is the insurance market functioning appropriately and competitively?

The insurance market appears to have modified their business model in a similar way to the mainstream banking sector. There has been a greater emphasis on risk often associated with geographic boundaries and this can result in those who can least afford to pay for insurance having to pay higher rate by virtue of where they live. This is similar to the factor whereby people in more deprived communities have to pay a higher price for their banking services.

17. How can we ensure that people on low incomes, especially private tenants, have access to appropriate and attractive insurance products for their possessions and property?

There are schemes which have been developed to provide insurance as part of a tenancy agreement. The city's council housing provider Housing Leeds offers household contents insurance via a scheme run by Royal and Sun Alliance. This has the advantage of providing low-cost insurance to households who might otherwise have to pay higher rates (see question 16 above). There should perhaps be regulation to insist that providers of unfurnished accommodation are obliged to put forward insurance options for tenants as part of the overall service charge on rented accommodation. It should not be compulsory for the tenant as they have to be given choice in the matter but the offer of such insurance products by the landlord could be made compulsory.

18. Will pension reforms enable inclusion, and what further improvements could be made?

We are uncertain how the reforms to the pension system as currently framed, are seeking to enable inclusion. There are concerns that the new pensions flexibility will leave many people unsure as to how they might manage their pensions in their long term interest. There are many examples in recent decades where the financial services sector has proffered inappropriate advice or miss-sold products. The regulators ought to move proactively to try to ensure that accurate and appropriate advice is available to all who need it to ensure that their pensions decisions are taken in their long term best interest.

19. **Should policymakers enable and encourage people on low incomes to save, particularly in the economic downturn?**

    Policymakers should do whatever possible to encourage people on low incomes to save. One of the outcomes of the research undertaken, referred to above (see question 6), was that in 2004 households, in the more deprived communities which had no savings at all represented 37% of households. By 2010 the number of households with no savings had risen dramatically to almost 67%. Savings are an important buffer for a family in order that they can overcome life shocks which might not be predictable. Without such a buffer families can quickly find themselves in desperate situations because they have no means of covering unexpected events. There is then a danger that families will turn to high cost lenders leading to unsustainable debt.

20. **To what extent can savings act as a preventative measure, helping to avoid debt?**

    See answer to question 19.

21. **What incentives to save work best for people on low incomes, and how might the costs of these incentives be met?**

    Schemes such as child trust savings accounts could assist in making sure that all young people have a degree of saving. This can have an effect on equality as it provides a similar level of saving for children across all income groups. Some Local Authorities have introduced schemes which offer cash incentives to young people in their first year of high school to open a credit union account. This can be linked to the financial education curriculum in the school and further encourage young people to more effectively manage their money and to save. Given the competing priorities and decreasing budgets not all local authorities feel that they can afford such a measure and some element of national government funding would be appropriate to support such initiatives in the future.

    Other options could be promoting and encouraging employers of all sizes to offer credit union payroll deductions into savings accounts. These schemes involve virtually no cost to establish and run and can also have benefits to the employer as part of an overall benefits or welfare package. Savings from such schemes also provide significant deposits for credit unions that in turn builds capital to support the provision of affordable credit. Such schemes with qualifying credit unions could additionally be encouraged if there is an associated tax incentive.

    Christmas savings accounts, such as the one operated by Leeds City Credit Union, are another example of a practical, popular and low cost scheme that can be encouraged.

22. What practical steps could be taken to foster a savings culture in the UK?

There has been a significant cultural change in the UK over the last 50 years from one which sees savings and thrift as a virtue to the current situation where there is an automatic assumption that borrowing to spend his part of life. This has been very much driven by the retail sector and the financial service sector. To a certain extent the economy of the country is geared towards this form of culture and changing this would have some economic challenges. There is an overwhelming flood of advertising which promotes borrowing but there is virtually no counter advertising suggesting that either borrowing could be harmful or that saving is a worthwhile way of managing household budgets. To change this culture would require a fundamental change in the whole nature of Government thinking and economic policy in the UK. It is questionable whether any Government would consider this to be worthwhile proposition but without it, it is unlikely that a generalised savings culture in the UK could be developed.