

REFRESHING THE FINANCIAL INCLUSION STRATEGY FOR WALES 2015

Consultation response from the Bevan Foundation

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Consultation Questions

▪ General Comments

We welcome the decision to refresh the strategy as many aspects of personal finance have changed since 2009. However, the extent of change since this date suggests that the Welsh Government's approach needs to change much more substantially than is proposed in the consultation document.

The changes affecting family incomes are significant, including for example the decrease in the real value of earnings, the growth of insecure and no-guaranteed-hours contracts, the impact of welfare reform as well as the rapid rise in costs of essential goods and services and the 'premium' paid by low income households for many items.

We strongly urge the Welsh Government to take much greater account of these changes in the refreshed strategy. Without them, the strategy appears detached from reality. Recent changes affect the scale of action required, for example how many more people are likely to need advice or access to low cost credit. They also change the nature of activity, for example we would anticipate that debt advice is probably of far greater importance now than access to basic bank accounts. The strategy also needs to consider if the target groups changed, for example the balance of people in work compared with those out of work, or an increase in younger people.

Similarly, the provision of financial services has evolved since 2009 and warrants greater consideration. For example does the cap on interest on payday loans change the need to promote affordable credit? Does the spread of free access to cash mean that a different approach is required for areas that continue to lack access – or perhaps that this is no longer an issue?

We would also encourage the strategy to recognise the key importance of low income as a driver of financial problems. Low income is associated with much higher risk of financial exclusion, debt and use of high cost credit. The financial inclusion strategy needs to be explicitly linked to measures to increase the incomes of the poorest in Wales if it is to be effective.

While we recognise the good intentions of the Welsh Government, the strategy needs to be a genuine strategy i.e. it needs to be SMART (specific, measurable, achievable, realistic and have targets) – without them, it is simply a narrative.

The strategy should be much clearer about the scale of the problem in Wales, the impact on different groups of people and variation between different places. Without any sense of how many people are affected, who they are and where they live it is frankly impossible to ensure the actions outlined are appropriate.

The strategy should draw the substantial body of evidence about ‘what works’ to reduce financial exclusion. This points to the critical importance of financial capability and independent, free financial advice.

The proposed actions should be much more robust, with measurable action and outcomes. There needs to be detail about who will deliver the action, how they will deliver it, where and when and to how many people. Given the importance of financial inclusion, we would welcome much firmer commitments to achieving meaningful outcomes.

Finally, we note the considerable expertise of the Financial Inclusion Development Group but respectfully point out that they are almost all providers of financial inclusion services, many contracted or funded by Welsh Government to deliver them. We would like to see much greater input from financial institutions and also from people affected by financial exclusion, to ensure that the strategy is balanced, reflecting all interests.

- **Do you agree with our vision for financial inclusion?**

The vision for financial inclusion should focus on the end state the strategy wishes to achieve. We suggest this should be financial health, which could be defined as a state in which people are not over-indebted, exploited or mis-sold, and are able to make informed decisions.

At present the vision is too focused on the means of delivering the strategy (e.g. suitable products, advice and capability) – not really a vision in our view.

- **Do you agree with our proposals for improving access to affordable credit and financial services?**

The proposals need to be much more specific and be more closely targeted to be meaningful. In particular the frequent references to actions being for ‘everyone’ or ‘many people’ mean that the barriers faced by specific groups are overlooked and are therefore not addressed. This is the opposite of the expectations of equalities legislation, which requires that the specific circumstances of different groups of people are identified.

As mentioned earlier, the strategy needs to consider whether recent changes in the credit and financial services market require a shift in the Welsh Government’s approach.

- a. Access to Transactional Bank Accounts**

The refreshed strategy needs to include an estimate of the number of people in Wales who do not have access to a transactional bank account, and an analysis of who they are. An appraisal of the availability of budgeting and basic bank accounts in Wales and whether they meet users’ needs is also vital.

It is impossible to gauge whether the proposed strategy is appropriate or likely to be effective without such information. For example, the type of action required to help care-leavers to have a bank account is likely to be very different to the action required for older people or for people from minority ethnic groups.

The strategy needs to be clear what is meant by the term ‘access’ – i.e. does this mean physical access or does it include phone or internet operated accounts – in order to assess whether the proposed actions are appropriate.

Last, the proposed actions are weak in relation to the importance of having a transactional account – there is scope for a much more direct action for example ensuring all school leavers at age 16 have a transactional account. Similarly, Welsh Government does not need to wait on DWP to link benefit recipients with access to an account – it could use benefits administered by local authorities such as council tax support and housing benefit to increase take up (at least at household level).

b. access to cash

The progress on free access to cash is welcome but much more urgency is required to address the areas where issues remain. It would be helpful to know how many people are affected to get a sense of the scale of the problem.

c. access to affordable credit

This is an extremely important issue and the strategy needs to recognise that although people on low incomes make less use of credit than those on high incomes they are much more likely to pay a premium for credit and to be over-indebted than other groups. Other groups at risk of over-indebtedness include women, young people and lone parents. The actions proposed need to be tailored to the needs and circumstances of these different groups of people.

As the strategy recognises, the issue is partly about supply. While credit unions do have a role to play, they have an extremely small share of the credit market. The strategy needs to recognise the importance of other credit providers (including mainstream credit such as overdrafts and loans) and services such as MoneyLine. The strategy urgently needs to consider whether and how credit unions can be scaled up and professionalised to meet gaps in provision.

We do not think it is appropriate to include the Discretionary Assistance Fund under the heading of borrowing and credit. The Fund is part of the social security system providing help in a small number of defined, crisis situations. It is not a source of credit and should not be regarded as such.

The strategy also needs to consider action to improve credit scores, which are often a factor in difficulty getting mainstream credit. The Big Issue's initiative to accredit regular rent payments with credit reference agencies is a good example.

We also strongly suggest that the strategy includes measures to minimise the demand for credit, by reducing where possible the factors that can push people into debt, such as unexpected peaks of expenditure (see end).

d. Savings

We recognise the importance of savings however modest. The strategy should include data on the number of individuals who do not have savings and be clear who they are, in order to devise appropriate strategies.

The reliance on credit unions as the means of increasing savings is unlikely to achieve any change given their minute role as providers and so the strategy needs to include much greater reference to mainstream savings institutions as well as plans to scale up credit union provision.

e. financial services

The inclusion of access to insurance is welcome although the proposed action is weak.

Other financial services such as life assurance, pensions, personal accident or injury insurance, funeral plans etc. should also be included here. To choose just one financial service is unbalanced.

▪ Do you agree with our proposals for improving access to financial information, including debt advice?

The strategy needs to distinguish between types of information and advice, and also target different groups of people seeking it – those seeking advice on taking out a mortgage are very different from those seeking advice on unmanageable debt.

The issue is not just ‘access’ but the quality and affordability. A review of evidence for the Joseph Rowntree Foundation found that impartial, free debt advice is important in reducing poverty. The complexity of people’s circumstances, in which debt is often associated with housing, multiple arrears and benefits problems, mean that personalised, face to face support is often required.

We suggest that the focus in the strategy should be on advice NOT information. The proposal in the strategy to focus on provision of advice via a website is therefore misplaced. In addition, people on low incomes – at greatest risk of indebtedness – are least likely to have access to the internet.

The current provision of impartial, free debt advice is very uneven, both in terms of location and in terms of quality. The strategy needs to assess the availability of debt advice in Wales and take action to drive up quality and fill gaps in provision.

▪ **Do you agree with our proposals for building financial understanding and capability?**

The strategy would benefit from much greater clarity about the scale of the issue and its different facets. The requirements of, say, a 16 year old leaving school are different to those of an older person in a care home.

This section mixes ‘advice’ with capability, which means there is a confusing overlap with the previous section. We welcome the proposals in respect of education at school, but would like to see more robust commitments for other groups of people.

We recognise the importance of digital skills in all areas of life. However, we suggest that linking digital skills with financial inclusion is not necessary, and that it detracts from and confuses the overall purpose of the strategy.

▪ **We propose a collaborative approach for supporting financial inclusion for everyone in Wales. Do you agree with a collaborative approach? Do you have any additional suggestions for working together to support financial inclusion?**

We welcome the collaborative approach but suggest it needs considerable further refinement to be effective.

We see the Welsh Government having a strategic, leadership role, with partners providing specific expertise and delivering services. The role of different organisations should be clarified, and consideration given to the governance arrangements to ensure sufficient oversight by those who do not have vested interests.

The current participants in the Ministerial group are all government-funded providers. To be genuinely collaborative we would like to see inclusion of financial institutions and people experiencing financial exclusion.

- **Are there any other comments you would like to make on the draft Financial Inclusion Strategy?**

As well as the points made in the introduction, we would welcome the inclusion of the following areas which are currently absent from the draft strategy:

- a. **Regulation and enforcement:** the regulation of financial services is key and the Welsh Government should set out how it works with UK as well as Wales based regulators and enforcers.
- b. **Good practice:** the Welsh Government should develop a code of practice to be adopted by public bodies to prevent delays in the payment of benefits or assessment of entitlements, and avoid demands for up-front or lump-sum payments or that penalise payment in instalments or by methods other than direct debit.
- c. **Financial institutions:** we urge the Welsh Government to establish effective relationships with the providers of financial services such as banks, mortgage providers and insurance companies, as it is with these organisations that the vast majority of people in Wales engage.

- **Do you wish to comment on or provide evidence for inclusion in the draft Equalities or Welsh Language Impact Assessments?**

The evidence included is limited and does not seem to have been used to inform the strategy.
