WHY DO THE POOR PAY MORE?

Being shut out of financial services worsens the lives of those who already have little money, says Claire Tyler

Last year I became chair of the House of Lords Select Committee on Financial Exclusion, something that builds on many of my policy interests past and present.

The cross-party committee reported in April with a wide range of recommendations calling on the Government, the Financial Conduct Authority and the banks to give much greater priority to tackling financial exclusion and making sure that vulnerable consumers get a fairer deal.

So what exactly is financial exclusion and why does it matter?

Simply put, it's when people – particularly the poorest – can't get access to even the most basic financial services that most of us take for granted and are forced to rely on extortionately priced and often substandard products.

It's deeply ironic that while the UK is considered a world leader in financial services, some 1.7m people don't have a bank account, some 8m experience problem debt and 40% of the working age population have less than £100 in savings, and so no buffer to help deal with unexpected emergencies.

Then there's the unpalatable fact that the poor pay more – often referred to as the 'poverty premium'. Currently they pay more for services from heating their homes to accessing credit – contributing to a vicious circle which can drive people ever deeper into debt.

The situation is made worse by the growing number of bank branch closures, with 53% shutting between 1989 and 2016, a far steeper decline than in many parts of Europe.

So the problems are stark but what's to be done? The evidence the committee received made it abundantly clear that the lack of a strong lead from Government and a coherent strategy for tackling financial exclusion has been at the heart of the problem.

Thus we recommended that the Government should appoint a clearly designated minister for financial inclusion, who should publish a strategy for addressing financial exclusion, and make annual progress reports to Parliament, including on high street bank closures and the take up of basic bank accounts.

This emphasis needs to be matched by the Financial Conduct Authority (FCA), which in recent years has introduced a much needed and successful cap on payday lending.

That is why we recommended that the Government should expand the FCA's remit to include a statutory duty to promote financial inclusion. Additionally, we recommended that the FCA establish new rules requiring banks and other financial services providers to have a duty of care towards their customers. Taken together, these measures could transform the delivery of financial services for vulnerable customers.

We received plenty of evidence that low levels of financial capability can also be a significant cause of financial exclusion. We were told one third of the UK population – 17m people – struggle to manage a budget and that 1 in 6 people struggle to identify the balance on their bank statement.

EKED OUT EXISTENCE

The committee fully acknowledged that this was often caused by a sheer lack of money. Indeed we heard anecdotally that people on low income are often better at budgeting than many others because they have to be to eke out an existence. The relationship between poverty and financial exclusion featured in much of our evidence and visits.

In 2014 financial education was added to the statutory secondary school curriculum in England. However, with only around 35% of state-funded secondary schools now being maintained schools, this obligation does not apply to the remainder.

Thus we recommended that Ofsted's Common Inspection Framework should be updated to include financial education, and that this should be added to the primary school curriculum in England as it is in Scotland, Wales and Northern Ireland.

It became clear to us that some groups – particularly the elderly, those living with a disability and those suffering from mental health problems were particularly ill served by the current system.

We heard that one third of people over the age of 80 had either never used a cash machine or preferred to avoid using them, and 93% did not use internet banking. For them, the ever increasing rate of closure of physical bank branches is a major cause for concern.

We felt that the Government, regulators and banks could be doing more to develop new digital platforms and apps that simplify access for older people.

Our report also recognised the two-way relationship between financial exclusion and mental health and received some very compelling evidence and how this worked and what could be done about it.

We recommended that the Government, FCA and financial services sector should work together to introduce a wider range of 'control options' for those customers who experience mental health problems, for example, allowing potentially vulnerable consumers to voluntarily opt in to features such as 24 hour delays before processing large transactions, and bank accounts with partial third party control or 'nudge' type notifications of changes in spending patterns.

It is over 20 years since the Disability Discrimination Act was passed, introducing the concept of 'reasonable adjustment' into UK law.

Banks have had a long time to get it right when it comes to making reasonable adjustments to serve disabled customers. Sadly, we heard far too many examples of banks' failures to tailor their services effectively and appropriately. These included repeatedly contacting deaf customers by telephone and sending written PIN numbers to blind customers instead of using Braille .

We considered this totally unacceptable and recommended a review of reasonable adjustment practices for disabled customers.

Basic bank accounts represented a major step in reducing the number of people who are unbanked in the UK. While there were over 3m adults without a bank account in 2006, this figure has fallen to just over 1.7m.

However, the number of 'unbanked' people has started to increase again. Too often, we heard banks weren't being proactive in offering basic accounts to customers suited to them, or that these accounts weren't advertised or promoted properly.

Some banks working hard in this area clearly felt that others weren't pulling their weight. Thus we recommended that the Government require banks to promote basic accounts effectively and take steps to ensure that the burden of providing these accounts (which are loss making to the banks) is shared more equally.

Barely a week seems to pass without further news of bank branches being closed. This trend should worry all of us, but is of particular concern for those who rely upon physical access or prefer the reassurance of face-to-face communication.

In 2015 the British Banking Association launched the Access to Banking Protocol – a voluntary process where banks consult customers when they have decided to close a branch, and seek ways to ensure that services continue to be provided. We noted that there was no evidence that this process had ever led to a branch closure decision being reversed and that there is currently nothing forcing banks to take action to prevent the financial exclusion of people in areas where branches have closed.

We were also struck by the sheer scale of the Post Office network which, at 11,600 branches, has more outlets than all of the high street banks combined. What is more, the Post Office can offer banking services to 99% of UK current account customers. This is a little known fact, and we believe that the Government, banks and the Post Office need to do more to raise public awareness of these services

SHUT OUT OF ON-LINE

The increasing reliance on online banking runs the risk of shutting out large parts of the population. The elderly and some of those living with disabilities are at high risk – 42% of disabled people are not online, while 37% of retired people are not regular internet users, compared to just 6% of the general population. There are also 3.8m households without any internet and 12m people live in areas with poor or limited access.

This is why the committee felt strongly that 'digital by default' should not mean 'digital only'. It is vital that financial service providers – and, indeed, those Government departments providing financial benefits and services – continue to complement their online services with face to face and telephone services.

An area of particular concern to the committee was the high cost credit market. In 2015, the FCA introduced new regulations to tackle some of the most egregious practices by placing a cap on both daily interest rates and total interest charges and fees for payday lenders, which were a marked success.

But the committee felt strongly that these new rules were too limited in scope and should equally apply to other areas of high-cost credit.

In particular, we called for urgent action to introduce new controls on 'rent to earn' products and unarranged bank overdraft fees. In both instances the committee received evidence of eye-wateringly high interest rates being charged to vulnerable people. In some cases it was nothing short of extortionate and Government and the FCA must act quickly and decisively.

The committee heard evidence of the capacity of credit unions and other not-for-profit lenders to provide an alternative to high-cost credit such as payday lenders, doorstep credit and rent-to-own.

Their interest rates are capped by law at 3% a month, which makes them far cheaper than their commercial equivalents - and many credit unions also provide debt counselling and benefits advice to help get people on the road to financial stability.

And yet many of our witnesses told us that the credit union sector is extremely weak compared to other countries, particularly the USA. In some countries credit unions are able to offer a wider array of products such as their own credit cards and rent-to-own - which they are prevented from doing here. We felt that there was a lot more the Government could be doing to expand the scope of Credit Unions and recommended that the Government and banks should increase the lending of investment capital at reasonable rates to credit unions.

The Committee wasn't set up to examine social security benefits or the implications of the Welfare Reform Act 2012, but nonetheless received a large volume of evidence about the impact of changes to the benefits system on financial exclusion.

As a result, we made recommendations in three important areas: abolishing the seven-day waiting period at the start of a Universal Credit claim; allowing greater flexibility in the frequency of payments so that can be paid fortnightly as will soon be possible in Scotland and Northern Ireland; and allowing tenants in receipt of Universal Credit in England and Wales to decide whether their housing costs should be paid to them or direct to their landlord.

There is much do to build a financial services system that works fairly for everyone and helps to tackle inequalities rather than exacerbating them.

All too often vulnerable people and those on low income are being failed by banks and the wider system. The current levels of financial exclusion are simply unacceptable and much more can and must be done.

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