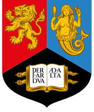
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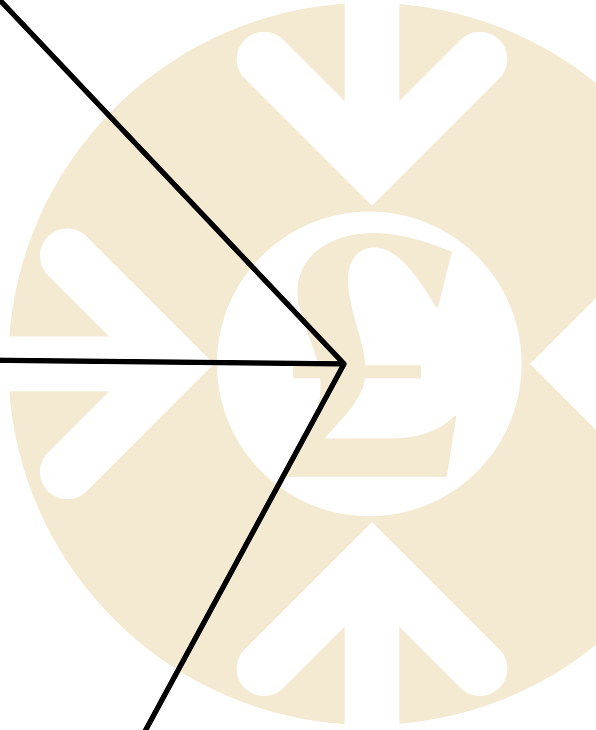

Financial inclusion in the UK

Adele Atkinson, Louise Overton

2024

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Overview

Introduction

The Centre on Household Assets and Savings Management (CHASM) at the University of Birmingham has been commissioned to undertake a rapid review of financial inclusion by the Financial Inclusion Commission (FIC, or 'the Commission'). This report provides the findings of that work, focusing primarily on evidence published between January 2022 and March 2024 due to the significant changes in the economy in recent years, including COVID-19 and the cost-of-living crisis.

The full review (below) looks at financial inclusion both in terms the types of products and services required and the groups of people most likely to be excluded, before making suggestions for potential approaches to tackle exclusion – preferably within the framework of a national strategy. This overview highlights key findings and possible approaches – again with the intention that these are incorporated into a national strategy for financial inclusion.

Poverty, vulnerabilities, and social exclusion

- In 2021/22 almost three in ten children were living in poverty, rising to 44% of children in lone parent families (JRF, 2024).
- 24% of British households experience at least 1 poverty premium, increasing to 28% in the North East of England, and 26% in London (Fair by Design, 2022).
- 45% of Universal Credit claimants have money deducted from their benefit income to repay money owed (Wild, 2023).

Low income creates financially driven exclusion, increasing the cost of some goods and services via the poverty premium and reducing access to key financial products and services. Across the UK, the poorest 10% of households spend 11% of their income on energy costs, on average (Wild, 2023). The Department for Work and Pensions report that 6% of UK households were food insecure in 2021-22 (DWP, 2023a).

Low income is especially problematic for families with children and has been made worse by the two-child cap on benefits. In a six-month period in 2023, 1.25 million children were living in a household that went without heating, hot water or electricity (Wild, 2023).

Citizens Advice data showed that in 2023, on average across all their clients there was an income shortfall of £36.00 a month, making it impossible for them to get out of financial difficulties by themselves (Wild, 2023). MaPS has also highlighted the challenges supporting debt clients with negative budgets, including the additional time spent by debt charities to address urgent needs such as access to food and warmth, and helping cash-strapped households to develop a sustainable budget (MaPS, 2023b).

What needs to be done?

- Work with multiple organisations to increase the awareness and take-up of available benefits.
- Work across stakeholders to address the various forms of poverty premium.
- Promote social tariffs and seek new ways to reduce the cost of utilities for people in poverty.
- Allow all Universal Credit recipients who are having money deducted from their payments the opportunity to apply for a pause in deductions.

Everyday banking services, including digital

- Latest data show that 5% of UK households have no current account: this increases to 8% in North-West England and Northern Ireland and 9% of households with gross weekly income under £200 (DWP, 2023a).
- Just 3% of UK households hold a Basic Bank Account (DWP, 2023a).
- 86% of UK adults are using digital banking of some sort, 53% use mobile banking and 36% have at least one account with a 'challenger' online only bank (Boyle & Pennarts, 2024).

A lack of identification continues to create a barrier to access to everyday banking services for some people (Experian, 2018; ONS, 2022a), and Basic Bank Accounts are not filling the void, with just 3% of households using one (DWP, 2023a). The widespread shift towards digital delivery of financial products and services, including payment services, has also continued the longstanding trend of branch closures and limited access to cash (Panjwani et al., 2024).

Digitalisation and bank closures will continue to hit older adults particularly hard. Whilst 33% of adults with a day-to-day account carried out banking activities face to face in a branch in the 12 months to May 2022, this increased to 50% amongst adults aged 75 and over (FCA, 2023e). Older adults are also particularly prone to a variety of scams and frauds (Age UK, 2015, 2018).

What needs to be done?

- Incorporate a 'must have regard' amendment into the FCA regulatory framework so that the market also takes into account people who are not currently financial consumers seeking access to financial products and services (Fair by Design, 2023; FIC, 2015).
- Support the creation of banking hubs with complementary services such as benefit checks and guidance on financial resilience.
- Encourage FinTechs to develop financial inclusion solutions (FCA, 2020a; Financial Inclusion Commission, 2021a). Explore whether it is feasible to create an easily accessible, free app-based account with simplified ID requirements for those excluded from banking.
- Work with organisations supporting the digitally excluded to find non-digital solutions to branch closures and cash payments.

Access to credit

- More than 9 million adults (19%) were declined credit in the 12 months from April 2022 (MaPS, 2023c).
- The Financial Ombudsman Service expects a rise in complaints related to irresponsible and unaffordable credit in 2024, due to the cost-of-living (FOS, 2023a).

Access to affordable credit remains a challenge. Barriers include having no credit record, or a record with very limited information and seeking unprofitable low-value loans, as well as already having a high level of borrowing. With the reduction in payday lenders, even regulated high-cost credit is becoming harder to obtain in some areas. This can lead to people turning to predatory, illegal lenders (loan sharks), an issue thought to be affecting up to 2.5% of the population (Fair4All Finance, 2023a).

Successful applications for credit cards have been rising, but there have been fewer approvals across other types of unsecured loans (Bank of England, 2023). Consumers rarely know why they were refused, leading to assumptions that it is due to their income or employment status as well as their credit history and existing borrowing (Dibb et al., 2022; MaPS, 2023c).

People turned down for credit are most likely to be aged 18-35 (MaPS, 2023c) and rent their home (Dibb et al., 2022) or live in London (MaPS, 2023c). Care-experienced young adults may be particularly likely to be excluded in this way (see for example discussion in ONS, 2022); more research could be useful to understand this group.

At the same time, older adults without a current account also have difficulty accessing credit due to very thin credit files (Age UK, 2016; Experian, 2018; Select Committee on Financial Exclusion, 2017).

What needs to be done?

- Expand the No Interest Loan Scheme (Corke, 2023b).
- Extend the coverage of deduction lending in partnership with credit unions and community finance providers (Angsten Clark et al., 2024; Fair4All Finance, 2023b). Care is needed to maintain sufficient distance between this approach and payday lending.
- Require lenders to provide information about the reasons behind refusals.
- Secure more resources to tackle illegal lending.

Overborrowing and debt

- Between late January and early February 2023, 22% of adults in Great Britain had started borrowing or increased their borrowing because of the cost of living – up from 17% in a similar period the previous year (ONS, 2023a).
- MaPS estimated that in 2023, 15% of the UK adult population (8.1 million people) needed debt advice, and a 12.6 million people were 'at-risk' of needing such advice (Das, 2024).
- 39% of young adults aged 18 -24 were in need of debt advice1, compared with 18% of adults (Das, 2023).

The rising cost of living is pushing more people into a dangerous debt cycle. It is common for people to be using credit cards to pay for essentials when they need to delay payment, but there has also been a significant increase in the use of payday loans, Buy Now Pay Later (BNPL)[2] and even illegal money lenders to cover such costs (Dibb et al., 2022; MaPS, 2023c).

Overindebtedness caused by utility bills is also growing. The total amount of debt owed on gas and electricity was £2.916 billion in Q3 2023, of which over £2 billion was in arrears for more than 91 days (Ofgem, 2023). Consequently, fuel bills became the most common source of debt discussed by Citizens Advice clients in 2023, up from the 5th most common in 2019.

People in London and other major cities are particularly likely to need debt advice (MaPS, 2022). There is also a worrying association between debt issues and mental health. In England, 1.5 million adults face problem debt and poor mental health, and 86% of people with mental health issues report that their financial situation exacerbated their condition (Money and Mental Health, 2021). There are likely to also be unmet needs for debt advice amongst certain groups, including prisoners and ex-offenders (ABI, 2023b; Wyman, 2018).

[1] Described as 'a regulated advice process including a full review of a client's personal circumstances, not just receiving general guidance'.

[2] BNPL offers an interest free credit option for people making certain purchases and repaying on time, but there are chargers for late/missed payments, and such credit is currently unregulated despite recommendations in the Woolard Review in 2021 to regulate as a 'matter or urgency' (Woolard, 2021)and accessible without a credit check, risking driving people further into debt.

Demand for debt solutions is soaring, and whilst the charitable sector is growing, they provide only a small proportion of the services taken by individuals in difficulty, leaving many vulnerable consumers paying for private provision. StepChange estimates that using a debt management plan from a private company could cost an individual an additional £4,000 (StepChange, 2024).

What needs to be done?

- Implement planned regulation of Buy Now Pay Later products.
- Increase the scale of flexible repayments schemes.
- Increase access to free debt advice and address the high cost of private debt solutions.
- Work with trusted partners to identify debt issues in vulnerable groups and provide appropriate support.
- Require credit providers to signpost unsuccessful applicants to debt advice, where relevant.

Savings and investments

- 18% of families[3] in the UK had no savings in 2021-22 (DWP, 2023a).
- 39% of adults surveyed between July and October 2023 did not expect to save any money in the next 12 months (ONS, 2023b).

Academic research shows that saving is not only related to income (Maison et al., 2019), suggesting that more could be done to encourage people to build a savings habit, possibly from childhood.

What needs to be done?

- Expand on existing savings initiatives in schools and workplaces.
- Build on automatic deduction pilots, such as the Family Saver Pilot (Angsten Clark et al., 2024).

Pensions

- Only 18% of self-employed workers were saving into a pension in 2021-22, compared with 79% of employees (DWP, 2023a).

Since the introduction of auto-enrolment, most employees have a workplace pension and the gender gap in savings rates is broadly comparable between men and women. However, pockets of exclusion remain, and the amount saved in workplace pensions remains worryingly low. Of particular concern is the low proportion of people in self-employment with a pension which has fallen from 22% in 2011-12 to 18% in 2021-22 (DWP, 2023a). Furthermore, whilst anticipated policy adjustments will bring more people into the pension system, a gap is likely to remain in savings levels for the 3 million low-income employees currently exempt from auto-enrolment (Pensions Policy Institute, 2023), and women who have saved less over their lifetime (DWP, 2023c).

Many people are ill-prepared for managing their pensions when they become eligible to access them (ABI, 2023a; FCA, 2018). It is difficult for retirees to estimate and assess possible scenarios and products, and most could benefit from access to safe, effective, and affordable support (ABI, 2023; HM Treasury and FCA, 2023). Yet very few people take advantage of free government advice (Corfe et al., 2022; HM Treasury, 2015), and many find regulated advisors too costly, or unwilling to help (Overton & Smith, 2022).

[3] DWP refers to 'benefit units'.

What needs to be done?

- Test approaches to increasing the current rate of savings through auto-enrolment without leading to material deprivation or additional borrowing.
- Prioritise research and pilot tests to develop effective approaches to pension savings for the self-employed
- Work with employers to encourage more people to take up available advice on pension contributions, consolidation, and decumulation.
- Improve flexibility in decumulation products, potentially to include a combination of draw down and guaranteed income, as well as an inheritance guarantee (Overton & Smith, 2022).

Insurance

- By Jan 2023 13% of people who had held insurance in May 2022 had cancelled and/or reduced cover specifically to save money due to the rising cost-of-living (FCA, 2023d).
- More than half of low-income renters (61%) have no home contents insurance (Aviva, 2019).

Insurance is a difficult market to monitor, and it can be hard to assess whether demand for different types of insurance is being met. There is very little data on insurance refusals, and policies may cover more than one adult in a household, making it difficult to identify gaps in provision.

Issues identified in the insurance market include high-costs for certain consumers (Fair by Design, 2021), lack of understanding of when insurance might be necessary (BIBA, 2021), and the complex and often intrusive application process for some policies (BritainThinks, 2019; University of Nottingham, 2018). The use of credit records to assess customers seeking to pay in monthly instalments contributes to the poverty premium and may also be leading to exclusion.

What needs to be done?

- Collect data on unmet demand for insurance products.
- Monitor the impact of the Consumer Duty to ensure that new customers can access appropriate insurance at an affordable price and provide guidance if necessary.
- Address the poverty premium in insurance.

Conclusion

Many people are facing exclusion, driven by various factors from insufficient income to product design. There is no escaping the message that poverty is costing people dearly – not just in terms of the premium that people pay but also in terms of the missed opportunities caused by having insufficient income to make ends meet.

Action is required on many fronts. The most efficient way of tackling the challenges identified in this research would be to create a National Strategy for Financial Inclusion and implement evidence-based solutions.

Introduction

This report summarises existing academic and grey literature and draws on available datasets to understand the scale and scope of financial exclusion in the UK. The review process was undertaken by the Centre on Household Assets and Savings Management (CHASM) at the University of Birmingham and commissioned by of the Financial Inclusion Commission (FIC, or 'the Commission'). It covers the period since the Commission's first report (Financial Inclusion Commission, 2015), with an emphasis on the most recent evidence (published in 2022 and 2023) due to the significant changes in the economy in recent years, including COVID-19 and the cost-of-living crisis.

Scope

Financial inclusion or exclusion can be measured across various dimensions, from income and employment to access to current accounts and pensions, and from financial wellbeing to problem debt (Fair4All Finance, 2023c; FIC, 2015; McKay et al., 2022). The Commission's vision is one where everyone has access to their own transaction account, affordable credit, appropriate insurance and necessary advice. They are encouraged and empowered to save both for precautionary reasons and for retirement, and they receive financial education in school and throughout life (Financial Inclusion Commission, 2015).

This report seeks to describe and understand financial exclusion experienced by individuals, in keeping with the Commission's vision and remit to focus on personal finance aspects of financial inclusion. It takes a two-pronged approach, first considering challenges related to various products and services, and second, describing the challenges faced by different groups in society. Notwithstanding this scope, both CHASM and the FIC recognise that financial inclusion has close links with poverty, inequality and social exclusion and has strong parallels with discussions on better access to business finance.

Whilst the content provides an overview of current issues, space limits the amount of detail that can be provided on each element and both the rapid evolution of the financial landscape and expansion of the literature means that some information may rapidly become dated. Interested readers are encouraged to explore topics in more detail.

Method

This review draws on various sources of information:

- Recent **academic literature** on financial inclusion and related issues, including those that discuss the ongoing challenges and successful approaches, and those that reflect on how a financially inclusive society might look;
- Recent **grey literature**, with a focus on new research reports on financial inclusion and related issues (particularly financial exclusion, resilience, vulnerability, wellbeing, the poverty/single person premium, energy and housing costs), and policy documents relevant to these issues;
- Existing relevant **quantitative data** on the financial circumstances of individuals and households, and data on digital access, including access to digital financial services; and
- **Qualitative data** that could help to describe the experience of, and impact on, individuals or households of either a) being financially excluded, or b) accessing financial products and services for the first time.

Types of financial exclusion

Households in the UK have faced several negative shocks recently, stemming from the global pandemic, the ongoing war in Ukraine and the negative impacts of high inflation and rising interest rates. Whilst there are signs that inflation may now have peaked, the higher cost of living continues to have a significant negative impact on households, with food and energy costs still of particular concern (FCA, 2023d; PFRC, 2023).

The pandemic also led to widespread reliance on digital tools to deliver everything from education to payments. Cash use reduced significantly during the pandemic, and has only partially 'recovered' (Caswell, 2022). Unsurprisingly, digital and financial exclusion have become increasingly intertwined with people needing the internet to access many financial services, and needing to be digitally savvy to avoid falling victim to scams and fraud (Devine & Milner, 2021).

However, it is not only the current economic climate that leads to concerns about financial inclusion. As this report shows, there are many longstanding issues still to be addressed as well as ongoing shifts in the financial landscape that should be considered.

Everyday banking services

- Data from 2021-2022 (most recent available) show that 5% of UK households had no current account: this increases to 8% in North-West England and Northern Ireland and 9% of households with gross weekly income under £200. Furthermore, 15% of individuals in the UK aged 16–24 and 13% of those aged 85+ had no current account (DWP, 2023a).
- Just 3% of UK households held a Basic Bank Account (DWP, 2023a). In households with total gross weekly income of £1600-£1800 just 1% had such an account, but the proportion does not rise above 3% in any income category[4]. 4% of individuals in the UK aged 16–24 but only 1% of those aged 85+ had a Basic Bank Account.

Longstanding barriers

There are several longstanding barriers to financial inclusion that remain relevant today and make it very difficult to access any kind of banking service[5]. The earliest academic studies (Leyshon & Thrift, 1995) and early policy interest relating to financial inclusion focused on branch closures which left many communities unserved. This issue, along with a lack of access to free-to-use cash machines, continues to create difficulties for many people trying to access everyday banking services[6].

A lack of identification documents also remains an important stumbling block in achieving full financial inclusion. Data from the 2021 census indicates that 8 million residents of England and Wales did not hold a passport from any country (ONS, 2022a). In addition, various people such as young adults, those leaving long-term relationships, recent immigrants, returnees, the homeless (including people living in temporary accommodation) may have neither a bill in their own name or an entry on the electoral register, making them particularly vulnerable to financial exclusion (Experian, 2018; LexisNexis, 2022).

Digitalisation, and increased risk of fraud and scams

- 86% of UK adults are using digital banking of some sort, 53% use mobile banking and 36% have at least one account with a 'challenger' online only bank

[4] People holding a Basic Bank Account may also have a current account. Even so, the lack of variation in the proportions holding Basic Bank Accounts by age and income suggests that these accounts are not addressing financial exclusion as well as they might. See Consumers' access to financial services - Treasury Committee - House of Commons (parliament.uk) for discussion of the challenges around increasing access to Basic Bank Accounts.

[5] See for example Kempson et al., 2004 for discussion of barriers to financial inclusion some 20 years ago.

[6] Branches have been closing since the 1980s ((Bennett, 2020). For further discussion on access to cash, see (Financial Inclusion Commission, 2021b)and (Panjwani et al., 2024)

(Boyle & Pennarts, 2024).

- Individuals lost £196.7 million in APP fraud in the first half of 2023 (UK Finance, 2023).

Alongside the longstanding barriers, digitalisation has also created new forms of exclusion (whilst also being heralded as a potential solution) (G20, 2016; GPFI, 2020), resulting in a need to improve digital inclusion at the same time as financial inclusion. Barriers to digital use include low levels of motivation, the cost of getting online and reluctance to share personal data (Lloyds Bank UK, 2020).

Arguably, the most visible change brought about by digitalisation is the reduction in access to, and ability to use, cash. The Financial Conduct Authority (FCA) has plans to protect access to cash (FCA, 2023f), but with some retailers and providers preferring digital payments, people who operate in cash still face less choice and higher costs.

Fear of falling victim to scams and frauds can also make some people reluctant to access financial services through digital channels (Devine & Milner, 2021). This concern is not unfounded. The Government has recognised the emotional and financial damage being caused by Authorised Push Payment (APP) scams, for example, and is taking steps to ensure that consumers do not bear the cost of falling victim (HM Treasury, 2022b). Much needed reimbursement requirements will come into force in 2024 (Payment Systems Regulator, 2024). Individuals lost £196.7 million in APP fraud in the first half of 2023, including £18.5 million lost to romance scams, and just 64% of total losses were returned to victims (UK Finance, 2023). UK Finance also reports that whilst an estimated £650.7 million worth of fraud was prevented in the same period, £340.7 million was lost in unauthorised fraud, including a steep increase in the prevalence of card ID theft. Evidence also suggests that there is a link between low levels of financial literacy and poor abilities to detect fraud (Engels et al., 2020), suggesting a role for better education, information and guidance.

Credit and debt

- More than 9 million adults were declined credit in the 12 months from April 2022, and 4% were turned away by at least three providers (MaPS, 2023c).
- The Financial Ombudsman Service expects a rise in complaints related to irresponsible and unaffordable credit in 2024, due to the cost-of-living (FOS, 2023a).
- Insolvencies are falling, at 24,418 in Q3 of 2023, 15.4% lower than the equivalent quarter in 2022 (Francis-Devine, 2024).
- The total amount of debt owed on gas and electricity was £2.916 billion in Q3 2023, of which over £2 billion was in arrears for more than 91 days (Ofgem, 2023).

Credit can provide people with a valuable tool to smooth income and expenditure, but borrowing also comes with risks. Often those people who could most benefit from the opportunity to use credit to help them to manage on a low and variable income are excluded from affordable options for borrowing. More expensive forms of credit may be available for some, but they are more difficult to repay, potentially leading to people facing additional costs for missed payments or borrowing to pay off previous debts. This negative spiral can leave people unable to make essential purchases and falling behind with bills and commitments.

Accessing affordable credit

According to reporting by the Bank of England, overall demand for unsecured credit increased in Q3 2023 (Bank of England, 2023). This was driven by demand for credit cards, whilst demand for other unsecured loans fell. However, the data also suggest that changes in the way in which providers used credit scores led to more credit card applications being approved but fewer approvals across other types of unsecured loans[7].

Consumers are not always aware of the reason that their application is turned down, but recent reports suggest that some believed that they had been refused access due to their income levels and employment status as well as their credit history and existing borrowing (Dibb et al., 2022; MaPS, 2023c)[8].

[7] Providers are asked questions such as 'How have credit scoring criteria for granting credit card loan applications by households changed?'

[8] Credit records do not include income, but potential creditors can ask about income and work status.

Consumers would welcome more information following a refusal: MaPS found that 42% of those refused credit would find it useful to be able to access a tool showing their chances of acceptance, 38% would appreciate tips to improve their credit score and 26% would like information about other options for borrowing.

Access to affordable credit remains a challenge for many people (FIC, 2021b). Some people find it difficult to access mainstream credit because they do not appear on credit records, or their record contains very limited information (Experian, 2018), rather than because they are over-borrowed[9]. The fixed costs on relatively low-value loans can also lead to providers charging higher interest rates to offset the initial outlay, further reducing affordability. The Money Savings Expert website also points out that fraud scoring can affect access to credit (Lewis, 2018). Fraud scores take into account inconsistencies in an applicant's records (affecting around 7% of applications), that may indicate possible fraudulent behaviour. Furthermore, whilst there is still a tendency for high-cost lenders to operate in more deprived areas where average credit scores are low, regulations have reduced the number of payday lenders, limiting access to even high-cost credit in certain areas (Jeyabraba et al., 2021).

Providers serving people who have been denied credit from mainstream lenders typically charge higher interest rates, but that is not the only disadvantage for consumers. Research indicates that once someone has borrowed from a high-cost (legal) lender they are less likely to access mainstream forms of credit later, even if their credit score is unaffected (Liberman et al., 2021). Furthermore, some people find themselves borrowing from illegal lenders, or loan sharks, which leaves them vulnerable to mistreatment as well as very high repayments (Appleyard et al., 2023; Atkinson, 2023; CSJ, 2022; Fair4All Finance, 2022b, 2023a). Recent estimates vary widely, but suggest that between 0.5% and 2.5% of the population may be borrowing from loan sharks (Fair4All Finance, 2023a). Fair4All Finance also report that in their recent study, 70% of the research participants who were current victims of loan sharks were in work, suggesting that lack of options permeate beyond the most vulnerable households (Fair4All Finance, 2023a).

People excluded from mainstream options may still be able to borrow from a credit union or Community Development Finance Institution (CDFI). Credit unions in Great Britain were lending 1.53 billion in Q2 2023 (CUNews, 2023), but they are constrained by demand and supply-side factors. Awareness of credit unions (and CDFIs) remains relatively low despite government support(Fair4All Finance, 2022c), and credit unions are also subject to an interest rate cap that limits their ability to lend to some potential clients (MoneyHelper, 2023).

Borrowing to make ends meet and over-borrowing

Many people have no option but to borrow in unsustainable ways. Between late January and early February 2023, 22% of adults in Great Britain had started borrowing or increased their borrowing because of the cost of living – up from 17% in a similar period the previous year (ONS, 2023a). Similarly at the end of 2023, 15% of adults had borrowed to cover daily living expenses in the last four weeks (PFRC, 2023).

The Money and Pensions Service (MaPS) reports that whilst it is most common for people to be using credit cards to pay for essentials when they need to delay payment, there has also been a significant increase in the use of payday loans, Buy Now Pay Later (BNPL) and illegal money lenders to cover such costs (Dibb et al., 2022; MaPS, 2023c). BNPL offers an interest free credit option for people making certain purchases and repaying on time, but there are charges for late/missed payments. This type of credit is accessible without a credit check, risking driving people further into debt, and such credit is currently unregulated despite recommendations in the Woolard Review in 2021 to regulate as a 'matter of urgency' (Woolard, 2021).

Problem debt and the need for advice and support

Problem debts have multiple causes and creditors are not only financial service providers. In November 2023, most people seeking debt advice from StepChange were in difficulties because of the 'cost of living increase', 'lack of control over finances' or 'unemployment or redundancy' (The Money Charity, 2024). Citizens Advice reported that over half of the clients that they were helping with debt issues were in a 'negative budget' because their income did not cover essential living costs (Upton, 2023). This is particularly the case amongst the unemployed (61% of whom had

[9] Having no credit file or a poor credit score can also lead to wider exclusion since such information is routinely used by companies such as mobile phone providers and letting agencies, as well as insurance companies.

a negative budget) and self-employed (55% with a negative budget) but was also an issue for those in work. Their data show that in 2023, on average across all their clients there was an income shortfall of £36.00 a month (Wild, 2023). MaPS has also highlighted the challenges supporting debt clients with negative budgets, including the time spent addressing urgent needs such as access to food and warmth, and the difficulty developing a sustainable budget (MaPS, 2023b).

Household bills are a significant burden for some, causing debt and increasing the need for advice. The UK regulator for gas and electricity markets, Ofgem, monitors a range of valuable indicators related to payment problems (Ofgem, 2023). Its recent data show that over 600,000 customers self-disconnected from their electric prepayment meter in Q2 2023, and bill arrears were soaring. The total amount of debt owed on gas and electricity was £2.916 billion in Q3 2023, of which over £2 billion was in arrears for more than 91 days. The Office for National Statistics (ONS) reports that 6% of people were behind with gas or electricity bills in early 2023, and Citizens Advice saw an increase in numbers seeking advice for fuel debt from 5,500 in January 2019 to 9,500 in January 2023 (ONS, 2023a). Consequently, fuel bills became the most common source of debt discussed by Citizens Advice clients in 2023, up from the 5th most common in 2019.

The Money and Pensions Service has developed an assessment tool to monitor the need for debt advice. This categorises people as a) having no signs of need for (debt) advice or guidance, b) would benefit from money guidance, c) at a tipping point and need to seek guidance and d) definitely need regulated debt advice (MaPS, 2022). The final group is subdivided according to the reason for their needs, resulting in six categories overall. Using this measure, MaPS estimated that in 2023, 15% of the UK adult population (8.1 million people) needed debt advice, and a further 24%, or 12.6 million people were in the 'at risk' category (Das, 2024). Those 'at risk' are not yet being chased by creditors, but are finding it hard to make ends meet, struggling to keep up with bills and credit commitments, or using high-cost credit.

Debt collection

There are various rules for companies seeking to collect unpaid bills, depending on which sector they belong to. The UK Regulators Network (UKRN) have set out expectations on the treatment of consumers in arrears, noting that 'Customers subject to collections activity are highly likely to be in vulnerable circumstances due to financial difficulty – and may also have other, non-financial characteristics of vulnerability such as problems with their physical or mental health' (UKRN, 2024). They are concerned not only with the way individuals are treated but also the barriers faced by debt charities in trying to support vulnerable consumers.

People also fall into arrears on a variety of bills owed to government, including repayments of overpayments, fines, and fees. The government has recently developed a Debt Fairness Charter laying out how the government should treat people who owe them money (Government Finance Function and HMT, 2024). Unfortunately, this only covers debts to central government, and does not include deductions from earnings or benefits, significantly weakening its potential to make a difference to the most vulnerable.

Alongside the difficulties faced by clients when contacted directly by their creditor(s), over two million people have been contacted by bailiffs (officially known as Enforcement Agents in England and Wales[10], 'Sheriff Officers' in Scotland[11], and in Northern Ireland bailiffs have been replaced by 'Debt Collection Agencies'[12]) during the cost of living crisis, 64% of whom felt intimidated or harassed, according to Citizens Advice (Citizens Advice, 2023a). Citizens Advice found that 78% of those contacted by bailiffs would be considered as vulnerable under the rules governing bailiffs. This form of debt collection puts households under additional financial pressure, forcing them to prioritise one repayment over others. Citizens Advice report that a third of households with children who were contacted by bailiffs missed other bills to pay the bailiff. Bailiffs in England and Wales have an independent oversight body (the Enforcement Conduct Board), but they continue to operate under a non-binding set of National Standards[13].

Debt solutions

Debt solutions for consumers across the UK include voluntary Debt Management Plans and Debt Relief Orders as well as Individual Voluntary Arrangements (IVAs) in England, Northern Ireland and Wales, and

[10] Bailiff powers when they visit your home: What you can do when a bailiff visits - GOV.UK (www.gov.uk)
[11] See for example Powers of sheriff officers - Citizens Advice
[12] How to deal with debt collectors in Northern Ireland (mindwisenv.org)
[13] Standards - enforcementconductboard

Debt Arrangement Schemes in Scotland. They can provide relief from problem debt, but they also have a longer-term impact on people's future ability to borrow as the information stays on their records for six years.

In 2023, over 64,000 IVAs were registered in England and Wales, accounting for 62% of all personal insolvencies (The Insolvency Service, 2024). Concerns about poor 'take-on' practices (or lead generation), or possible mis-selling, by some private providers are currently being investigated on behalf of the Insolvency Service[14], and recent data also shows a significant reduction in the number of IVAs since the FCA banned 'debt-packagers receiving remuneration for referrals to IVA firms' - down from almost 88,000 in 2022 (The Insolvency Service, 2024).

Debt solutions can be arranged with the help of debt charities and by private sector organisations operating for profit. StepChange, a large debt charity, registered just 1.1% of all IVAs in 2023, whilst five private companies account for half of all registrations (The Insolvency Service, 2024). StepChange estimates that using a debt management plan from a private company could cost an individual an additional £4,000 (StepChange, 2024).

Not all debt solutions are successful. The Insolvency Service monitors terminations (caused by a debtor failing to keep up with payments), and reports that 22% of IVAs registered in 2019 had been terminated by 2023 (The Insolvency Service, 2024). This outcome can leave the individual with outstanding debt and IVA fees to repay, although there have been moves to reduce the likelihood of such an outcome by encouraging IVA providers to consider lower repayments or early completion.

Today vs tomorrow

With many people automatically enrolled into pensions (see next section), it is increasingly likely that some people will be simultaneously saving for their future and struggling to pay their bills in the present. This may lead to some opt-outs. However, opting out does not come without consequences. People who opt out of a workplace pension because of current difficulties not only jeopardise their future wellbeing but they also lose out on contributions that would have been made by their employer and the tax incentive (MoneyHelper, 2024a), effectively taking a pay-cut because of their situation.

Savings and investments

- 18% of families in the UK had no savings in 2021-2022 (DWP, 2023a).
- 39% of adults surveyed between July and October 2023 did not expect to save any money in the next 12 months (ONS, 2023b).
- The number of UK adults with low financial resilience increased by 1 million, to 12.9 million in May 2022 (FCA, 2022a).

Academic research shows that savings rates are not only explained by income. Various other drivers explain savings behaviour from risk aversion and locus of control through to subjective assessments of one's financial situation (Maison et al., 2019). Nevertheless, there is a large variation in the levels of savings and investments in the UK, and some of it can be explained by low income (JRF, 2023). The need to claim Universal Credit may also put people off saving; whilst the cap is at £16,000 all savings over £250 are counted as notional 'income' (Ghelani et al., 2023)[15].

Saving is important for financial security, and accounts have provided a valuable buffer to the cost-of-living increases. Those with less than £200 in savings were found to be more than twice as likely to be going without essentials as those with more than £1,000 in savings (JRF, 2023).

Savings products from money boxes to FinTech solutions are also seen as a tool for building responsible financial behaviour amongst children. The Child Trust Fund ensured that all children had an account, but since this stopped in 2011, there has been no universal approach for children. Junior ISAs are the nearest alternative but rely on family members to open the account and make contributions. There does not appear to be any reliable data on the number of children with a savings account, the nearest being HMRC data, which covers adults under 25 and combines all ISAs together.

Incentivising active savings behaviours

Government initiatives such as Help to Save seek to increase household savings, and Individual Savings Accounts (ISAs) aim to incentivise people to save or

[14] See for example: Processing personal data for Individual Voluntary Agreement Research - GOV.UK (www.gov.uk) and Guidance on monitoring insolvency practitioners: Advertisements, marketing and debt advice - GOV.UK (www.gov.uk)

[15] Earlier research in the UK and elsewhere found that some low-income households did not have an incentive to hold savings because they would lead to a reduction in benefit income (Gabor and Tancau, 2016).

invest for a variety of purposes, from rainy day savings to home purchase or retirement.

Almost 360,000 Help to Save accounts have been opened since it was launched, and the scheme has been extended until 2025 (HMRC, 2023). Even so, the number being 'helped' is a tiny fraction of the number of people with low financial resilience who might be able to benefit from such a scheme. This may be due to lack of awareness or the design of the initiative. For example, the bonus system has complex rules that can limit the amount actually paid, making it impossible to calculate the effective interest rate in advance. The Recent consultation responses on ways to simplify the scheme have not yet been reported[16].

A recent savings trial (Nest Insight, 2023) suggests that automatic savings deductions may provide an alternative approach to build resilience amongst some groups, although this solution relies on people being in work and having employers who offer such schemes.

Supporting investment decisions

ISAs are designed to appeal to taxpayers and offer the possibility of holding stocks and shares. However, the Family Resources Survey indicates that only 8% of adults in the UK hold any kind of stocks and shares (outside of their pension), indicating that this has not motivated large numbers to consider such investments (DWP, 2023a). Indeed, according to this dataset, a larger proportion of adults (12%) holds premium bonds (a prize-based savings product).

Whilst savings products are relatively simple, investment opportunities are diverse and complex. There are increasing concerns about the influence of social media on investment behaviour, especially amongst younger adults (Espeute & Preece, 2024). Ideally people would seek formal advice before investing, but advice provision is expensive, and depending on whether the costs are borne by individuals, charities or the state, the overall cost limits supply or demand. For example, according to Which?, the FCA report that investment advisors charge around 2.4% of the amount being invested for initial advice, as well as ongoing fees; the same article also reports data from VouchedFor indicating that the average flat-rate fee was £196 per hour (Thomas, 2024).

Pensions

- Amongst working adults, those in low-income households (46%) and the self-employed (32%) were least likely to have a private pension in 2022 (FCA, 2023c).

Retirement savings products are an important component of financial inclusion in the UK, contributing to financial wellbeing and security in later life. Whilst progress has been made on certain aspects, such as increasing pension enrolment (McKay et al., 2022), challenges remain. The large-scale shift from defined benefit (DB) pensions to defined contribution (DC) products has left people facing complex decisions both during the accumulation process and on reaching retirement (the decumulation period). The following paragraphs provide some information about the current situation – more background information on the evolving policy landscape is available in Mirza-Davies and Zaidi (2023).

Accumulation

The accumulation of pension savings primarily occurs through a combination of contributions towards the state pension and voluntary contributions into a private or workplace pension. People can also, or instead, save for retirement outside of a pension, but they will miss out on tax advantages by doing so; they may also miss out on employer contributions if they opt-out completely.

Given the historically low level of voluntary pension contributions, auto-enrolment (AE) was introduced in October 2012 to provide those in employment with an additional savings vehicle to increase their retirement income. At the time of writing, employees aged 22 and above earning more than £10,000 are automatically enrolled by their employers into a saving scheme. Initially employers and employees each contributed 1% of eligible earnings into savings. This increased to 2% from employers and 3% from employees in April 2018, and to 3% and 5% respectively in April 2019.

AE has been successful in increasing the number of savers and the amount of saving for those who otherwise would not have saved for retirement (McKay et al., 2022), but (for now) certain groups remain outside the scope of AE, potentially leading to greater disadvantage (Scottish Widows, 2022). Future plans, which the government has announced

16 Help to Save Reform - GOV.UK (www.gov.uk)

it supports[17], will bring the age of participation down to 18 and remove the lower earnings limit, but it is not clear whether this will be enough to improve savings adequacy. Indeed, young adults are facing greater financial insecurity than previous generations. Labour market insecurities and wider life course and socio-economic changes such as longer educational careers, more student debt and increases in housing costs all add to the challenges of saving into a pension. The rise in self-employment also presents a key challenge for policy makers seeking to boost pension savings.

In 2022, the working adults most likely to have had no private pension provision were either in low-income households (46%) or self-employment (32%) (FCA, 2023c). If insufficient income and competing demands on that income are at the heart of the problem, awareness raising and pension engagement interventions are likely to be of limited value to certain groups, potentially increasing inequality.

Nevertheless, long-awaited pensions dashboards, providing consumers with easier ways to find and view information about their pensions, may go some way towards helping those with existing provision to boost their savings and plan more effectively for their retirement. Similarly, and as suggested by the Financial Inclusion Commission, giving people a clearer picture of their retirement savings throughout their lives and the option to seek advice or guidance to make better financial judgements before it is too late, could also serve to improve pension planning and savings adequacy (FIC, 2021a). But these measures will not address the problem for those without any private pension savings.

Some of the participants in CHASM's recent pension research (Overton & Smith, 2022) felt that more needed to be done to support saving among the self-employed. As Greg explained:

> **"It seems to me that most of these products are designed for people who are in a standard situation, they're in a job, they've got employers...and they're not designed for people who don't fit in those boxes. People who aren't in those boxes need something that makes it easier for them to save, so in my case, if there was some mechanism where it happened without me knowing it, so within my tax system or something if a certain amount of money was taken away, something you could opt into where automatically someone, somewhere, would be taking money away from my bank account every month and saving it into a pension. I would have quite liked that because it would have taken away one of the decisions I had to make about it....So I think it's having products that meet more complex lifestyles. That would be really quite helpful.**
> **(Greg, 66,).**

Decumulation risks and challenges

The decumulation process requires retirees to manage pensions from different sources. The Pension Schemes Act 2015 and the Taxation of Pensions Act 2014 have given people more flexibility and choice over how they access their DC pension savings. Prior to its introduction, individuals could access 25% of their savings in the form of a tax-free lump sum, but (most) were required to purchase an annuity[18] with the remaining 75%. Now, annuity purchase is no longer required, and from age 55, individuals with DC pension savings can access their retirement pot in one of four ways: take a lump sum for the full amount of the pot, purchase a drawdown product and access their money over several years, purchase an annuity, or take an 'uncrystallised funds pension lump sum' (UFPLS) for a proportion of their pot and leave the remainder invested.

This approach encourages short-term thinking with potentially serious implications for retirees' future financial resilience. Problems are compounded by the complexity of accessing defined contribution pension savings to produce a retirement income. While some have benefitted from the reforms, others, particularly those who do not have access to regulated financial advice, are facing significant challenges and risks to their retirement security. In its Retirement Outcomes Review, the Financial Conduct Authority (FCA) (FCA, 2018) raised concerns about the increasing number of people entering income drawdown arrangements without taking financial advice or shopping around, as well as the number of consumers withdrawing their DC pension pots in full to move savings elsewhere. This is evidently an ongoing problem with very recent market data from the Association of British Insurers (ABI) showing that over half of savers with a DC pension

17 https://hansard.parliament.uk/commons/2023-03-24/debates/AF8F0C2A-CFE7-40B9-86FE-30DC55166184/Pensions(ExtensionOfAutomaticEnrolment)(No2)Bill

18 An annuity is type of insurance product that provides a regular retirement income for life or a defined period

made a decumulation decision without professional advice (ABI, 2023a). A recent Social Market Foundation report also found that just 14% of those accessing their DC pension pot for the first time had used Pension Wise – the free information and guidance service set up in the wake of 'pension freedoms' to support people with a DC pension (Corfe et al., 2022; HM Treasury, 2015). Commenting on the 'vital' role of this service and ongoing problems with uptake, the Financial Inclusion Commission recommend better promotion of Pension Wise and an automatic enrolment into a Pension Wise interview throughout a person's career, in their written submission to the Work and Pensions Select Committee.

Reports of fraud and scam activity have also caused concerns about unintended consequences of the reforms (House of Commons Work and Pensions Committee, 2021) while other research has highlighted the difficulties consumers face in navigating a highly complex system and making informed decisions (NatCen Social Research, 2020; Overton & Smith, 2022). High fees (both of pension products and the cost/accessibility of financial advice) (Lindley, 2019; NatCen Social Research, 2020), the risk of market downturn, and low levels of market innovation and choice (Lindley, 2019) all add to the potential for financial exclusion among those with smaller pots and limited access to advice.

In response, the FCA has taken steps to help consumers make better choices through improved communication at different points in the decumulation journey. The FCA is also undergoing an advice and guidance boundary review and currently consulting on the proposals set out in the paper designed to close the advice gap (FCA and HM Treasury, 2023). These 'remedies', however, continue to rely on the assumption that with the right information, knowledgeable consumers can make informed decisions that are best suited to their needs, circumstances and objectives, despite long- standing evidence to the contrary (Ben-Shahar & Schneider, 2011; O'Mahony & Overton, 2014; Wilhelmsson, 1997)which encourages the drawdown of housing equity to meet financial needs in later life, it is anticipated that the use of equity-release products will become increasingly prevalent. In the last decade, and reflecting the strategic significance and high risk associated with this section of the home finance market, targeted equity-release products (lifetime mortgages and home reversion plans. It is unsurprising, therefore, that problems remain. Among them is *the unequal distribution of access to regulated financial advice and associated issues of affordability, availability and accessibility.* In their in-depth, qualitative study on DC pension decumulation, Overton and Smith (2022) found that regulated financial advice was perceived as too costly by many in need of decision-making support while others were being excluded from accessing advice because advisers considered their pot to be too small. This inequity in the system was meaningfully summed up by one study participant who said:

> **People who have got the money to pay for the good financial advice…, who have got a little bit more background knowledge and so on… the people who benefit from this system are the people who already have the money. The people who are going to lose are probably the people who have less money, who have less access to the internet, and people who have less general education and that sort of thing… Probably the people who least need it are going to get the biggest benefit, and the people who most need it are going to get the least benefit**
>
> **(Christian, age 63, non-advised DC consumer).**

Knowing who to trust and where to go for trusted advice was another barrier. Many participants did not know where to turn and were instinctively suspicious given the numerous 'horror stories' about people who had been led astray by irresponsible advisers.

> **Whatever I decide to do, I don't want anybody to try and hoodwink me into anything. I don't want to end up like those people that lost all their money. You know, investment or something and didn't get a return**
>
> **(Astrid, 58, non-advised DC consumer).**

> **It's one of those things. You just think, 'Oh, actually, I just wish I had a family friend that was a pension adviser or financial adviser and then I'll be absolutely fine'…Even picking, 'Oh, pick an independent financial adviser'. Well, how do I do that?**
>
> **(Annette, 59, non-advised DC consumer).**

Uncertainty about the future and inflexibility of the current system

The premise of providing individuals with 'choices' is that they are competent to make good decisions for themselves. However, when the outcomes of decisions depend very much on factors that are difficult to predict today, it is difficult to answer some of the important questions that, theoretically speaking,

pension decisions should be based on; for example, length of retirement, determining an adequate level of saving, sufficiency of saving (to produce a required level of income); future health and care needs; possible policy changes; and economic conditions (e.g. inflation). Estimating and assessing possible scenarios and evaluating various product options is no straightforward matter for an average individual, so access to safe, effective, and affordable decision-making support, in the form of regulated financial advice or even personalised guidance (ABI, 2023a; FCA and HM Treasury, 2023) is particularly salient in this context. That said, there will always be limits to the potential of advice and guidance in a system that requires individuals to make optimal decisions (even with advice) under conditions of uncertainty, suggesting that the solution perhaps lies in greater product flexibility – ones that meet the income needs of individuals throughout retirement – rather than more or better information and advice. Many of the participants in Overton and Smith's (2022) study felt that the existing pension system was inflexible to the needs and circumstances of real life, making it very difficult for people to make 'the right' decisions about their savings, investments and pensions:

> **Even the best adviser can't account for life getting in the way...I think that's what happens a lot of the time with pension planning. I'm very prudent with money, I did plan my finances and...I had money in property, and then an unexpected divorce cropped up, an unexpected illness cropped up. And I think even with the best and most prudent planning, with pensions, life happens. And that makes it very, very difficult. Stuff that doesn't fit onto graphs and spreadsheets can throw it all into kilter.**
> **(Kayleigh, age 63, one off advice appointment).**

> **You're expected to decide about something that will affect you in ten years' when tomorrow we're going to have a fuel crisis. Or a pandemic and the whole economy comes to a grinding halt and we're all furloughed, or you know, some debilitating disease and someone comes and takes your house off you. The products are just so inflexible. They're 19th Century products for the 21st Century world.**
> **(Greg, 66, drawdown, non-advised).**

Insurance

- By Jan 2023 13% of people who had held insurance in May 2022 had cancelled and/or reduced cover specifically to save money due to the rising cost-of-living (FCA, 2023d).

Limited data and uncertain levels of exclusion

Insurance is a difficult market to monitor, and it can be hard to assess whether demand is being met.

There is very little data on insurance refusals, and whilst the Financial Ombudsman Service analyses complaints about insurance refusal, not all consumers will complain, and not all complaints are upheld. Research reported by the FCA in 2016 found that fewer than one in 50 price comparison enquiries resulted in fewer than five quotes (FCA, 2016). This indicates widespread availability of policies, but not necessarily at an affordable price or with terms and conditions that meet the need of the potential customer. Furthermore, recent reports suggest that some providers are pulling out of the car insurance market[19], suggesting that supply-side issues may create difficulties for car owners in the coming months.

It is also worth noting that various insurances (e.g. home contents, some car insurances and travel insurance) may cover more than one adult in a household. This makes it more difficult to interpret data on refusals and individual level data on financial inclusion.

Insurance is a complex market made up of very different products

Insurance may be compulsory, optional, or sold as an add-on to other financial services. Barriers to access include, but are not limited to, cost, negative credit records and self-exclusion.

According to HM Treasury, "Ensuring everyone has equal and affordable access to insurance products remains a key part of the government's financial inclusion priorities" (HM Treasury, 2022a). The Government has looked at pre-existing medical conditions, motor and travel insurance for older financial consumers, addressing the loyalty penalty, providing insurance for homes in areas known to suffer from flooding, and home contents insurance for low-income renters.

[19] RSA's departure from UK car insurance will harm consumers (lifeinsuranceinternational.com)

It can be hard for consumers to know when they need insurance. The British Insurance Brokers' Association (BIBA) reported in October 2019 that almost a quarter of UK visitors to EU27 countries had no travel insurance (BIBA, 2021), suggesting that they believed that they had cover, or were not taking additional risk by being in Europe. Whilst UK visitors to countries in the European Union do benefit from the European Health Insurance Card, this does not provide comprehensive cover, leaving travellers to bear significant costs in the event of theft, cancellation or the need for repatriation, for example.

The range of add-on insurances available can lead to consumers holding unnecessary insurance, or duplicating cover in some areas. Everything from concert tickets to mobile phones can be insured, and travel or cancellation insurance is commonly offered to people buying travel tickets, hotel rooms or package holidays. Shops and online retailers frequently offer the option of protecting a specific item such as a TV, washing machine or a sofa against accidents or breakdown[20], potentially duplicating home insurance cover or cover provided by a credit card. Additional insurance options are also common with car hire. Whilst any of these products could be beneficial, some risks may be covered by insurances provided as part of a packaged bank account or other policies the consumer already holds, such as home contents, car or travel insurance.

Complex and intrusive application processes

Insufficient knowledge and low general literacy skills are a barrier to financial inclusion, and can be a barrier to insurance in particular. The University of Nottingham reported that 'all of the [insurance] policies tested had sections that caused comprehension difficulties for the subjects and required participants to have at least A-level education to be easily read' (University of Nottingham, 2018). However, whilst contracts can be written in plain English, the process of choosing insurance is still going to be complex. As with pensions, it is impossible to test the service or its benefits in advance, and it can also be difficult to know the level of cover needed.

Comparison sites have helped to remove some of the complexity of choice, but there is some concern that they have introduced new barriers to inclusion. The simplified process of applying for insurance online, combined with the requirement that insurers ask all the questions they need to provide cover before the contract is signed, may mean that some people feel that they do not meet the criteria for any insurance (Financial Inclusion Commission, 2017). Pre-populated forms can potentially lead people to submit incorrect information (FOS, 2023b), whilst the simplification of certain questions can give the impression that certain characteristics make an individual unsuitable or undesirable as a client.

At the same time, some people may find the process of applying for insurance intrusive, particularly if information such as criminal record or medical history is required. Whilst it may be easier to provide such information online than face-to-face, concerns over privacy and data protection remain (BritainThinks, 2019).

Opaque pricing models and use of credit records

The overall price of insurance is related to a variety of factors, some of which consumers have little or no control over. These include the amount of cover sought and risk being covered, actuarial risk calculations and previous claims. Prices also depend on how the premium is paid. Currently, monthly premiums are typically more than 1/12th of the annual premium[21]. This is because monthly payments are treated as credit, resulting in pricing based on the applicant's credit record[22], making it harder for those unable to pay in one go to purchase the insurance they require. Combined with this, the most flexible component of an insurance policy is often the excess, meaning that those who can least afford insurance in the first place are most likely to be faced with a very high excess in the event of a claim. In this situation an insurable incident may well lead to financial difficulties.

There are also concerns that some insurers may be using a large amount of very granular data when assessing potential policyholders, resulting in highly personalised quotes and the likelihood of pricing some

[20] Purchases made by credit card may also be protected to some extent by Section 75 of the consumer credit law.
[21] However, recent reports suggest that the FCA may address this (Abiona, 2024).
[22] It appears that whilst insurance companies use credit scores as part of their assessment they do not share data. Experian note "We would like to see insurance companies share instalment payments with the CRAs. This is particularly important for providers specialising in the student market, to help them establish a credit history early in their credit journey" (Experian, 2018).

people out of the market. Research by the FCA in 2016 did not find evidence of this (FCA, 2016), but access to large datasets, improved processing power and the use of Artificial Intelligence (AI) has expanded since then, meaning that this remains an area to monitor. Furthermore, since insurers draw on credit records, the types of data that they have access to may also increase as credit bureaux expand their own sources.

Personal characteristics and circumstances associated with financial exclusion

This section looks at various forms of financial exclusion, paying particular attention to characteristics associated with challenges related to credit, pensions and insurance.

Exclusion amongst young and middle-aged people

Accessing credit and insurance

Young people can find it more difficult than other working age adults to access affordable mainstream credit when they need it, because there is little or no information available in their credit record. Recent research found that 36% of 18-24 year olds and 35% of 25-34 years olds were turned down for credit between April 2022 and April 2023, making them the age groups most likely to face refusal (MaPS, 2023c), although this may also reflect a higher propensity to seek credit. Industry research suggests that younger adults also have a larger than average likelihood of being 'invisible' because they have no relevant information on their credit records (Experian, 2018)[23], and adults aged 35 or below account for around 45% of people with thin credit files (LexisNexis, 2022). Care-experienced young adults may be particularly likely to be excluded in this way (ONS, 2022c); more research could be useful to understand this group.

At the same time, MaPS reports that 39% of young adults aged 18 -24 are in need of debt advice[24], compared with 18% of adults (Das, 2023). Those most likely to need such support typically work in precarious jobs, live in deprived areas, and are more likely to be from an ethnic minority community.

Young people also face various challenges accessing insurance. They typically have lower incomes, making it more likely they will want to pay monthly, requiring a credit record. They may also face higher premiums for products such as car insurance based on their inexperience and risk profile[25].

Saving for retirement

Currently, young adults are unlikely to have a workplace pension, since employees under the age of 22 are exempt from AE. Whilst they can ask their employers to enrol them, there appears to be no data on how many do so. Recognising the current gap in provision, the Department for Work and Pensions (DWP) has supported proposals to expand AE to reach employees from the age of 18 at all levels of income (DWP, 2023b), although as it is yet to be seen whether younger adults will be more likely to opt out.

Changes in the system now will not address gaps for those who were previously excluded. AE is unable to make up for the relatively low savings amongst workers who were not offered pensions through their workplace before. For middle-aged groups, this includes those that had no pension before the introduction of AE in 2012.

Exclusion in older age

General and digital exclusion

Older adults are prone to widespread financial exclusion as they have lower-than-average use of current accounts, possibly due to bank closures, digital exclusion, or reliance on family members. Lack

[23] Note that in this report, Experian is discussing the business case: "Consumers with thin or non-existent files are a valuable opportunity, and 5.8 million people are simply too significant to ignore. In many cases, these are creditworthy individuals who are being passed over due to eligibility requirements rather than their ability to repay the debt".

[24] Described as 'a regulated advice process including a full review of a client's personal circumstances, not just receiving general guidance'.

[25] See for example Confused.com data reported by the BBC https://www.bbc.co.uk/news/business-67991154

of a current account leads to older adults having a very thin credit files (Age UK, 2016; Experian, 2018; Select Committee on Financial Exclusion, 2017) making it difficult to access credit and other services reliant on credit records.

Older adults are more likely than others to face disadvantage due to digitalisation and branch closures. The FCA report that of the 7% of UK adults who were digitally excluded in 2022, 73% of those were aged 65 or over (FCA, 2023e). Furthermore, whilst 33% of adults with a day-to-day account carried out banking activities face to face in a branch in the 12 months to May 2022, this increased to 50% amongst adults aged 75 and over (although down significantly from 82% in 2017) (FCA, 2023e), highlighting the higher demand amongst this age group.

Complex challenges

Older adults also face complex financial decisions, from managing their retirement funds to potential challenges that may require access to advice such as finding more appropriate housing, releasing equity in their home or funding health and personal care. Those in privately rented accommodation can struggle with unpredictable rental costs and the possibility of insecure tenancy (IFS, 2023) which impact on pension decumulation decisions and ongoing financial security.

Older adults are also particularly prone to a variety of scams and frauds (Age UK, 2015, 2018), exacerbated by physical and cognitive decline and living alone (Age UK, 2018; G20 GPFI, 2019).

Income-related factors

Low income creates financially driven exclusion, increasing household expenditure as well as reducing access to key financial products and services. The Department for Work and Pensions report that 6% of UK household were food insecure in 2021-2022 (DWP, 2023a). Furthermore, Fair by Design found that around a quarter (24%) of British households experienced at least one poverty premium, increasing to 28% in the North East of England, and 26% in London (Fair by Design, 2022).

Challenges making-ends-meet

The cost-of-living crisis has been particularly detrimental for lower-income households. Citizens Advice note that low-income clients are struggling with the increased cost of essentials such as housing, childcare and energy (Wild, 2023). They found that, across the UK, the poorest 10% of households spent 11% of their income on energy costs on average, whilst people turning to Citizens Advice for debt advice were spending an average of 13% of their income on gas and electricity (Wild, 2023).

Furthermore, many low-income people in receipt of benefits face deductions at source. Wild (2023) found that 45% of Universal Credit claimants had money deducted from their income to pay back money owed. One in five of those facing deductions went without more than 20% of their benefits, increasing the challenges they faced making-ends-meet[26]. Such deductions include overpayments caused by delays and mistakes that are outside of the recipient's control, and repayments on hardship loans, for example.

Reduced opportunities to save for retirement

Over three million low-income employees are exempt from AE workplace pensions (Pensions Policy Institute, 2023). Whilst this is due to be addressed going forward, there will remain a cohort with below average savings.

The gap in pensions savings is significant. Aviva, in its written evidence submission to the House of Commons Work and Pensions Committee in February 2022, highlighted that an employee earning a national living wage working two days a week might only receive £7.80 as an employer contribution (0.12% of the earnings) compared with £1,313 (2.6% of the earnings) for an employee who earned £50,000 (Aviva, 2022). For those in multiple low paid jobs, the percentage of their income paid into pensions will be even lower, since the threshold applies to each employer. Whilst future changes are to be welcomed, these groups are likely to remain disadvantaged by this gap in provision unless it is explicitly addressed.

Excluded from benefits

It has been estimated that over 1.3 million people in the UK, including 53% in work, are unable to access essential government support as their legal status means that they have 'No Recourse to Public Funds' and 81% of them are behind on one or more bills (C. Smith et al., 2021). This means that even in times of

[26] See also https://www.nidirect.gov.uk/articles/money-taken-your-universal-credit-payments

need, they cannot claim Universal Credit; but they also have no access to Child Benefit, social housing, or support such as free school meals or Disability Living Allowance. Smith et al (2021) note that the policy applies to a significant number of people who have been in the country for five years or more, including key workers and parents with children who are British citizens, and that it is particularly affecting people of colour.

Self-employment

Limited financial security

Around 15% of the UK working population are self-employed (MoneyHelper, 2024b)[27]. They do not enjoy the same level of financial security as those in employment. During their working lives, not only do they have uncertain, fluctuating incomes to manage, but they also have (almost) no access to statutory sick-pay, maternity/paternity pay or paid leave[28]. Furthermore, recent reporting from Citizens Advice shows that 60% of self-employed people seeking debt advice were in negative budget, compared with 40% of those in full-time employment (Wild, 2023). Unlike employees, the self-employed are also expected to make tax payments in advance, further limiting their cashflow and ability to earn interest on savings.

Unpredictable incomes can make regular retirement saving difficult for the self-employed (Nest Insight, 2022). In addition, the successful AE approach discussed elsewhere in this report relies on the relationship between employer and employee, a model that cannot be replicated for people who work for themselves. Private pensions are an option for some self-employed workers, but they would have to contribute significantly more to make up for the lack of employer contributions if they wanted to achieve the same level of security in retirement as employees with similar incomes from work. It is therefore unsurprising that IFS reported in 2020 that only 18% of self-employed workers were saving into a pension (IFS, 2023). One-third had a workplace pension although less than one in five were paying into it, another third had a personal pension and only about half of these individuals saved into it. The remaining third had neither type of pension.

Gender

Persistent gap in savings for retirement

Several pension scholars have criticised the design of British pensions policy for systematically producing better outcomes for men than women (Grady, 2015; Price, 2007) as work patterns and earnings history determine pension outcomes.

Savings rates in the UK, as a share of income, are now broadly comparable between men and women with 55% of working age men contributing to a workplace or personal pension in 2021-2022, compared with 52% of women (DWP, 2023a). The participation gap for AE is 2% in favour of women. However, there remains a persistent wealth gap that continues to drive gender inequalities in retirement security (DWP, 2023c). Women's contributions remain lower (DWP, 2023c; Scottish Widows, 2022), as a result of the longstanding gender pay gap and other structural disadvantages (R. Cook, 2024). Latest government data reveal a 35% gender pension gap (DWP, 2023c), meaning that women's private pension pots are worth around 35% less than those of their male counterparts by the time they reach 55[29]. When considered alongside the fact that women, on average, tend to live longer than men and are more likely to require care in later life, and more women have caring responsibilities than men, this inequality in pension wealth has far reaching consequences for financial inclusion and equity. And, as the Pensions Policy Institute's latest gender pension gap report emphasises, these consequences go beyond women's individual financial security to encompass significant broader societal and economic effects (Wilkinson & Adams, 2024).

This is not only a historical issue. DWP data for 2021 shows that women contributed a total of £52 billion via AE, whilst men contributed £62.6 billion (DWP, 2023c). This difference can be explained in part by the significant disadvantage created by low-income. Most low earners are women. If they earn less

27 See also UK self-employment figures 2024 I Statista
28 See for example Advice Scotland - Debt Advice and Information and Tackling Financial Insecurity Together I Turn2us
29 For employees eligible for AE, their Gender Pension Gap (GPeG) is slightly smaller at 32%. These figures are based on a gender pension gap in private pensions, defined as the percentage difference between female and male uncrystallised median private pension wealth around normal minimum pension age for those individuals with private pension wealth.

than £10,000 a year they are exempt from AE (i.e. they are not enrolled), and those earning slightly over the threshold will be making relatively small contributions compared with higher earners.

The different outcomes for men and women are a policy concern in terms of future old age poverty, as women's greater life expectancy requires a higher level of saving from which to draw down an income in old age. It is unlikely that most women will be able to make up the shortfall in savings without help, even if motivated to do so.

At the same time, recent research highlights new concerns. Men are more likely than women to have cut back on workplace pension savings in recent months (with 29% of men and 19% of women reporting they had done so) (Scottish Widows, 2022). This indicates that the overall benefit of AE and the impact of the current cost-of-living crisis require nuanced analysis over the coming months to make sure that both men and women build essential retirement savings.

New forms of exclusion following a relationship breakdown

Limited evidence suggests that financial exclusion may increase following a relationship breakdown. Separation can leave people facing difficulties accessing credit for example (LexisNexis, 2022), perhaps because one partner took responsibility for financial matters or due to negative data relating to joint liabilities. Relationship breakdown can also reduce retirement security for those who were anticipating support from their partner's pension (typically women). A recent survey by a law firm suggests that many women did not get a legal settlement at all on divorce, and of those that did, 59% did not get a share of the pension (Greenwood, 2024). In some cases, this is because the woman chose a larger upfront transfer, but this may still lead to disadvantage in later life.

Households with children

Poverty and hardship, particularly for lone parents

In 2021-2022 almost three in ten children were living in poverty, rising to 44% of children in lone parent families (JRF, 2024). Households with three or more children are particularly likely to struggle (Try, 2024); changes to benefit rules mean that (with some exceptions) parents can no longer claim for third or subsequent children born after 6 April 2017[30]. Citizens Advice report that in a six-month period in 2023, 1.25 million children were living in a household that went without heating, hot water or electricity (Wild, 2023). One in five renters with dependent children (21%) reported running out of food or being unable to afford more between July and October 2023, compared with one in twenty adults (5%) across the population (ONS, 2023b). Furthermore, adults with children (30%) have been found to be more than twice as likely to be declined credit as those without (14%) (MaPS, 2023c).

Low-income lone parents face a double poverty premium, created by the combination of the higher cost of living faced by low-income households who are unable to take advantage of deals aimed at higher income customers and additional costs incurred as a single adult. Between July and October 2023, three in five lone parents (61%) found their rent or mortgage payments were 'very' or 'somewhat' difficult to meet (ONS, 2023b). But it is not only that lone parents must pay housing costs and utility bills out of one income, but, for example, the single adult discount on council tax is only 25%, whilst the unit cost of many household essentials is higher when buying small quantities.

Given the additional squeeze on budgets, it is unsurprising that amongst Citizens Advice debt advice clients, lone parents in full time work are more likely to be in negative budget than either couples without children or other single adults who work full time (Upton, 2023). Lone parents are also less likely than other adults to hold insurance (IFoA and Fair by Design, 2021).

Similarly, savings data show how few single adults and lone parents have any additional financial resilience. DWP report that in 2021-2022 single, working-age adults were least likely to have savings (28% of men had no savings, and 25% of women) (DWP, 2023a). Over half of lone parents (52%) had less than £1,500; 26% had no savings at all.

[30] Families with more than 2 children: claiming benefits - GOV.UK (www.gov.uk)

Ethnicity

Multiple sources of exclusion

Joseph Rowntree Foundation notes that over half of people in Bangladeshi (53%) and Pakistani (51%) households were living in poverty between 2019-2020 and 2021-2022. Citizens Advice data on their own debt advice clients suggests that Asian and British Asian clients have a larger than average budget deficit (Wild, 2023). The FCA Financial Lives Survey indicates that people from ethnic minority backgrounds are less likely to have financial resilience, hold a private pension or have savings (FCA, 2023b).

ONS reports that Asian and Asian British adults (56%) and Black, African, Caribbean or Black British adults (51%) were more likely than average (40%) to report that their rent or mortgage costs were 'very', or 'somewhat' difficult between July and October 2023 (ONS, 2023b). However, ONS data also suggests that whilst only 47% of Black, African, Caribbean, or Black British were financially resilient[31] this increased to 77% amongst those headed by an Asian or Asian British adult.

Information about financial product holding by ethnicity suggests that people from Black, Asian and other ethnic minority households are less likely than others to hold insurance (IFoA and Fair by Design, 2021)[32]. IFoA (the Institute and Faculty of Actuaries) and Fair by Design also note that research by the Personal Finance Research Centre suggests that Bangladeshi, Pakistani and Black people in the UK are more likely to live in deprived areas, which in turn can impact on the cost of insurance (IFoA and Fair by Design, 2021). Citizens Advice also identified an 'ethnicity penalty' in car insurance costs paid by their clients and concerns about the lack of transparency in the approaches used (T. Cook et al., 2022). They undertook further mystery shopping research on this and found that people living in areas with a high concentration of Black and South Asian people paid at least £280 more than those living in areas where the population is largely White.

Housing tenure

Varying cost of rent

ONS data from 2022 looking at England, Wales and Northern Ireland shows that even 'lower-priced' rents were above 30% of income for lower-income households (ONS, 2022b). Private rental prices are a particular issue in London, where median rent in 2022 was £1,450, equivalent to 35% of median income across privately renting households in the same region. Looking more broadly across England, Wales and Northern Ireland, ONS found that private rental was cheapest in Wales, and represented a lower percentage of median income.

Credit and insurance exclusion

People who rent their homes are amongst the groups most likely to be declined credit (Dibb et al., 2022) and access debt advice (Money Advice Trust, 2023). Furthermore, Aviva found that 61% of low-income renters have no home contents insurance (Aviva, 2019), and just 23% of low-income private renters hold contents insurance (Oakley & Kirkup, 2023).

Limited digital connectivity

Data from England indicates that 17% of social tenants (approximately 700,000 households) do not have internet access at home (Department for Levelling Up, Housing and Communities, 2023a). This may limit opportunities to use digital financial services and access up-to-date information online, although recent reports suggest that 98% of UK adults now have a smartphone (Baker, 2024), indicating that they are accessing the internet somewhere, which may be via data on their phone, or using Wi-Fi services at work, in public spaces or at other people's homes.

Low savings, but support from credit unions and CDFIs

The vast major of social renters (76%) have no savings (Department for Levelling Up, Housing and Communities, 2023a). However, they are also one of the main groups of recipients of loans from Credit Unions and CDFIs. Data from Q1 2023 showed that 47% of new loans from such lenders were issued to social housing tenants, with borrowing of £862 on average (Fair4All Finance, 2023d).

[31] Their measure for resilience is holding sufficient funds to cover a 25% fall in household employment income.

[32] IFA and Fair by Design note that the Commission on Race and Ethnic Disparities which since found aggregated terms such as 'BAME' to be unhelpful and made a recommendation for ending their use.

Repossessions

According to the Money Charity, the Ministry of Justice has reported that between July and September 2023 in England and Wales, 45.5 mortgage possession claims were issued every day, and 10.5 mortgage possession orders were made (The Money Charity, 2024).

Challenging contracts

Homeowners can face challenges around the contracts associated with their housing. These include various problems with leaseholds (Department for Levelling Up, Housing and Communities, 2023b), managing repayments after selling a property in negative equity[33], getting out of, or remortgaging on, 'help-to-buy' schemes[34], and choosing or trying to get out of equity release contracts.

Geographical differences

Varying levels of poverty and financial difficulty across the UK

There are regional differences in financial inclusion across the UK, with variations depending on the measure used. Recent data from DWP reported by Joseph Rowntree Foundation shows that across the UK, people living in the West Midlands have the highest likelihood of living in poverty (27%), and those in Northern Ireland have the lowest (16%) (JRF, 2024).

Research from October 2023 finds that 82% of adults in Northern Ireland and 81% in Greater London reported financial stress, compared with 62% of adults in Wales and 69% in Scotland (Boyle, 2023)[35]. Wales has the highest percentage experiencing financial difficulties, at 21% (Evans et al., 2024).

Research on financial wellbeing in Scotland shows that 4.6% of households in Scotland accessed a foodbank in the four weeks before being surveyed, compared with a UK average of 3.2%, whilst people in large urban areas in Scotland had much lower levels of financial wellbeing across several measures than their counterparts in rural areas (Evans et al., 2024). More than three in ten of those in the most deprived areas of Scotland were experiencing serious financial difficulties, although on average across Scotland, the proportion experiencing such difficulties is in line with the UK average (17%).

High-cost credit and poor credit records

Areas with high levels of poverty and inequality tend to be dominated by high-cost credit providers (Appleyard et al., 2023), leading to assumed or actual exclusion from mainstream borrowing options.

Recent data from MaPS indicates that people in London were most likely to be turned down for credit (31%) (MaPS, 2023c). Higher than average proportions of adults in the North West (8.5%) and North East of England (8.4%) had 'derogatory' data on their credit file (compared with the UK average of 6.5%); these two regions also had the highest proportion of residents with at least one subprime credit application (LexisNexis, 2022). In contrast, just 1.7% of people in Northern Ireland had similar information on their file, perhaps related to wider access to credit unions.

Varying debt advice needs

MaPS have created a debt advice need score based on annual surveys of 22,000 respondents and produced a heatmap to show where needs are greatest (MaPS, 2022). Their measure looks at *'Strong indications of needing debt advice: Currently behind on at least one priority bill, facing early or late-stage creditor action and using credit to pay for essentials'*. Unsurprisingly needs are clustered in London and other large cities, but there are also smaller towns and cities in all four nations with high levels of need.

Data-based exclusions

Geographical data such as crime rates and likelihood of floods or landslides are incorporated in the actuarial models used for insurance pricing. Whilst the Flood Re policy has improved access to, and affordability of, insurance for some people in areas with a high-risk of flooding (Browning, 2023), other factors remain unmitigated (IFoA and Fair by Design, 2021).

[33] See, for example: Negative equity: what it means and what you can do about it I MoneyHelper
[34] See, for example: How To Remortgage Your Help To Buy (hoa.org.uk)
[35] Financial stress is not defined.

Prisoners, ex-offenders and their household members

Studies have shown that prisoners, ex-offenders and their household members are more likely to find it hard to access credit and insurance, and may have an unmet need for debt advice (including whilst in prison) (ABI, 2023b; Wyman, 2018). According to the Ministry of Justice, 1.36 million people were dealt with by the Criminal Justice System in 2022 (Ministry of Justice, 2022). DBS Check reports that over 11 million people have a criminal record, and suggests that those with records related to theft, fraud or substance abuse might find it more difficult to get insurance and find work or housing[36]. Criminal convictions are higher amongst men, but also higher amongst groups facing other forms of exclusion. The ONS reports, for example, that young adults who received custodial sentences were more likely to have low educational attainment and have been in care or identified as vulnerable in childhood (ONS, 2022c).

As Wyman notes of prisoners 'They may have had debt issues before going into prison; they may incur further debt while they are in prison, and their families may incur debt while they are serving their sentence, particularly if the offender was the main breadwinner', making them particularly likely to benefit from debt advice (Wyman, 2018).

The Association of British Insurers (ABI) reports difficulties amongst people with convictions both in terms of accessing suitable insurance and claiming on existing insurance policies (ABI, 2023b).

People with challenges related to health, disability or neurodiversity

Financial hardship, exclusion and inequality

According to the Family Resources Survey (FRS), 16 million people have a disability in the UK, including 11% of children, 23% of working-age adults and 45% of adults over pension age (Kirk-Wade, 2024). Citizens Advice report that in a six-month period in 2023, 2.2 million disabled people went without heating, hot water or electricity (Wild, 2023). Half of all disabled[37] adults report that they do not expect to save money in the next 12 months, 11 percentage points above the average (ONS, 2023b).

People with disabilities have been found to be less likely than the general population to hold insurance, more likely to experience poverty and more likely to pay a poverty premium (IFoA and Fair by Design, 2021)[38]. Some face difficulties accessing insurance and insuring properties if they have to spend long periods away from home due to their condition[39].

It is also becoming apparent that certain groups that are vulnerable to financial exclusion are also more likely to fall victim to scams and fraud, including people with mental health challenges or dementia (Winchester, 2021). A poll for the Money and Mental Health Policy Institute found that 23% of people who had experienced mental health problems had been a victim of online fraud, compared with eight per cent of the rest of the population (Holkar & Lees, 2020).

The financial wellbeing of disabled people varies by age and type of impairment (Evans et al., 2023). It is lower amongst working aged disabled adults, particularly if they have low income or receive benefits. Compared with people with other forms of disability, financial wellbeing is low amongst those with physical mobility impairments, learning difficulties, mental health conditions, memory-related conditions, chronic

[36] How A Criminal Record Affects Your Life - DBS Checks

[37] Disabled persons are identified as follows: 'a person who has a physical or mental health condition or illness that has lasted or is expected to last 12 months or more that reduces their ability to carry-out day-to-day activities'.

[38] UK Aid also discuss disabilities and financial inclusion in a developing country context noting barriers such as inaccessibility, stigma, prejudice and digital limitations that are likely to be relevant in the UK context (UKAid and WOW, 2021)

[39] See for example https://www.moneyhelper.org.uk/en/family-and-care/illness-and-disability/buying-insurance-if-youre-ill-or-disabled and https://www.ageuk.org.uk/information-advice/health-wellbeing/health-services/your-hospital-stay/

fatigue, and other non-visible conditions as well as those with conditions affecting their appearance, disabilities that started suddenly and multiple conditions. Evans et al (2023) report that more than half of the disabled people surveyed (53%) faced difficulties getting to a bank branch. Access to a cash machine was a problem for 37%.

Observed relationship between financial difficulties, anxiety and mental health

Whilst it is difficult to ascertain the cause-and-effect relationship between financial difficulties and mental health, there are clear signs that the two issues are linked. Money and Mental Health report that more than 1.5 million adults in England faced problem debt and poor mental health, and 86% of people with mental health issues reported that their financial situation exacerbated their condition (Money and Mental Health, 2021).[40] StepChange reported that, in 2022, 40% of their clients had mental health conditions (StepChange, 2022). Furthermore significantly more mortgage holders with mental health issues (52%) than without (35%) took steps such as cutting back on essentials like food, energy and medicine in the last 18 months because of rising mortgage costs (F. Smith, 2024).

ONS report that anxiety is higher amongst people who are behind with their energy bills (49%) than those who are not (33%) (ONS, 2023a).[41] Data from November 2023 show that 31% of the population had felt anxious about their financial situation in the past month; 9% reported feeling 'hopeless' (Mental Health Foundation, 2023). Three in ten (31%) respondents to another recent survey reported that money worries had a negative effect on their mental health (Boyle, 2023).

Neurodiversity and financial exclusion

Little is known about the likelihood of financial exclusion amongst people with neurological or developmental conditions. Anecdotal reports in various newspapers[42] have argued that there is a financial cost to having Attention Deficit Disorder, for example, and other reports have touched on the lack of information about financial wellbeing amongst people on the autistic spectrum (Lurtz & Komarow, 2021; Mind Over Money, 2023). This is an aspect of financial inclusion that could usefully be investigated further.

Addictions and financial difficulties

Research shows that around 61% of UK adults participated in some form of gambling in the year to March 2023, and around 2.5% of adults had a high score on the Problem Gambling Severity Index (PGSI) (Gambling Commission, 2023). NHS England reports 280,000 hospitalisations in 2020-2021 were due to alcohol use (NHS England, 2021). Both forms of addiction have implications for debt management[43].

[40] Money and Mental Health also note that research from 2007 using data from 2000 onwards found that 'Financial difficulty drastically reduces recovery rates for common mental health conditions. People with depression and problem debt are 4.2 times more likely to still have depression 18 months later than people without financial difficulty'.

[41] Anxiety is not a synonym for mental health issues, but frequent anxiety can lead to mental health issues: https://www.mind.org.uk/information-support/types-of-mental-health-problems/anxiety-and-panic-attacks/about-anxiety/

[42] See for example 'I've lost over £4,000 because of the ADHD tax' - BBC News

[43] See for example: https://www.moneyhelper.org.uk/en/money-troubles/dealing-with-debt/tackling-problem-gambling-and-debt; https://www.bristol.ac.uk/science/research/gambling-harms/; https://www.stepchange.org/debt-info/addictions-and-debt-problems.aspx and https://www.drinkaware.co.uk/news/guest-blog-how-to-get-help-with-debt-stress-and-your-drinking

Conclusions and potential actions

Many people are facing exclusion, driven by a wide range of factors, from insufficient income to design features that leave certain groups unable to access the financial products that they could benefit from at an affordable price. There is no escaping the message that poverty is costing people dearly – not just in terms of the premium that people pay but also in terms of the missed opportunities caused by having insufficient income to make ends meet.

Action is required on many fronts. This section provides some examples of the types of approaches that could help to address the challenges identified in this report. Ideally all would be tackled through a National Strategy for Financial Inclusion and supported with robust research evidence.

The table below draws out possible approaches based on the findings above. It is followed by more detailed discussion of possible actions, drawn from a range of reports and resources.

Potential approaches to reduce financial inclusion

	Priority actions	Possible quick wins	Longer-term improvements
Poverty and exclusion	Reduce childhood poverty. Take immediate steps to reduce the numbers of people who face financially driven exclusion due to low-income. Work with organisations seeking to reduce the amount of unclaimed benefits. Enforce the provision of social tariffs for gas, electricity and broadband for a minimum of 3 years from setting up; explore whether something similar could be achieved for food through a partnership with supermarkets. Tackle the inequalities that are driving exclusion, including regional differences in access to cash.	Create a 'breathing space' for people facing deductions from Universal Credit. Continue to address instances of poverty premium. Target specific forms of poverty, including furniture poverty, transport poverty, and school holiday provisions. Allow all Universal Credit recipients the right to seek o temporary payment break or renegotiate debts when having money deducted at source.	Implement policy to manage private rental costs and associated challenges. Redesign council tax to be income-linked and undertake a full review of the treatment of arrears.

	Priority actions	Possible quick wins	Longer-term improvements
Everyday banking services	Support the creation of banking hubs.	Address the limitations of basic bank accounts; monitor applications that have not been successful.	Consistently question the potential impact of proposed policies on financial inclusion.
Credit	Regulate BNPL. Monitor the impact of Open Banking in the credit landscape, paying particular attention to both the reasons for refusal on the part of the lender and consumers' unwillingness to opt-in.	Support and expand initiatives to provide no-cost loans and payroll lending. Make sure that credit companies provide all applications with feedback as to why turned down – and signpost to debt advice if signs of overindebtedness.	Put more resources into tackling loan sharks and providing alternative sources of credit from community providers.
Debt	Monitor and address harm created through private debt solutions and debt collectors/ bailiffs. Apply the same principles as the FCA Consumer Duty in the treatment of debts to government, local councils, and utilities.	Encourage more flexible payment options for credit and other debts.	
Savings	Expand recent pilots and roll out successful approaches to build positive savings habits.	Support and expand on school savings schemes and savings for employees, including opt-out savings products. Create an automatic tax-incentivised savings account for all sole-traders paying tax.	Remove the tapered savings treatment on universal credit up to the equivalent of three months' income, to encourage precautionary savings.
Pensions	Rethink the current rules around decumulation, both to support long-term financial resilience and to minimise the likelihood of fraud. Finalise the pensions dashboards.	Work with employers to encourage more people to take up available advice Work with employers to encourage more people to take up available advice on pension contributions, consolidation, and decumulation. Work on a process to increase the current rate of savings through auto-enrolment without leading to material deprivation or additional borrowing.	Explore the long-term implications for people who were exempt from AE and those who opted-out to address debt issues, to understand whether it is possible to create a 'catch-up' plan to help such people.
Insurance	Monitor the impact of the Consumer Duty on people seeking insurance. Improve access to, and awareness of, general money guidance around insurance.	Find ways to encourage widespread use of telematics and other data-driven approaches to reduce the cost of insurance. Monitor the cost of insurance by protected characteristics.	Continue work with credit unions and others to provide low-cost insurance options for lower-income households, including a general insurance product for social housing tenants.

	Priority actions	Possible quick wins	Longer-term improvements
Information, education and advice	Work with GPs and others to support signposting and social prescribing for financial issues, building on existing work by MaPS and others. Encourage widespread signposting to free debt advice, including by employers, healthcare professionals, housing providers and local and national government agencies .	Support existing advice and education providers to expand their reach.	Work with a wide range of stakeholders to develop streamlined guidance for people impacted by financial fraud. Work towards introducing financial education at all levels of schooling and across all school types.
Other	Tackle fraud: put fraud prevention at the centre of a national strategy. Ensure that it is addressed at all stages of the customer journey, from slowing down rapid payments where necessary, to increasing the availability of advisors to support victims. Make digital literacy (including online safety) available and encourage take-up. Maximise reimbursement to fraud victims and minimise personal hardship caused. Map and centralise the various sources of data, creating an easy-access data portal for widespread use amongst all interested stakeholders.	Further promote government sponsored actions such as the National Campaign Against Fraud Learn from, and build upon initiatives to promote innovation, such as the FCAs TechSprints.	Monitor the impact of Consumer Duty to ensure that those who are not currently consumers are not disadvantaged by the stricter rules, and recommend changes as required. Continue to promote financial education in schools, making it into a practical lessons designed to help young people overcome barriers to inclusion and avoid risks such as fraud and overindebtedness. Work with prisons and probation officers to address financial inclusion challenges, as well as with organisations supporting the families of prisoners. Collect and report anonymised basic budget Collect and report anonymised basic budget data for all means-tested benefits recipients to signpost to debt advice, address negative budgets and identify poverties by type of purchase (such as transport or food). ata for all means-tested benefits recipients to signpost to debt advice, address negative budgets and identify poverties by type of purchase (such as transport or food).

Creating a National Strategy for Financial Inclusion

Build on existing initiatives

The Financial Inclusion Commission has argued for many years that the UK requires a national strategy for financial inclusion (FIC, 2015). As various international organisations such as the OECD, the UN and the World Bank have also noted, **a strategic approach to financial inclusion has the best chance of creating meaningful change**. This should start by mandating responsibility for financial inclusion to a relevant body or minister.

In the UK, there is a solid foundation from which to build such a strategy, with important regulatory efforts such as the Consumer Duty, and a wealth of data (albeit with overlaps and gaps), as well as related strategies such as the UK Strategy on Financial Wellbeing and UK Digital Strategy (Department for Digital, Culture, Media & Sport, 2022; Money and Pensions Service, 2020). There is also a wealth of research aiming to understand how, and why, financial inclusion varies across key socio-demographic groups. A strategy could usefully build on this, addressing gaps in knowledge and improving understanding or the social impact and cost-benefit of various elements of the strategy in terms of factors such as health and productivity.

Identify vulnerable groups and the organisations best placed to support them

A strategic approach must address the needs of vulnerable groups. This is **best achieved by working closely with organisations experienced in tackling financial exclusion within their target group**. At the same time, a strategic overview makes it possible to see how vulnerabilities intersect (FCA, 2015, 2020c, 2021a) and to identify synergies in approaches. The Financial Inclusion Commission and Fair by Design have both also argued that **the FCA could incorporate a 'must have regard' amendment to its regulatory framework** so that the market also supports potential customers seeking access to financial products and services (those who are not currently financial consumers, and so not covered by Consumer Duty) (Fair by Design, 2023; FIC, 2015).

The FCA work on vulnerabilities is essential reading for organisations working on financial exclusion (FCA, 2021b). Other national and international work will also be useful in guiding approaches to persons with disabilities (AFI, 2023), mental health challenges (F. Smith, 2024), as well as older clients (Age UK, 2016), people with limited or no hearing (Lending Standards Board, 2023), ex-offenders (Machin & Nchafack, 2023) and others.

Ensure joined-up policy making and co-operation

A financial inclusion strategy needs to work in conjunction with policies designed to protect and redress financial consumers, improve financial literacy and capability, and achieve widespread financial wellbeing. It needs to identify groups and regions with high-levels of financial exclusion and encourage collaboration across various government bodies. These are likely to include HMRC, the Department for Levelling up, Housing and Communities and the DWP, as well as utilities regulators and all agencies working on tackling frauds and scams. The strategy also needs to monitor the potential benefits and disadvantages of policies that impact on individuals and households, such as those relating to government benefits, education, and employment, and address any conflicting approaches where necessary.

Stakeholders need to collaborate to have the best chance of achieving the goal of financial inclusion. Currently, as this report illustrates, there are many organisations with an interest in financial inclusion, and this is leading to overlapping outputs, inefficiencies and even a sense of competition at times. With a mandate from government and key organisations feeding into the operationalisation of activities intended to improve financial inclusion, it is likely that synergies could be identified, accelerating progress.

Monitor risks

The OECD has produced a useful summary of risks to financial consumers across 43 jurisdictions including the UK (OECD, 2024). This suggests that consumers face demand-side risks including low levels of digital and financial literacy and overindebtedness. On the supply-side, there continue to be issues related to provider conduct as well as fraud and scams. 'Greenwashing'[44] and the increasing impact of

[44] Greenwashing is a term used to describe the act of falsely marketing a product or service to make it appear environmentally friendly, or consistent with environmental, social and governance (ESG) targets.

'finfluencers'[45] are also considered to be emerging risks by the countries covered in the OECD summary. **A similar report at the UK level would be valuable for understanding the current situation and future challenges** that are likely to (continue to) have a negative impact on people trying to access financial services.

Streamline data collection and dissemination

Data is an essential tool for monitoring risks and assessing progress. The UK is data rich, but there are still weaknesses. These include differences in sampling approaches leading to incomparable data and gaps in data collection on key measures. Competition amongst stakeholders also appears to lead to variations in the way data are used, potentially creating confusion and misunderstanding. **A strategic approach could streamline data collection and dissemination across organisations** – possibly through a single data portal - making various sources complementary and comparable. Consistent use of questions and criteria, combined with a broadening of focus to cover issues such as the types of household bills that people are falling behind on would significantly improve the ability of policy makers and others to monitor progress and predict potential problems.

Encourage precautionary savings and increase saving for retirement

Savings products are an important component of financial inclusion and have a role to play in creating financial resilience.

Support opportunities to save and learn from a young age

There is surprisingly little evidence about the link between childhood savings habits and adult saving (Ashby et al., 2011). Research on the (now terminated) Child Trust Fund, a government scheme designed to give every child a savings account, showed it had little effect on children's savings habits or total amount saved (McKay et al., 2023). However, **creating a savings buffer from a young age remains a logical step towards preventing financial difficulties amongst young adults**, and one supported by MaPS (MaPS, 2023a; MoneyHelper, 2024c). Several credit unions are active in this space, providing school savings schemes to help young people save regularly[46]. It may be possible to roll out similar schemes across the UK to ensure that children are not just account holders, but actively involved in the process of saving. Such an approach is also consistent with recommendations and current policy interest to ensure access to financial literacy initiatives from an early age (Education Committee, 2023; MaPS, 2023a; OECD, 2020) by encouraging active engagement and the application of knowledge in real life scenarios. Robust evaluation would be beneficial, and monitoring is essential to avoid service providers undertaking marketing activities in schools.

Facilitate saving amongst employees and working-age adults

More effort is needed to support and incentivize low-income households to create precautionary savings (Gregory et al., 2022). The Family Saver Pilot, which automatically redirects child benefit payments into a savings product, appears beneficial and could be tested more widely (Angsten Clark et al., 2024).

Workplaces play a pivotal role in financial inclusion. Not only do they provide income and contribute towards retirement savings, but they also have the potential to revolutionise savings and borrowing, through automatic savings and deduction lending (Fair4All Finance, 2023b), and deliver financial literacy initiatives (OECD, 2022). Nest Insight have found that there are benefits to using an opt-out process similar to that used in pensions AE to encourage regular savings amongst employees (Nest Insight, 2023). Their research showed that individuals who could opt-in were less likely to join such a savings scheme and saved less than those who were automatically enrolled (but could opt-out), even if they could join at any time. They argue that this approach should not aim for 100% savings rates as some people cannot afford to save (as discussed elsewhere in this report, overindebtedness and negative budgets are a reality for many people) but could be expanded across more employers once barriers to scale are overcome.

[45] Finfluencers, or financial influencers, are individuals giving financial advice or tips via social media. They often promote investments but may also talk about other aspects of personal finance.

[46] See for example: Newington Credit Union Limited, School Savers - Credit Unions of Wales, Working with Schools: Darlington Credit Union amongst many others

There may also be opportunities to expand the government's Help to Save initiative[47], which is currently run by NS&I, potentially by making it available through community providers with existing relationships with low-income consumers, such as credit unions.

Aim higher with retirement savings

The current contribution rate through AE is unlikely to provide people with adequate retirement income. There is an argument for raising the workplace saving contribution (via automatic enrolment) from 8% as it currently stands to 12% (Hugh, 2023) or perhaps even higher, and to expanding the scope of AE to cover self-employed individuals. But this would need to be balanced against the difficulties of higher savings rates for those on low incomes, as there is some evidence that even small automatic savings lead to additional borrowing (WBS, 2024).

It may also be valuable, therefore, to **consider whether employers should be asked to contribute to a pension for all employees**, even if the employee cannot afford to make contributions. Such an approach would be more equitable, allowing even the most squeezed employees to receive the same workplace benefits as their colleagues and start to build retirement savings. Research would be needed to understand the impact on employers, and on the possible impact on current and future employability of non-contributing workers.

The **decumulation process also needs to be revised, to better protect vulnerable consumers**. The House of Commons Work and Pensions Committee have done important groundwork on this topic, and made recommendations around issues such as decoupling the tax-free element of a pension pot from the remaining amount (House of Commons Work and Pensions Committee, 2021). The FCA and HMRC'S Advice Guidance Boundary Review (2023) also contains proposals for further clarifying the advice/guidance boundary and offering targeted support to those without access to holistic advice. However, where law and policy focus on information and advice as the primary protection mechanism, providers are likely to be disincentivised to create better products for a wider range of consumers (Carlin and Gervais, 2012). Vulnerable consumers would benefit from a more interventionist approach which offers greater protection and stops them paying unnecessarily high charges. The introduction of a charge cap for investment pathways and pension drawdown arrangements being one such example.

Incorporate greater flexibility in long-term products

Some people might benefit from **early access to retirement savings** as part of a strategy for dealing with unexpected financial shocks whilst avoiding problem debt, and there have been calls for changes that allow individuals to take money from pension funds (Lloyds Banking Group, 2019). Research is needed in the UK context to understand whether instant access to pension savings for certain uses such as a deposit for house purchase or emergency costs would encourage wider take up or reduce opt out. However, evidence from Australia suggests caution is required, since many people made hasty decisions with little, if any, appreciation of the impact on their future retirement income (Bateman et al., 2023).

Greater flexibility in pension decumulation products could also benefit retirees who have to manage their income and assets over a longer period than previous generations. Being locked into a pension decumulation decision that later turns out to be unsuitable due to unforeseen circumstances (such as the onset of illness or disability) is a real worry for some; it is also in direct conflict with the FCA's suggested solutions to addressing consumer vulnerability via greater product flexibility and innovation (FCA, 2015;2021). Providers of retirement income product solutions should therefore show their willingness and capacity to adapt to changing consumer needs by introducing more flexible product terms and features. These could include hybrid products that provide drawdown options and guaranteed income, more 'mix and match' options, and 'inheritance guarantees' on annuities (Overton & Smith, 2022).

Other approaches to funding retirement may also prove beneficial. Various equity release and later-life lending products are available with features that address previous concerns, such as downsizing protection, voluntary repayments without early repayment charges, inheritance guarantees (that provide borrowers with the reassurance that they can protect a proportion of their home's future value to pass on to loved ones) and interest servicing (that give consumers the option to make interest repayments

[47] Get help with savings if you're on a low income (Help to Save): How it works - GOV.UK (www.gov.uk)

initially with the option to revert to roll-up interest at any point if their circumstances change). The pension industry might usefully look to the equity release industry for insights on how to meet the challenge of developing products that meet a wider range of consumer needs and circumstances.

Increase access to low-cost, responsible lending

Credit is an important element of money management for many people. Recent trials of deduction lending through payroll or child benefit have proved popular with borrowers and successful in broadening access (Angsten Clark et al., 2024; Fair4All Finance, 2023b). This model sometimes also incorporates automatic savings deductions, helping people to build financial resilience.

Fair4All Finance is also expanding its No Interest Loan Scheme (NILS), a solution that provides borrowers with short-term, interest free credit, supported by money from the dormant asset scheme (Corke, 2023b). Initial piloting tested loans averaging just over £600, with repayment terms of less than a year (Fair4All Finance, 2022a). The scheme also offers a partial bad-debt guarantee to loan consolidation companies prepared to expand their client base. Such solutions may provide models for long-term support for the credit excluded.

Credit unions have an important role to play in ensuring that more people can borrow in times of need (Corke, 2023a). Some are also partnering with workplaces to offer short-term loans, repaid automatically through salary deductions (Powell, 2022). Such deduction lending holds promise but all advances from salary create a risk to future financial security, and should be monitored closely by providers to ensure that they are only being used for financial shocks and not part of a rotating money management strategy. Additionally, it is essential that the cost of this type of lending remains low, avoiding a return to high-cost payday lending models.

Credit records are an important component of the mechanism underpinning financial inclusion. There are **many sources of data that could potentially be used to inform lenders about the likely creditworthiness of consumers**, beyond the typical data collected from high-street banks and credit card companies. This includes information on rent and utility payments, BNPL or council tax (CFIT, 2023). Since credit records are used for everything from loan applications to phone contracts, it is ever more important that the data used provides an accurate assessment of the applicant (FCA, 2023a). It may also be worth considering creating a credit record dashboard, since the multi-agency approach to credit records in the UK adds complexity for consumers.

Open Banking and broader Open Finance approaches offer **potential solutions for lenders struggling to assess the creditworthiness of people with minimal or no credit profile**, which may open up borrowing opportunities to more people in need (UK Finance, 2022). A recent working paper reporting analysis of bank account holders within the FCA's 2020 Financial Lives Survey argues that Open Banking is enabling more UK customers to access credit (and financial advice) (Babina et al., 2024). The authors find that use of Open Banking is associated with increased access to credit cards and bank loans even after controlling for credit demand, but they are also careful to note that the distribution of credit may also be negatively affected by access to new forms of data. They share concerns that those who do opt-in to Open Banking could be refused credit if they have negative data whilst those who do not opt-in may be considered to be intentionally withholding negative information.

New sources of data could enable lenders to increase their offerings to people previously excluded from mainstream credit. There is some evidence to suggest that the use of more comprehensive data improves inclusion across income groups (Barci et al., 2019). The Fair Credit Reporting Action should ensure consumers can check the data being collected, but there is an important role for policy makers in monitoring implementation and impact of new approaches, to ensure that they do not create new forms of exclusion.

Address the lack of flexibility with repayments

Repayment options for mainstream credit **could be made far more manageable through Variable Recurring Payment loans, facilitated by Open Banking**[48]. Whilst this will not improve access, it is an important component in protecting the dignity of borrowers and preventing potential exclusion in the future.

[48] See, for example [Variable Recurring Payments (VRPs) - Open Banking Variable Recurring Payments (VRPs) - Open Banking]

More nuanced repayment options are still possible even when users do not sign up for open banking, approaches might include 'sticky' minimum repayments on credit cards that do not get smaller as the balance is paid off, or the possibility to offset savings interest against credit interest. The Money Charity provides data on how higher minimum payments could benefit credit card users (The Money Charity, 2024) although experimental data shows that consumer behaviour may prevent ideal outcomes (Adams et al., 2018) suggesting that more behaviourally informed research would be useful.

In all cases, the Consumer Duty offers hope that providers will lend responsibly and provide applicants with information about why they have been refused, if they are unable to borrow the amount they requested. Other regulatory guidance should also be applied for the benefit of the most vulnerable consumers (FCA, 2021a) and in relation to diversity and inclusion (FCA, 2022b; Lending Standards Board, 2023).

Increase awareness of, and arrest of, illegal lenders, scammers and fraudsters

When people are desperate to access funds they are particularly vulnerable to illegal lenders, scammers and fraudsters. A policy focus on reducing illegal activity across all forms of financial services is vital in creating a fully inclusive financial landscape, with the burden of responsibility for allowing fraudulent transactions firmly placed on service providers. This also needs to include targeted funding for education on the signs to look out for and the steps to take in the event of becoming a victim (CSJ, 2022). Partnerships with the National Crime Agency and Illegal Money Lending Teams will also be essential.

Address the causes of overindebtedness

Overindebtedness is not necessarily an inability to repay money borrowed but more general difficulties paying bills, including housing and utilities, as well as subscriptions and other obligations. In many cases, an income or expenditure shock causes people to fall behind. Sometimes the original shock can be an unexpected, backdated bill (including council tax and utilities), delayed or recalculated benefit payment.

Reverse the trend in negative budgets

The cost-of-living crisis has resulted in more people falling into arrears because they have insufficient money to meet even their basic costs. Policies need to **address both sides of this equation with reliable income streams for those unable to earn enough from working and access to affordable basic goods and services**, including food, decent housing, energy, transportation, healthcare (including dentists) and Internet provision. Income needs to be sufficient for the size of the household, indicating the need to end the two-child cap on benefits.

Supermarkets have been told by the Competition and Markets Authority to improve pricing information, but comparability of prices is not the only issue facing squeezed households. People who are unable to travel to a large supermarket also face higher prices on items stocked by the same company in local convenience stores; an issue that regulators are aware of but have not yet addressed (Simmonds, 2023). Recommendations and commitments have also been made around housing (see for example, Shelter, 2022), increasing Universal Credit (Wild, 2023), reducing fuel poverty (Citizens Advice, 2023b), social tariffs (Citizens Advice, 2023c), dentistry ((Health and Social Care Committee, 2023) and addressing the poverty premium (Fair by Design, 2022).

Enable income and expenditure smoothing

Some people, such as those working in the gig economy or seasonal jobs, struggle to make regular bill payments because of irregular and unpredictable incomes. It could be valuable to test a range of digital solutions that promote payment smoothing for people in this situation[49]; it is important that such options do not incur a poverty premium. It has also been shown that social landlords can help people with irregular incomes by providing flexible payments (CfRC, 2022).

Join-up policy making to avoid unintended consequences

When government services or essential providers such as utility companies are at risk of causing financial hardship through delays or mistakes, **it is essential**

[49] See for example 'Request to Pay' [Request to Pay - Pay.UK (wearepay.uk)](wearepay.uk)

that policy measures are in place that can react quickly to avoid overindebtedness. The recent Debt Fairness Charter helps in this regard but does cover local government debt, and does not override existing powers to deduct repayments from benefits or earnings (Government Finance Function and HMT, 2024), aspects that should be reconsidered in future iterations.

More measured approaches to local and national government debts and fines such as council tax arrears, tax arrears, parking fines, and deductions from benefits are also essential in preventing the exclusion caused by overindebtedness. There is an urgent need to pause automatic deductions from benefits and improve the way in which council tax arrears are treated. Automatic fines without invoices across many public highways (road tolls, clean-air zones etc) should also be revisited, to avoid spiralling debts amongst those least likely to have either the digital literacy, cashflow or time to make online payments on time and unprompted.

The UK Regulators Network has also identified challenges and stated their expectations in relation to the collection of debts to utility providers (UKRN, 2024). These need applying consistently and monitoring.

Solving overindebtedness also requires access to advice and debt solutions, as discussed later.

Improve access to insurance

Transparency remains an issue in the insurance market, with relatively little data available on which to assess refusals and pricing decisions affecting both potential clients and those advocating on their behalf.

Address affordability concerns

It appears that many of the barriers to insurance revolve around the costs. Further work is needed to explore ways of lowering the costs of insurance premiums without increasing the excess to be paid in the event of a claim or the 'loyalty premium' for people who choose not to shop around each year. This could build on current efforts by Fair4All Finance and Aviva to **explore approaches to making insurance more affordable through credit unions**[50]. Basic products such as car insurance and contents insurance at a national fixed price using widespread risk-pooling may also be worth exploring. These could take into account recommendations from the Sergeant Review, as noted in recent discussions (IFoA and Fair by Design, 2021). It may also be valuable to consider whether low, or zero cost loans could be provided to vulnerable insurance clients who cannot afford the excess on their policy in the event of a claim.

Take into account the needs of potential clients

Financial inclusion policies also need to **pay particular attention the impact of Consumer Duty** on the ways in which insurance companies treat potential clients, to ensure that they do not create new pockets of exclusion. The FCAs recent review of Consumer Duty implementation did not cover the ways in which firms deal with people who are not current clients (FCA, 2024). Additional guidance may be necessary if access is reduced. For example, it will be important to understand how potential customers with criminal convictions are treated. The Association of British Insurers identifies eight areas of legislation and regulation that should be complied with (ABI, 2023b).

Lessons from the experience of insurers following the guidance on vulnerable clients that the FCA put in place during the COVID-19 pandemic (FCA, 2020b) and ICOBS 2.5.-1R which requires a firm to act honestly, fairly and professionally in accordance with the best interests of its customer. It sets out our expectations for firms when considering the fair treatment of existing customers, and in particular those customers experiencing or reasonably expecting to experience temporary financial difficulties due to circumstances arising from coronavirus ('qualifying customers' could also be useful in understanding how to develop more flexible payments without increasing cost or loss of cover.

Consider the role of digitalisation

Open Insurance[51] could be useful in providing new forms of data for assessing risk of potential clients, including those currently excluded (Jhanji et al., 2023). New products that draw on real-time parametric data (Brook & Cooper, 19 April 2018), information from wearable devices or telematics also offer hope in keeping costs down for some types of insurance, and

50 Talk Money Week 2023 - If you could do just two things? - Fair4All Finance
51 For discussion on Open Insurance see for example https://www.eiopa.europa.eu/browse/digitalisation-and-financial-innovation/open-insurance_en

reducing the risk of negative outcomes.

Open Insurance potentially also makes it feasible to lower the overall cost of insurances held in a household and maximise cover by checking whether people are already covered by one insurance for another issue – such as losing their phone, taking valuables on holiday or getting things stolen from their car.

Look beyond general insurance products

With challenges remaining in access to home and motor insurance, it is easy to overlook the additional benefit of improving access to life insurance and income protection. However, with so many households lacking a safety net such products could provide invaluable. Tax incentives for employers could encourage the provision of low-cost insurance products aimed at lower-paid workers.

Increase access to information, education, guidance and take-up of advice

Information, education and guidance can help people to make informed decisions that are right for their personal circumstances. To be effective, provision needs to be reliable, regularly updated and easily understood – and typically free of charge.

Alongside the provision of guidance to help people to be better able to manage their financial situation, regulated advice is essential for people making major decisions such as managing debt, planning for retirement, or making investment decisions. These aspects of financial decision making are quite different, requiring different funding models. Debt advice clients, in particular, cannot afford to pay for support, leading debt charities to develop a variety of complex funding models that include payments from creditors, donations and support from government but long-term sustainability remains a challenge (MaPS, 2024; Mercadante, 2024). Ongoing work is needed to monitor the cost of such advice and maintain sufficient services to meet the needs of the population, whilst also paying attention to preventative work to reduce future demand.

Early indicators suggest that digital tools can help to lower the cost of some forms of financial advice, whilst also increasing the amount that people know about financial matters. Recent research finds a positive association between the use of Open Banking when accessing advice services to be associated with increased levels of financial knowledge (Babina et al., 2024). The authors draw on previous evidence suggesting that people who choose to use Open Banking are typically less financially confident, and note that the consumers using Open Banking for credit purposes do not have higher financial knowledge, suggesting that any causation is running from using the Open Banking technology and associated tools to improved financial knowledge. More research would be helpful in this area to further understand the mechanism, explore whether it is more effective than more traditional approaches and assess whether the knowledge remains over the longer-term.

Government is keen to mobilise private savings through more engagement in the stock market, especially investment into UK firms. This appears to be the motivation behind current guidance on the advice boundary and the focus on increasing access to advice and guidance for investors (not necessarily free advice). As this report shows, however, in reality, many people are struggling to meet basic expenses, and any form of investment, including in a pension is likely to push them further into hardship. Furthermore, even those with money set aside rarely have more than three months' income available in liquid savings, suggesting that they are not in a position to risk moving into investments. It is also important to keep in mind that with an increasing number of DC pensions, most employees are already exposed to stock market fluctuations. This illustrates the importance of comprehensive, individualised money advice, that recognises the knock-on effects of one financial decision on a person's overall financial wellbeing. For many, guidance that focuses on improving financial resilience would be more appropriate, discussing all of the tools that might be appropriate, and the best way of maintaining flexibility whilst putting new plans into action. Such advice could also flag the warning signs of potential debt issues, helping people to address these before they become unmanageable. FinTechs could offer solutions, giving tailored advice using AI (Muir, 2023). Such provision cuts costs and maintains a level of anonymity not possible with face-to-face advice, although it also brings new risks including the possibility of inappropriate or even purposely malicious or fraudulent recommendations.

Signpost people to money and debt advice services

Free debt advice services are reaching hundreds of thousands of clients every year, but there is still a reticence on the part of individuals to seek help, meaning that their problems have often escalated by the time they speak to someone. There are also concerns about the number of for-profit companies operating in this space. **Financial service providers, government offices, landlords and utility providers are likely to be amongst the first to know when a consumer is showing signs of financial stress and could do more to signpost people to free advice to facilitate early interventions.** Credit providers should also signpost unsuccessful applicants; Dibb et al (2022) note that very few applicants who are refused credit are referred to debt advice. **Healthcare professionals also have an important role to play** (Fogden et al., 2022; Livi, 2023).

Help people to make important decisions about their pensions

Expanding the scope of money guidance and widening access to regulated financial advice could provide people with much-needed help on pension saving and decumulation decisions. The issue of knowing who to trust when it comes to financial advice is also an important barrier preventing some people from getting the help they need. MaPS has been doing more to support a personalised approach to the information given to DC consumers during a Pension Wise appointment, and this could be usefully built on to expand the benefits of helping individuals understand the consequences of different decisions in a more tailored and scenario-based context (ABI, 2023; Overton and Smith, 2022). Low take up of existing support, particularly Pension Wise, indicates that people still do not know what help already exists, despite pension provider and FCA efforts to improve notifications and the timing of information. This suggests some potential for **a more effective awareness raising campaign**, like the successful workplace pension campaign – workplaces could lead this initiative. In addition, a government-backed (price-capped) financial advice service could help to close the advice gap, alongside more personalised guidance.

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