# FINANCIAL INCLUSION

## Executive summary

- **39% of adults surveyed between July and October 2023 did not expect to save any money in the next 12 months**.
- **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.
- **Only 18% of self-employed workers were saving into a pension in 2021-22**, compared with 79% of employees. Furthermore, discussion with people with lived-experience of financial exclusion highlighted confusion and misunderstanding around auto-enrolment, and a sense that it was out of their control: ***'they don't discuss it with you - £70!'***
- **More than 9 million adults (19%) were declined credit in the 12 months from April 2022**. 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.
  - People turned down for credit are most likely to be aged 18-35 and rent their home, or live in London.
  - The unmet demand for credit has resulted in an unhealthy obsession with credit scores amongst people in the UK. As on stakeholder commented: *'Credit ratings concern people even when they need debt advice'.*
- In 2023, it was estimated that **15% of the UK adult population (8.1 million people) needed debt advice** and 12.6 million people were 'at-risk' of needing such advice.
- In 2023, on average **across Citizens Advice clients there was an income shortfall of £36.00 a month**, making it impossible for them to get out of financial difficulties by themselves.

## Policy recommendations

1. Facilitate greater financial resilience through approaches that support saving, such as the Family Saver Pilot which relies on automatic savings from child benefit (Angsten Clark et al., 2024) and increased efforts to motivate pension savings amongst the self-employed.

2. Improve transparency around financial product refusal:

   a. Require lenders to provide applicants with information about the reasons behind credit refusals and signpost unsuccessful applicants to debt advice, where relevant.
   b. Monitor the number of applications for all kinds of financial products and services that are refused and reasons for refusals, and act where necessary to reduce exclusion.

3. Increase access to safe, affordable credit products:

   a. Implement planned regulation of Buy Now Pay Later products.
   b. Expand the scope of schemes designed to improve access to affordable credit such as the No Interest Loan Scheme (Corke, 2023) and deduction lending partnerships with credit unions and community finance providers (Angsten Clark et al., 2024; Fair4All Finance, 2023), taking care to avoid issues previously associated with payday loans.

4. Incorporate a 'must have regard for financial inclusion' 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).

## About the research

Financial inclusion refers to a situation where everyone has access to their own transaction account, affordable credit, appropriate insurance and necessary advice (Financial Inclusion Commission, 2015). It is essential for individuals and households to participate fully in the economy, build financial resilience and wellbeing, and reduce the likelihood of over indebtedness.

Access to transaction accounts is considered to be the most fundamental indicator of financial inclusion. 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).

The Financial Conduct Authority has recently introduced the Consumer Duty which sets a high standard of care for the financial sector. This is very welcome, but has led to concern that it may lead to more refusals – and hence exclusion – because of the uncertainty in applying Consumer Duty for new consumers with unknown but potentially higher needs.

This note is based on desk research and nine evidence gathering sessions undertaken across the four nations of the UK in April 2024.

Desk research was undertaken by Adele Atkinson and Louise Overton, the Centre on Household Assets and Savings Management (CHASM), University of Birmingham; and the evidence gathering sessions were jointly organised by Adele Atkinson, Louise Overton and Ozlem Ogtem-Young, CHASM and the Financial Inclusion Commission, with the practical support of several partner organisations.

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