

INCLUSIVE FINANCE

Summary Report

May 2022



INCLUSIVE **BOARDS**

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Acknowledgements

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Data in this report are taken from a variety of sources including our own polling. For a bibliography please download the full report from: <https://www.inclusiveboards.co.uk/inclusive-finance-report>

Foreword



Inclusive Boards is an executive search and leadership development agency based in London and Nottingham. We help organisations and sectors with efforts to develop diverse boards, executive teams, and inclusive governance structures.

We publish this report after a year of detailed analysis of such an important topic. Right now, the levels of financial resilience in the UK are at their most perilous position since the 2008 financial crisis. The cost of living has risen to the highest rate for 30 years. As of February 2022, the average total debt per UK household is £63,803. Immediate action is needed to help the most vulnerable to navigate this moment.

The unfortunate thing to note is that people will suffer because of challenges around financial resilience that have existed for decades. This report will hopefully add to what is already a vast array of literature, providing new information and updated insights.

We are in the business of helping to improve the quality of leadership across sectors.

This is a subject that no leader can afford to ignore, and so we hope that reading this document inspires further action. The term financial resilience is defined as the ‘ability to cope financially when faced with a sudden fall in income or unavoidable rise in expenditure.’ The Inclusive Finance report aims to raise awareness of and add to existing works on financial resilience and financial inclusion. We hope it contributes to the conversation in the context of the cost of living crisis.

Policymakers and regulators must adjust to a more vulnerable consumer market. Closely associated with financial resilience is financial inclusion, where individuals, regardless of their background or income, have access to useful and affordable financial products and services. Without the ability to access protection products, people are very vulnerable in the event of a sharp economic shock. The Government must focus on financial inclusion to reduce inequality.

The Levelling Up Agenda must focus on reducing regional inequality through economic uplift, but must also focus on protecting consumers from adversity through access to financial products and information.

A handwritten signature in black ink that reads 'Samuel Kasumu'. The signature is fluid and cursive, with a large, sweeping flourish at the end.

Samuel Kasumu, Co-Founder, Inclusive Boards.

Financial Resilience



The term financial resilience is defined as the "ability to cope financially when faced with a sudden fall in income or unavoidable rise in expenditure."

Closely associated with financial resilience is financial inclusion, where individuals, regardless of their background or income, have access to useful and affordable financial products and services.

For an organisation or initiative to be deemed financially inclusive, all customers must be treated fairly and not be denied access. In accordance with these principles, products such as loans, insurance and mortgages must be affordable.



Pre-pandemic

Longer term financial vulnerability existed in the UK prior to the pandemic and has been increasing year on year.

Factors impacting financial resilience

Digital Exclusion

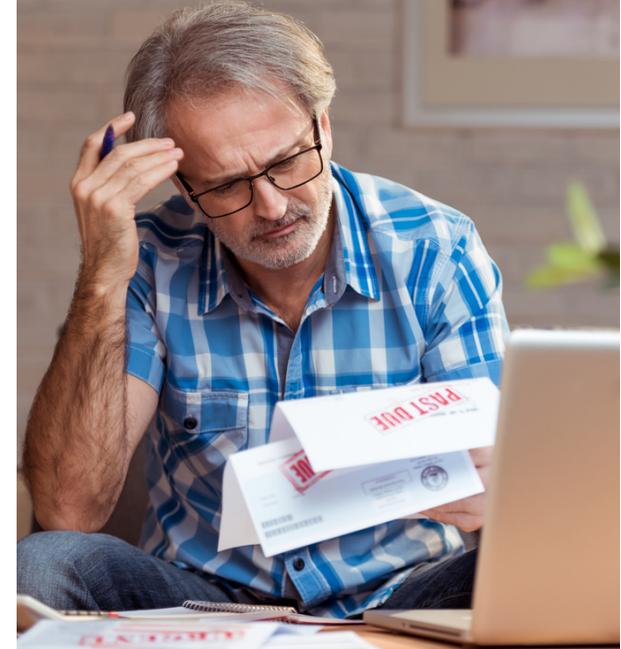
- **£5 billion** pledged by the government to roll out gigabit broadband nationwide by 2025
- **9 million** UK adults are unable to use the internet and their device by themselves

Cash Flow

- Half the population had less than **£100** in savings
- **1 in 4** people had no savings in any capacity
- Insolvencies rose in 2019 to the **highest levels** in nearly a decade

Confidence

- **17.7 million** adults have poor or low levels of numeracy involving financial concepts
- **20.3 million** people did not have confidence in managing their money



Nearly a quarter of UK households did not have access to broadband in their home, which rose to a third in Scotland and even as high as 40% in areas such as Glasgow.



£5,000

Average household income disparity between those who experience problems with their mental health and those who do not

3 million

Disabled people either turned down or charged higher rates for insurance

12 million

Residents reported they would not be able to pay an unexpected bill of £300.

9 out of 10 Consumers

Under-educated in personal finance



4.7 million

Were digitally excluded in February 2020

9 million adults

Unable to use the internet and their device by themselves

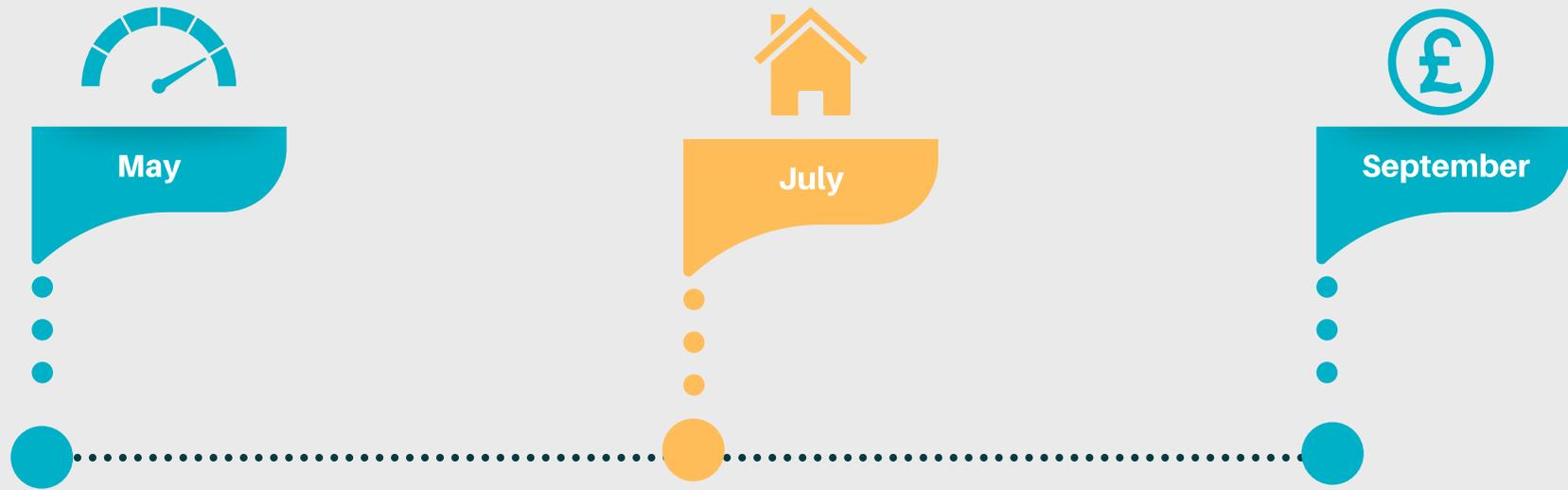
40% aged 25-35

Were rejected from opening a bank account between 2016-2017

13 million

People did not have enough savings to support themselves for a single month if they experienced an income reduction of **25%**.

2020 Insights



4.6 million people who were negatively affected - they accumulated:

£6.1 billion of arrears and debt with

4.2 million resorting to credit.

42% of renters were worried about falling behind on rent payments.

12% more people aged 18-34 fell behind with their bills compared to those over 35

73% of Asian people could not afford an unexpected cost of £250.

1.7 million people were in arrears with household bills or Council Tax

Those aged 18-24 were **37%** more likely to have been in at least one form of debt since March, compared to those over 55.



Buy Now Pay Later

The term 'Buy Now Pay Later' (BNPL) refers to unregulated, interest-free deferred payment products. When using BNPL, consumers lose their Section 75 protections under the 1974 Consumer Credit Act, under which purchases over £100 are protected by the credit provider, escaping this direct obligation due to their nature as 'third-party processors'.

Whilst eligibility and usage may depend on an individual's credit score, in practice 'hard' credit checks are rarely undertaken, meaning that the lender does not have a full picture of the person's debts prior to evaluation.

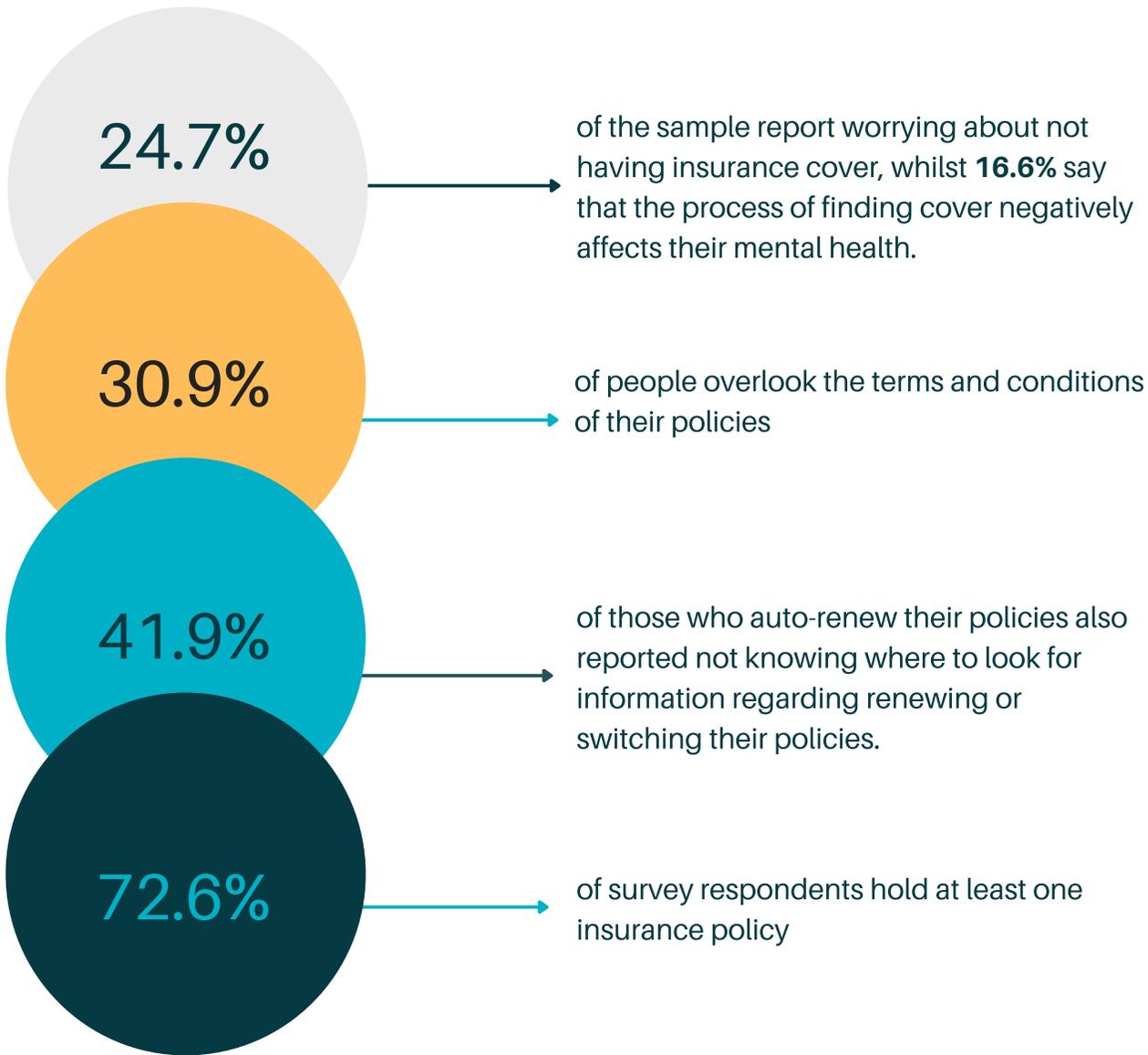
81% of people are currently unaware that BNPL is an unregulated sector, the credit agreements for which rely on an exemption in Article 60F of the Regulated Activities Order (RAO).



42%

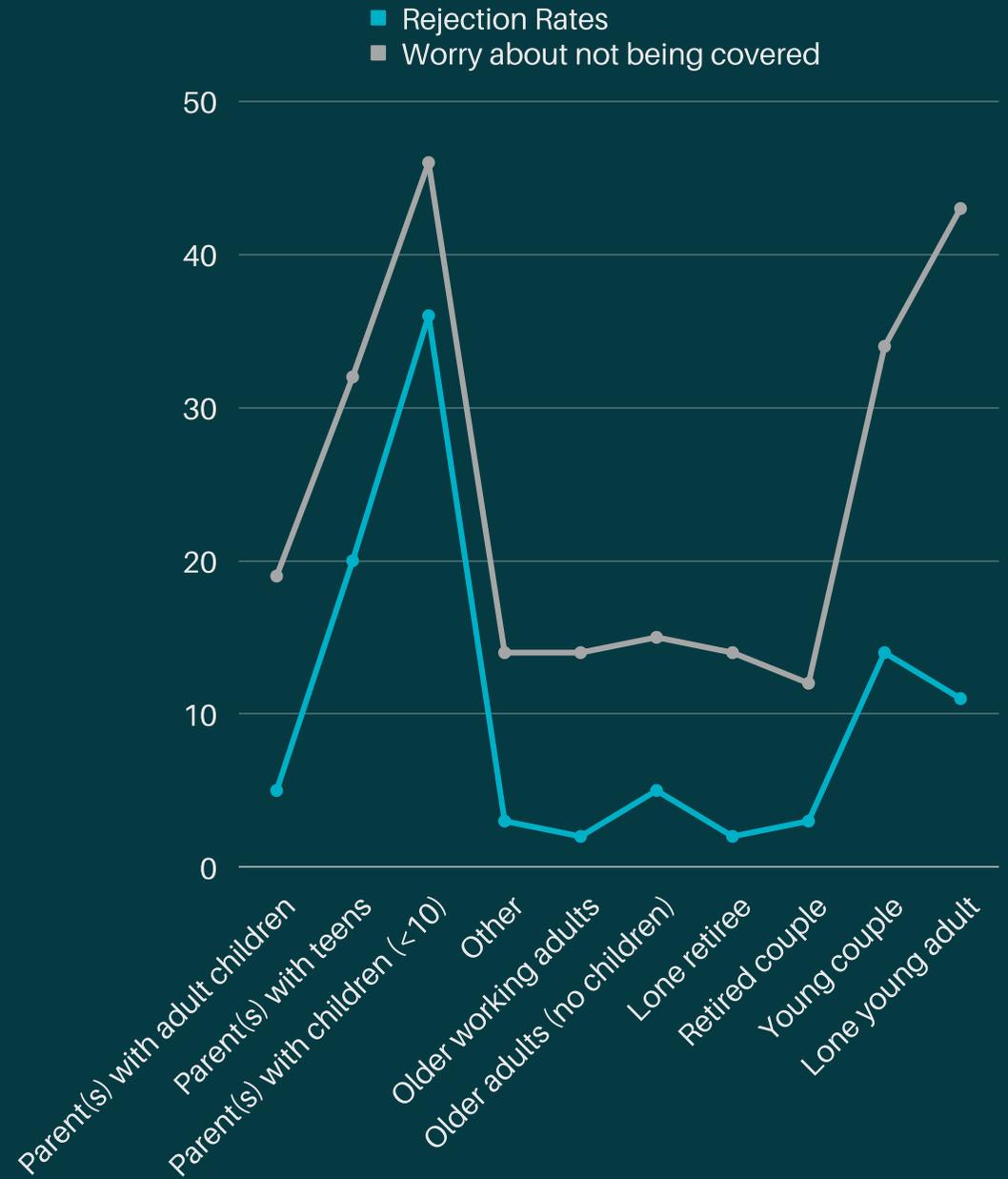
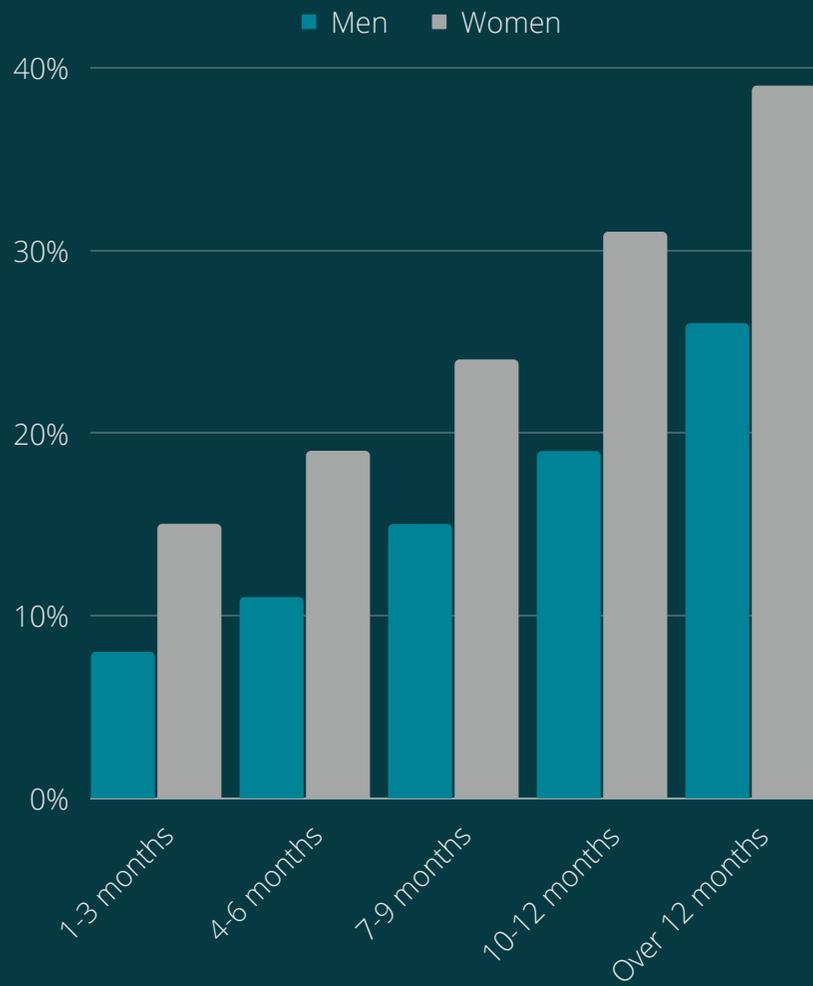
**16-24 year olds
have used Buy
Now Pay Later in
the last year**

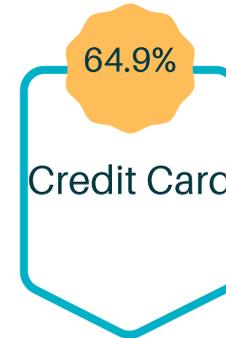
Inclusive Boards Polling Findings



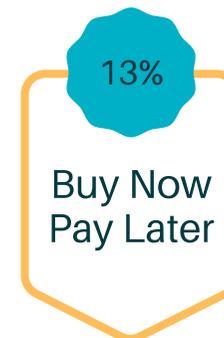
We commissioned polling with a demographically representative sample size of **3,005** respondents across the UK. The survey covered the types of products they hold, how they interact with them, whether their financial services needs are presently being met, and what policyholders value when it comes to financial products as well as attitudes to and understanding of financial inclusion & resilience.

Percentage reporting they would struggle if they experienced a cost of living and income shock



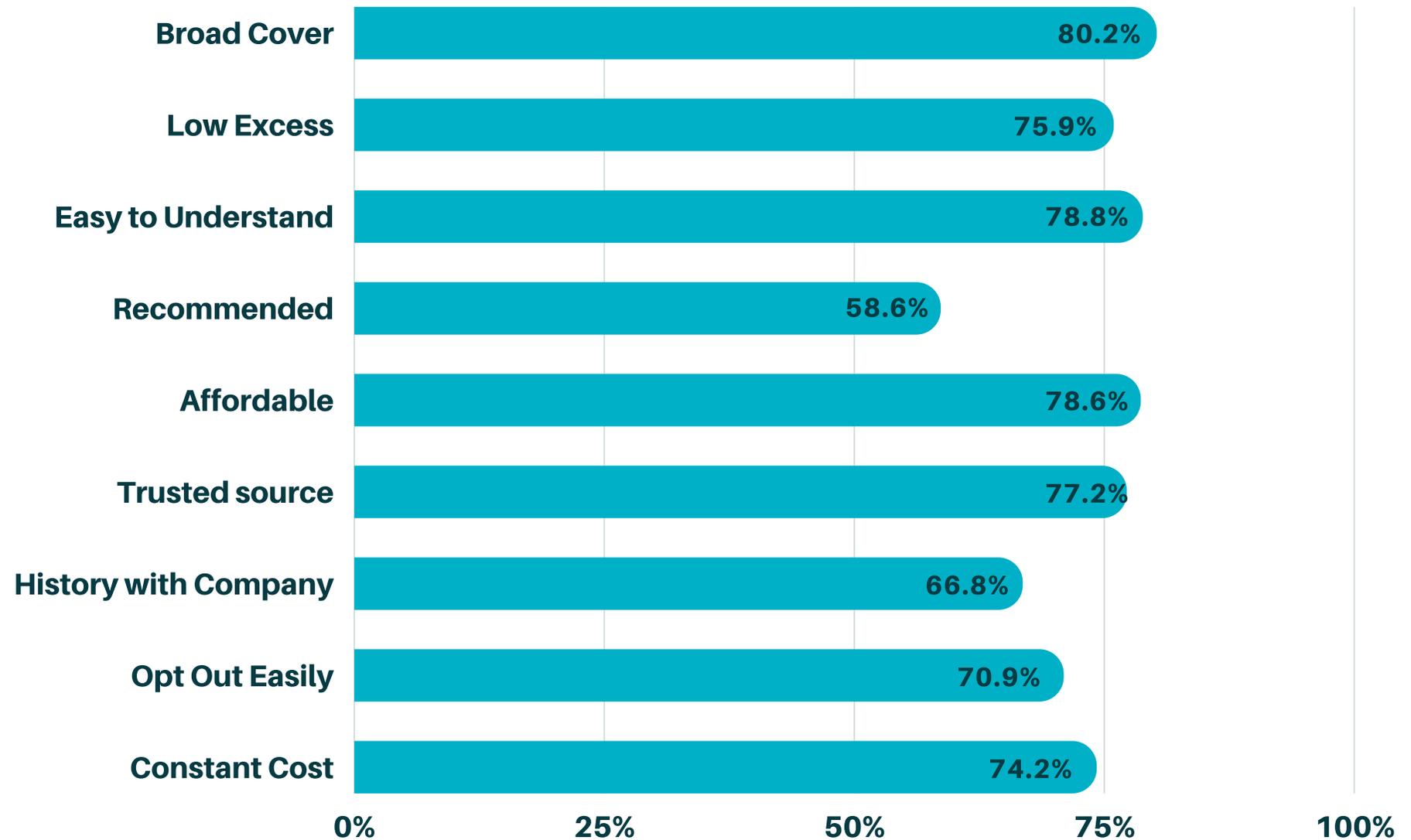


What sort of financial products do people have?



* A basic bank account is a banking option for those who are facing financial difficulty or have a poor credit history, which means they may not be eligible to open a standard current account.

What do people care about when it comes to financial products?



The Cost of Living Crisis and Access to Cash 2022

Inflation, soaring energy bills, and a National Insurance increase combined with local tax rises have together created an unprecedented crisis, representing the biggest reduction in household finances since the financial year of 1956-57.

As many as 8 million UK adults would "struggle to cope in a cashless society", and 22% live with fewer cash resources within 2 kilometres in rural areas

Amendment 136C of the Financial Services Bill enables cash back without a purchase - allowing people to withdraw physical cash without visiting a bank. Bank Hub Pilots have led to **12,000** more customers using cash back without purchase schemes and basic banking needs during 2021. Five additional Hubs were announced for 2022, in addition to the four already in existence whose provisions have been extended until 2023.

3.6 MILLION

Families are estimated to experience financial adversity in the wake of changes to Universal Credit. Those who are not in work and are of lower income are impacted the most by these policy changes.

4.3 MILLION

Individuals in England are ineligible for the £150 Council Tax rebate - of which 2.1million are aged over 60. Over 25% live in households within ineligible bands in the South East, London and the South West.

1.3 MILLION

people in the UK do not have a bank account - primarily the unhoused, those living in extreme poverty and individuals who are new to the UK.

6.1 BILLION

Cash accounted transactions as a means of payment in 2020 with 1.2 million regular users

The London Paradox

There is a stark difference between London and the rest of the country, with respondents from this city being **20.3%** more likely to have been rejected for insurance products. It's share of individuals who do not know where to look for information about these products is the highest, and they are also **18.4%** less likely to renew their policies every 12 months compared to all other regions.

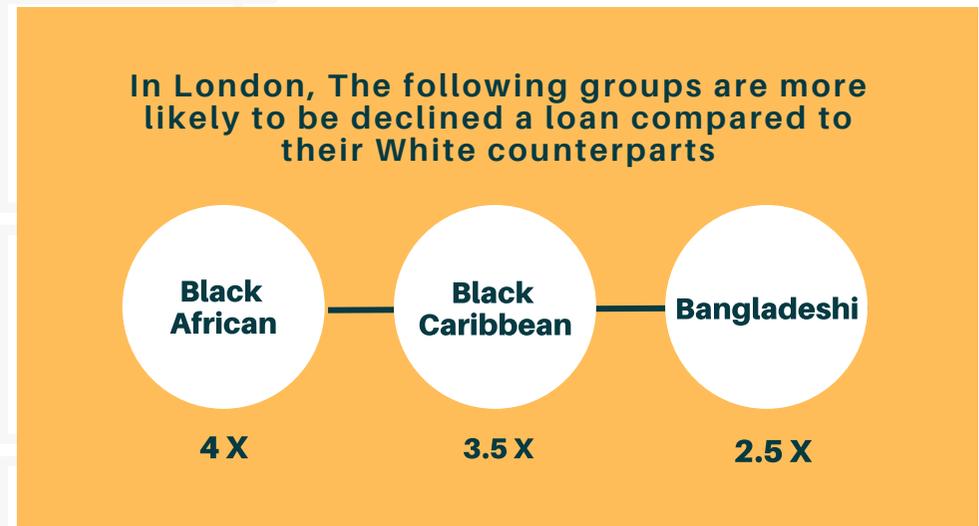
 *Given London's diverse demographic makeup, creating a more inclusive financial services sector should be an urgent priority.* 

The wellbeing of Londoners is **three times more likely** than all other regions to be negatively impacted by these processes, a predicament that needs to be addressed. This is particularly important given the nature of London's citizens if affected by significant life events, such as cancer diagnosis or structural heart surgery.

The cost of ULEZ for non-compliant cars is **£12.50** per day within the Zone, amounting to **£226 million** raised over 2020 and 2021. When placed in combination with the congestion charge and low emissions zone costs, which totalled over **£562 million** and **£11 million** respectively for the same period, the Mayor raised a total of nearly **£800 million**.

Survey data indicates a stark difference between London and the rest of the country:

- 18.4%** less likely to renew their policies every 12 months than all other regions
- 23.3%** more likely to report having no time to look for new deals
- 20.0%** more likely than those in other regions to outsource responsibility for switching their policies



Northern Ireland Protocol

On 7th December 2021, senior EU Finance Ministers reached a provisional agreement for the EU VAT Rates Directive, a piece of legislation that modified existing restrictions and regulations for VAT. It details several new proposals, including two reduced rates of **5%** and **15%**, alongside the ability for all Member States to benefit from country-specific exemptions.

The government could reduce VAT on domestic fuel to assist UK citizens with lowering energy bills by removing this **5%** component, but has been restricted in this action due to the Northern Ireland Protocol.

The Protocol mandates the UK to align with EU VAT rules on areas 'concerning goods', which is problematic for UK consumers due to the exponential rises in energy prices.

The EU's Green New Deal and Net Zero commitments will phase out reduced VAT rates on fossil fuels, peat, wood used as firewood, chemical pesticides and chemical fertilisers by 2030. Under the existing Protocol, UK consumers would again be affected if the internal energy market and economy has not fully transitioned away from any item implicated by the Directive, which could result in price increases without the reprieve of any VAT zero-rate to mitigate this impact.

The Protocol

- Negotiated as part of Britain's departure from the EU
- Enables trade with NI via the terms of the Single Market
- Safeguards the 1998 Good Friday Agreement
- Acts as a de-facto enforcement mechanism for the Directive's implementation within the UK
- A revision of the Northern Ireland Protocol with its EU counterparts would allow UK-wide lowering of VAT rates on energy prices

Polling Findings

- Northern Ireland accounted for the highest prevalence of critical illness cover
- Only 2% of funeral insurance, which was ranked last

Brexit

According to the 2021 Money Wellness Index:

57% of UK adults are unsure how Brexit will impact them,
64% worried about their expenditure.

However, there is evidence of financial resilience among respondents:

The UK's Financial Services Act 2021:

- Requires the FCA to consult on whether authorised persons owe a Duty of Care to consumers.
- Increases transparency and comparability of insurance products. These changes address previous issues surrounding the provision of a Key Information Document (KID).

The EU's 2014 Payments Account Directive (PAD) enabled **7,200,212** consumers who were either unbanked or did not qualify for a standard bank account to open a basic bank account at the **9** largest providers.

The Money Advice Service advises that consumer protections and rights have already been safeguarded post-Brexit, and the FCA has warned there could be increased costs passed onto consumers due to inconsistency of regulatory regimes for insurance across the EU.



Central Bank Digital Currency

Although no official decision has been made on the introduction of a UK Central Bank Digital Currency, the process for evaluating its core components is well underway. Such a rollout is disadvantageous to consumers in three main areas:

Inclusion and identity verification requirements.

Know-Your-Customer (KYC) requirements would have to be lowered, as those without compliant documentation would have to be considered, including individuals with limited financial history. The very existence of KYC would also create issues of trust, as **32%** of people thought that the Bank of England would use its CBDC to monitor how UK citizens use their money.

Digital Exclusion

The Bank of England has stated that a working data connection between the payer, payee and core ledger is paramount to accessing CBDC. However, significant obstacles remain for achieving these targets, such as delays to policy reform. Economically deprived areas are the worst affected - such as Blaenau Gwent in Wales which has a coverage of just **3%**.

Disintermediation

Disintermediation could occur when people switch money from their own bank accounts to central bank money, which increases the Bank of England's own balance sheet. This could affect lending rates for high-risk borrowers - bank lending rates could increase, which high-risk borrowers will be unlikely to afford.

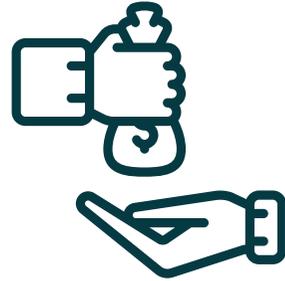
The government has committed to delivering gigabit broadband to **85%** of premises by 2025 and nationwide availability by 2030 as part of its Levelling Up Agenda.

... any move towards introduction of a Central Bank Digital Currency must be contingent upon a full Equality Impact Assessment, to evaluate the risks for vulnerable individuals. The Central Bank Digital Currency Taskforce must include a broader membership beyond representatives of the Treasury and Bank of England, to evaluate any prospective CBDC with more diverse perspectives.



21%

of premises in rural 'county areas' have access to gigabit-capable connections



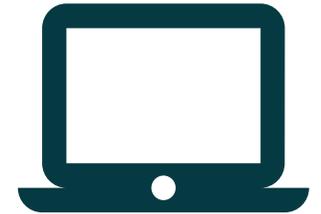
5.6 MILLION PEOPLE

held high-cost loans in February 2020



53%

of bank branches closed between 1989-2016 preventing physical access to financial services



47%

of people who had never used the internet were over the age of 75

RECOMMENDATIONS

This is a sample of our full list of recommendations.



Government

- The government must reverse its 1.25% National Insurance increase and reinstate the £20 a week Universal Credit uplift
- Deeper scrutiny of the exemptions underpinning the Buy Now Pay Later sector, and how it impacts consumers is required, as well as consultation on advertising rules for BNPL products.
- The government must continue its work on solving problems of digital exclusion through the nationwide delivery of gigabit broadband
- CDBC Taskforce must include a broader membership beyond representatives of the Treasury and Bank of England



Financial Institutions

Insurance companies should:

- fully implement the FCA's Finalised Guidance for firms on the fair treatment of vulnerable consumers; and
- Launch extensive consultations with Black, Asian and Minority Ethnic communities in order to find ways to better serve them.

Credit companies should:

- pay a levy towards financial inclusion; and
- deliver financial resilience support through civil society organisations.

The FCA should:

- hold financial institutions that break its Principles for Businesses framework to account; and
- introduce greater transparency to Buy Now Pay Later products for UK citizens.



Civil Society

- A mental health nurse should be available at all GP surgeries in the UK,
- There needs to be a higher number of **Improving Access to Psychological Therapies** (IAPT) sessions nationwide
- There is a need to increase greater local input on mental health, financial inclusion and youth unemployment.
- There should be incorporation of the insights from Mastercard's UK Inclusive Growth Score (UK IGS) into targeted community provisions

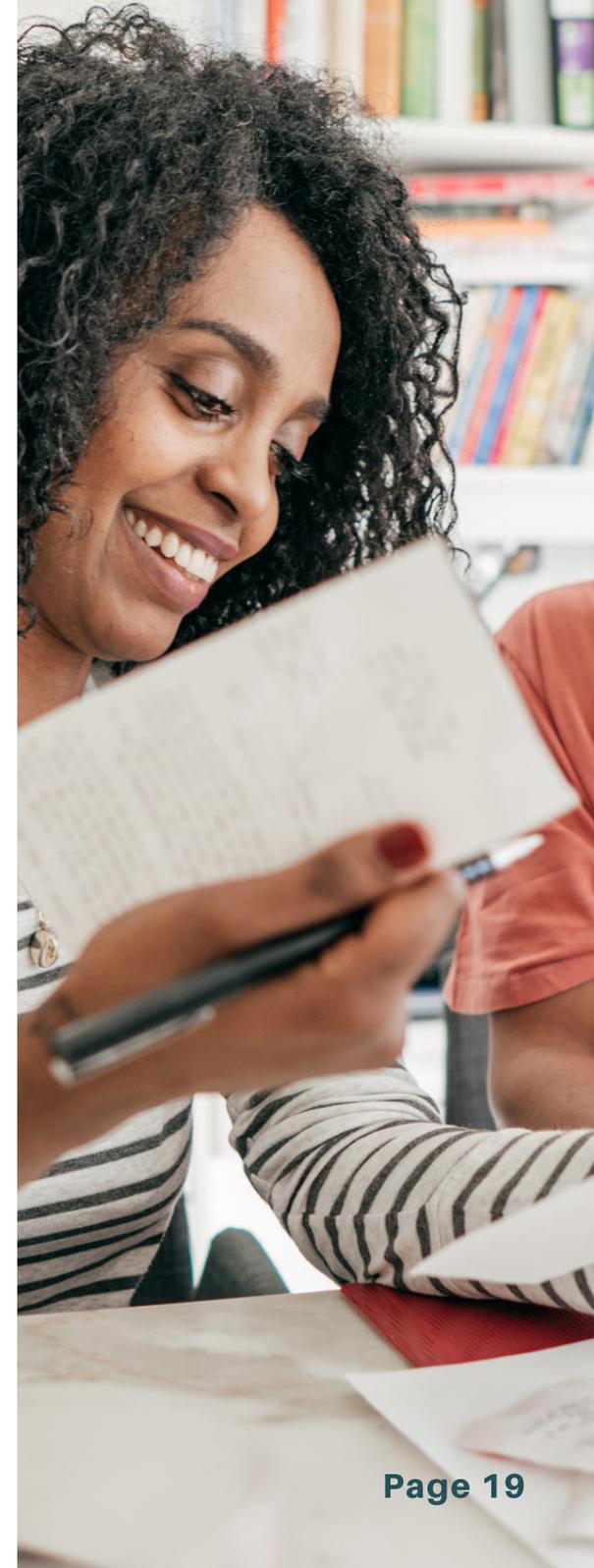
Conclusions

No one single financial product can completely protect people from the effects of a global pandemic like Covid-19, and no government can provide all the solutions to shield its citizenry through challenging periods. However, promoting financial resilience and its symbiotic relationship with financial inclusion can go a long way in resolving the incalculable damage inflicted by economic shocks in future.

This report has evaluated and distilled a variety of financial issues that affect consumers, with a focus on financial inclusion and resilience.

Whilst all of the recommendations are important to implement, there are varying timescales attached to different areas - for example, the revocation of the National Insurance Rise is more pressing in terms of immediate impact than consultations for CBDC, with a potential launch date of a number of years.

Cumulatively, this package of recommendations, if acted upon and implemented by the relevant stakeholders identified, will uplift people's financial situation and enable them to be more financially resilient.



Research Methodology

Objective

This report addresses a select few financial issues facing UK citizens with the aim of creating greater awareness of the the situation and calling on relevant stakeholders to act. We have also brought to light important data that for various reasons has not been in the public consciousness.

Methodology

This report evaluates the responses to survey data, existing reports and exclusive polling research commissioned by Inclusive Boards. We have also brought to light important data, that for various reasons, has not been in the public consciousness. Inclusive Boards commissioned Opinium Research to conduct a survey of UK adults, weighted to nationally representative criteria, between the 14th and 21st April 2021. 23 questions were posed to these individuals regarding financial products and services which received 3005 responses. They are segmented into four main categories:

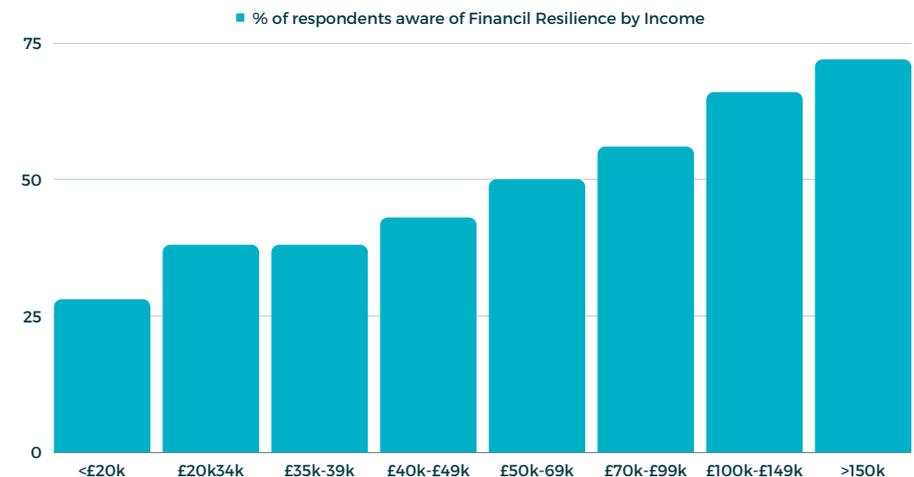
- The type of financial products held
- The nature of interactions with financial product holdings
- Whether the needs of respondents were being met by their product holdings
- What criteria respondents value in financial product policies

The products selected for evaluation followed statistics collated by the debt charity StepChange in its July 2019 'Life Happens' report. Inclusive Boards identified 7 financial products for its survey that would correspond to this report in terms of their associated protection to the individuals affected:

- Buildings insurance
- Combined buildings and home contents insurance
- Funeral cover via over 50s Life insurance
- Funeral cover via pre-paid funeral plans
- Critical illness cover
- Income protection insurance

Analysis

Analysis of these products provided insight not only into how they are perceived and utilised by consumers, but more importantly the wider issues within the financial services industry that they face. This would consequently illustrate the broader picture of financial resilience during the largest economic shock in over a decade: the Covid-19 pandemic.



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