

## The Government's Financial Inclusion Agenda

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**DWP** Department for  
Work and Pensions

## The Government's Financial Inclusion Agenda

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1. Access to Bank Accounts



2. Access to free and objective Money Advice



3. Savings



4. Home contents insurance



5. Affordable Credit



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## Second Financial Inclusion Fund

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Fund of £130 million to further tackle financial exclusion runs 08/09 to 10/11

- Money Advice £74 million (plus £2million from DBERR) to maintain network of free impartial money advice
- £38 million further developing Credit Unions and CDFIs to increase the supply of affordable credit and to develop other services including banking and saving for the financially excluded
- £2 million for continuing the Office of Fair Trading's "Save Xmas" safe savings campaign
- £2 million (plus £3 million from the MoJ) to continue the Legal Service Commission's work with prisoners
- £12 million financial inclusion champions initiative to engage key intermediary organisations and develop awareness of ways of tackling financial exclusion

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## Access to Bank Accounts

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**Goal to reduce the un-banked by half** from baseline (2002/03 FRS) of 2.83 million un-banked adults in 1.84 million un-banked households

**Progress** Latest data (2005/06 FRS)

We are well on track to achieving the goal - down to 1.97million (-34%) un-banked adults in 1.30 million (-29.3%) un-banked households.

98% DWP customers receive benefits electronically - the vast majority via a mainstream bank account

20% of DWP customers receive their benefits via a Post Office card account

90% Of new pensioners receive benefits via a bank account plus 8% via a POca

Half a million DWP customers still receive all or some **benefits paid by cheque**

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## Reducing the number with no access to Home Contents insurance



- **Many social housing tenants have no house contents insurance** – recent floods across the country have brought the issue into relief. Lack of basic insurance links to dependency, **re-enforces poverty** and **puts pressure on the Social Fund**
- **DWP working with the Association of British Insurers, Local Authorities, Registered Social landlords, Credit Unions and CDFIs to look at solutions.**
- Mapping existence of “**insurance with rent**” schemes.
- Products exist but take up has been poor.
- **Funding from the £12 million financial inclusion champions** to develop solutions and deliver increase in take up.
- Building something into “**now let’s talk money**” promoting the benefits of **basic contents insurance**

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## Affordable Credit – The Growth Fund

- **What is the Growth Fund?**
- **A joint HM Treasury/DWP initiative to increase the availability of affordable personal loans made by third sector lenders e.g. Credit Unions and Community Development Finance Institutions.**
- **A practical opportunity for people who would otherwise turn to the expensive alternative credit market to have access to loans at affordable rates.**
- **“Instant” loans – not previously available through credit unions.**
- **A sum of money available for personal loans – what people need to borrow money for because they can’t always manage to save.**

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## Affordable Credit – Growth Fund 1



For a variety of reasons people can be excluded from sources of mainstream credit and are reliant upon other sources including high cost doorstep lenders, pawn-brokers and illegal money lenders.

- FIF 1 included a Growth fund of £42 million to increase the lending capacity of affordable lenders.
- We worked with over 100 Growth Fund contractors until those contracts ended on 31/3/08 – including local third sector providers in Nottingham, Maun Valley, Worksop, Erewash, and Derby.
- During Growth Fund 1 , over 74,000 loans made totalling over £33 million.

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## Affordable Credit – Growth Fund

**Comparison for a Loan of £500 over 52 weeks between  
a Credit Union and the leading doorstep lenders**

Loan Provider	Amount Borrowed	Weekly Payable	Interest Charged	Total Payable
Shopacheck (246.5% APR)	£500	£25	£800	<b>£1300</b>
Provident (177% APR)	£500	£16	£325	<b>£825</b>
Erewash Credit Union (26.8 % APR)	£500	£11	£62	<b>£572</b>

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## Affordable Credit – Growth Fund

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- Growth Fund providers in Derbyshire have made 752 loans to June 2008
- If every loan was £500 .....
- The saving to the local community (set against Provident) would be:

❖ **£190,256**

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## Affordable Credit - Growth Fund 2

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- An additional £38 million added to the Growth Fund by FIF2
- Existing contractors asked to bid for new money over 3 years
- Targeting 25 red and 56 amber alert areas – bids accepted from new and existing contractors.

**Red: Chesterfield / Bolsover**

**Amber: Mansfield / Doncaster / NE Derbyshire / Rotherham**

- The Banking Industry to support work in red and amber alert areas

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## Scaling up the third sector

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- **Lending capital**- exponential rise won't come from low income savers - and government funds are limited.
- **Geographical coverage**- credit union coverage is variable and piece-meal and falls short of what would fit with delivering services on behalf of government e.g. social fund budgeting loans
- **Legal framework**- credit unions are constrained by common bond requirement - typically must live and work in a geographical area or be employed in a particular industry. The Government plans to introduce changes that will allow credit unions to branch out by forming alliances with other unions, employers and housing associations.
- **Financial Management**- Utilisation-making the money work harder. Managing risk-borrower delinquency. Customers have no assets and no credit history. Quantifying and mitigating the risk is not easy.
- **Skills**- typically third sector traditionally staffed by volunteers. Training required at all levels - governance, financial and loan book management, risk assessment, market analysis and product development.
- **Infrastructure** and systems - banking platform, PEARLS, back office, distribution channels

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## Financial Inclusion Champions

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- £12 million financial inclusion champions initiative to engage key stakeholders in local government, social housing, the third sector and the financial services industry to develop awareness and take action to tackle financial exclusion
- Retaining the “now let's talk money” brand, website and small projects fund.
- Working in partnership to develop solutions in the areas of highest financial exclusion especially the 25 red and 56 amber areas:
- Seeking support from the commercial sector – expertise, premises, IT systems.

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## Financial Inclusion Champions

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The objectives of the initiative will include:

- Building the role of local authorities and Local Strategic Partnerships in financial inclusion.
- Helping develop relevant action plans identifying the most significant issues with the greatest potential for improvement.
- Helping develop local networks of financial inclusion intermediaries through events and regular stakeholder engagement.
- Working with housing associations and social landlords in particular geographical areas to increase the supply and take-up of appropriate home contents insurance schemes.
- Where new third sector lending, savings and banking provision is required, working with local stakeholders and partners (including the banks) to establish steering groups and develop credible proposals for establishing new provision.

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