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Tackling Financial Exclusion in the UK

Introduction

This chapter outlines the various approaches that have been suggested as means to tackling financial exclusion. Eradicating financial exclusion has been a major priority of the UK Government since the mid-1990’s onwards and is becoming increasingly important throughout Europe and elsewhere. A range of initiatives have been developed. Unlike in the US where policy aimed at dealing with financial exclusion has been mainly through the enactment of various legislation, in the UK the policy response to date has been characterised by Government as ‘facilitator and mediator’, with an emphasis on a partnership approach. In this ‘model’, the banks and the Post Office have a key role to play in helping to overcome financial exclusion. The main features of the various policy approaches taken are discussed in this chapter.

Government and financial sector partnership

Dealing with financial exclusion has become a major priority for the UK Labour Government since the mid-1990’s onwards. The UK Government established 18 PATs (Policy Action Teams) following the Social Exclusion Unit (SEU, 1998) report; PAT 14 is concerned specifically with financial exclusion. PAT 14 and the Cruickshank (2000) report comprise key parts of the policy context of the present UK Government’s developing approach to dealing with financial exclusion.

It is clear that there is no single cause of financial exclusion. Who you are, where you live, personal experiences (or lack of them) with financial services, financial literacy and individual prejudices, can all
exacerbate the problem. Most people without financial products are excluded through the combined effects of marketing, their own lack of financial literacy, pricing and inappropriate product structure. Although around 25 per cent of those excluded in the UK have used financial products in the past, the majority excluded have never used financial products at all. Some of these excluded (a relatively small group) have either been refused financial products or have consciously decided not to access them. Although some people experience short periods of financial exclusion, for others it can be longer term (even life-long).

Financial exclusion, then, is a complex, dynamic and apparently sustainable process: exclusion from basic products means that access to other kinds of financial services becomes even more difficult. As we have seen, there are many barriers to financial exclusion and a variety of damaging consequences. ‘Free market solutions’ unaided do not appear to be capable of tackling this problem.

In the UK there is a strong commitment from both Government and the financial services industry to seek and deploy appropriate ways of tackling financial exclusion. The Governor of the Bank of England has urged the big banks to tackle the problem of financial exclusion (Trenor, 1999). The Cruickshank Inquiry (2000) was concerned about the issue of financial inclusion and how it might be mitigated.

It is clear that FSFs have an important role to play in overcoming financial exclusion; there also appears to be a general consensus that they cannot do this by themselves. Financial services firms are guided mainly by commercial considerations and overcoming financial exclusion is unlikely to be achieved primarily on commercial grounds, at least in the foreseeable short term.

In the UK there is a strong consensus that partnerships offer the best route for tackling financial exclusion (FSA, 2000, para 7.3). These kinds of partnerships involve central government, regulators, local authorities, other commercial organisations and not-for-profit organisations. Whilst these partnerships are particularly important for tackling access problems, they are also seen to have a key role in tackling financial literacy and helping to reduce the psychological barriers of many who are financially excluded. The financial services industry is important in the key area of appropriate product design. Government has an important role to play as facilitator, mediator and regulator.

We saw earlier that there are many aspects of increasing access to financial services. The FSA (2000, para 7.5) summarises these as geographical access, access for those with disabilities, risk assessment and alleged racism.