

# LONDON ASSEMBLY

## Short changed: the financial health of Londoners



Economy Committee  
January 2018

Holding the Mayor to  
account and  
investigating issues  
that matter to  
Londoners

**LONDON**ASSEMBLY

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The Economy Committee scrutinises the work of the Mayor and investigates issues of interest to the public relating to economic and social development, wealth creation, the arts, sports and tourism in London.

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# Caroline Russell AM

## Chair of the Economy Committee



Many of us take it for granted that when faced with a financial shock, such as a sudden loss of income or the washing machine breaking down, we can draw on savings or borrow money on fair and affordable terms. But for a growing number of Londoners, the reality is that this kind of upheaval would bring them to crisis point.

As real incomes continue to fall and work, for many, becomes less predictable, the idea of ‘putting something aside’ has become increasingly difficult. And where in the past the banks might have stepped in to provide short-term financial support, the fallout from the financial crash has seen them increasingly pull back from lending to people and small businesses seen as less profitable and more high-risk.

In the place of banks, a market for payday lending and other forms of high-cost credit has emerged. There is a general perception that these are fringe lenders but use of their services is increasing. Worryingly, there is evidence people are using high-cost credit to pay for essential bills and not just for one-off financial shocks, leaving them exposed to a vicious cycle of debt.

Nevertheless, while a lot of attention has been paid to the high-cost credit providers, excessive overdraft charges and minimum payments on credit cards are often the biggest reasons why many Londoners are struggling with debt – more than a million, according to the latest research by the Money Advice Service.

Young people are perhaps the group most deeply affected by these issues. Their lives are often defined by economic uncertainty and financial insecurity. This generation has suffered the biggest drop in real wages of any group since the financial crash and need advice and support to manage their resources effectively. We should also recognise that young people are technologically adept and want very different things from financial services providers than generations before.

“In designing new financial products and services, we need to rethink our assumptions about how people on tight margins manage their money.”

Our investigation shows that financial exclusion is a complex issue. Helping more people access a bank account is an important aim, but we must also recognise that the mainstream banking system is not working for a growing number of Londoners. In designing new financial products and services, we need to rethink our assumptions about how people on tight margins manage their money, and provide advice and new financial services that work better for them.

This report is just the starting point to what we hope will be a bigger conversation led by the Mayor about financial inclusion, whether through challenging existing providers or enabling new and innovative partnerships; for example, between community banks and credit unions. The Mayor can play an important role in making London a city that gives people access to good quality, inclusive financial services, and the knowledge to support financial resilience in an increasingly unpredictable economy.

# Summary

London is a leading global financial centre, but many of its citizens are struggling to access quality and affordable financial services.

Declining real wages, increased income volatility, the squeeze on benefit payments, along with the increasing cost of living, have made it harder for many people to make ends meet.

And as banks have pulled back from providing credit to less profitable individuals and businesses following the financial crisis, more and more Londoners are turning to high-cost credit providers, such as payday lenders, to meet their needs.

But relying on high-cost forms of credit—not just for one-off payments but for essential bills—has resulted in unmanageable debt levels rising and more people feeling financially insecure.

A lack of data hampers our understanding of the scale of the problem in London. Better data would enable policymakers to understand the motivations and behaviours behind how people on low incomes borrow and save. And, in turn, would support the design of products and services that better meet their needs.

As the crunch on living standards continues, bold, and, potentially, transformative ideas are needed to support the financial resilience of Londoners.

Young people are more exposed to economic uncertainty and financial insecurity than generations before. They need support to access the right services and resources to be financially healthy. Financial education is a step in the right direction.

Targeted intervention towards school leavers is equally important as this age group are at a critical point in their lives in terms of the financial choices they will have to make. A specific focus on preventing fraud and identity theft can ensure fewer young people are financially excluded in the future.

Many of London's smaller businesses are also facing some of the challenges individuals do in accessing quality and affordable financial services. They too are turning to sub-prime lenders for credit. And as many of these businesses are often self-employed individuals establishing themselves as companies, they are overlapping their personal and business finances; with sub-prime lenders lending to the individual rather than the business. An absence of practical 'hands-on' advice is also leaving them increasingly vulnerable.

As the crunch on living standards continues, bold, and, potentially, transformative ideas are needed to support the financial resilience of Londoners. Locally-rooted, mission-led banks, lenders and credit unions can support those most in need. But they need help to extend their reach.

Innovation is poised to radically transform the financial services market. While innovation can lead to both positive and negative outcomes, there are a growing number of innovators harnessing new technologies for profit and for public good.

The Mayor has committed to tackle financial exclusion. The proposals in his draft Economic Development Strategy and Good Work Standard are welcome. But we would like to see him go further and bring together industry leads, fintech providers, not-for-profit organisations, local government, and the charitable sector to explore new ideas and innovations that can support the financial health and wellbeing of Londoners.



# Recommendations

## Understanding the scale of the problem

### Recommendation 1

The Mayor should commission a wide-ranging and representative annual survey of London households on their activities and interactions with financial providers to give policymakers and the industry a better understanding of how London's 'underbanked' transact, borrow and save.

## Advice services

### Recommendation 2

Local authorities in London should work together to share good practice and identify gaps in local welfare advice and money and debt advice services—as well as continue to review debt collection practices—with the aim that each borough develops a financial inclusion strategy.

## Young people

### Recommendation 3

The Mayor should work with London schools, the financial services industry and charitable sector organisations delivering financial education to build on, and harness, new and creative ways to deliver high quality, sustainable, financial education to London's young people.

#### **Recommendation 4**

The Mayor should work with the financial services industry, schools and colleges to create a young person's banking charter with the aim of ensuring every young person between the age of 16 and 18 in London has access to a bank account.

The charter should include a commitment from banks to provide young people with a bank account by default. In return, the Mayor should encourage banks, credit unions and financial education providers to support schools and colleges to teach young people about the benefits of banking, as well helping to raise awareness of scams through campaigns such as 'Take Five' – a fraud awareness campaign run by UK Finance.

#### **Business advice and mentoring**

#### **Recommendation 5**

The Mayor should lobby Government for an extended business advice line or webchat facility to be established to be more responsive to the time pressures many self-employed and microenterprises (SEMs) face, as well as recruiting mentors with 'real world' experience of running small businesses.

#### **Promoting affordable credit**

#### **Recommendation 6**

The Mayor should commission a 'money advice week' to promote affordable credit options, as well as debt advice, and use Transport for London advertising sites to help promote the credit union sector more widely in London.

#### **Recommendation 7**

The Mayor should ensure the GLA's microloan fund is promoted effectively to SEMs in London's poorest communities struggling to access affordable credit.

### **Recommendation 8**

The Mayor should explore how community banks and credit unions could be supported to work together to provide products and services that improve the financial health of Londoners.

### **Digital inclusion**

### **Recommendation 9**

The Mayor should refresh the Digital Inclusion Strategy with a focus on helping to improve the financial health of Londoners through digital technologies, recognising the link between digital and financial inclusion.

### **Influence and partnership working**

### **Recommendation 10**

The Mayor should convene a summit with industry leads, fintech providers, not-for-profit organisations, local government, and the charitable sector to explore new ideas and innovations that can support the financial health of Londoners.

# 1. Introduction

- London is a leading global financial centre, but many of its citizens are struggling to access quality and affordable financial services.
- There is evidence some mainstream banks are no longer serving the needs of those most in need of financial advice and support.
- High-cost credit providers, such as payday lenders, have stepped into the gap left by the banks.
- The result is more people feeling financially insecure: unable to access quality and affordable financial services, or the advice and support to make healthy financial decisions.

- 1.1 London is a leading global financial centre, but many of its citizens are struggling to access quality and affordable financial services. Declining real wages, increased income volatility, the squeeze on benefit payments, along with the increasing cost of living, have made it harder for many people to make ends meet. According to Trust for London, more than half (58 per cent) of Londoners in poverty (1.3 million) are in working families, and this share has more doubled in the last decade.<sup>1</sup>
- 1.2 The upshot is levels of over-indebtedness<sup>2</sup>—where the burden of debt becomes unmanageable or routine payments are missed—are rising in London. A report by the Money Advice Service in 2016 estimated around 17 per cent (1.1 million) of London’s population are over-indebted.<sup>3</sup>
- 1.3 There is evidence some mainstream banks are no longer serving the needs of those most in need of financial advice and support. Banks have become more targeted in their lending following the financial crisis in 2008. While pulling back from providing credit to ‘less profitable’ individuals and businesses is a rational response to previous, high-risk practices, it does have consequences. There are lower levels of bank lending in the areas of highest deprivation in London.<sup>4</sup>
- 1.4 High-cost credit providers, such as payday lenders, have stepped into the gap left by the banks. Despite the widespread perception these types of businesses are part of the ‘poverty industry’, they are now the mainstream for many people.
- 1.5 The result is more people feel financially insecure. This has social, emotional and economic costs. Reports by Government, the regulators, the financial services industry, religious bodies and think-tanks have assessed the scale of financial exclusion in the UK, and made practical recommendations to support those most in need.
- 1.6 But the relationship between financial exclusion and financial inclusion is not a binary one. People—and not just the poorest—move in and out of the banking system throughout their lives, and have complex relationships with a wide range of financial providers.

## What do we mean by financial inclusion?

According to research by Elaine Kempson and Sharon Collard in their report, 'Developing a Vision for Financial Inclusion',<sup>5</sup> financial inclusion can be separated into four main strands:

- The ability to manage day-to-day financial transactions through appropriate bank accounts.
- The ability to meet one-off expenses (both predictable and unpredictable) through savings and appropriate credit and insurance products.
- The ability to manage any loss of earned income.
- The ability to avoid/reduce problem debt through access to appropriate advice and education.

- 1.7 Our report sets out what is known about the scale of the problem in London. We deliberately focus not just on those 'unbanked' (i.e. those without bank accounts) but also those the industry describes as 'underbanked'— who may hold or have some form of bank account but are not able to access quality and affordable financial services, or the advice and support to make sustainable financial decisions.
- 1.8 Despite the lack of data available at a regional level, our work draws on a large bank of research, as well oral and written evidence taken from expert witnesses at public meetings, interviews, and through a series of roundtable sessions.
- 1.9 While recognising that financial insecurity affects many groups of Londoners, we focus on the experiences of young people and the self-employed and small business owners. These are groups the Mayor can most effectively support through his growing links with the Further Education (FE) sector and his Local Economic Action partnership (LEAP).
- 1.10 But it may also be time for the Mayor to lead a bigger conversation about financial inclusion; to support bolder initiatives to challenge providers more directly; and to help harness new, potentially transformative, mission-led innovations. Our report sets out some of the possible ways forward and begins to map out a more far-reaching agenda for improving access to quality and affordable financial services to support the financial wellbeing of all Londoners.

## 2. Mapping the scale of the problem

### Key findings

- There is a lack of data around the extent to which people are 'underbanked' in London.
- Better data would enable policymakers to map the scale of the problem, and understand the motivations and behaviours behind how people on low incomes borrow and save.
- This, in turn, can support the design of products and services that better meet their needs of those struggling to access quality and affordable financial services.

## Mapping the scale of the problem

### Access to bank accounts

- 2.1 In recent years, policymakers have tended to focus on ways to get those without bank accounts (the 'unbanked') banked. There are valid reasons for this. At its most basic, a bank account allows a person to make and receive payments and store money securely. But it can also help someone get a job, secure accommodation, pay essential bills, and prove their identity.
- 2.2 Policy intervention has been successful. Driven by the introduction of 'basic bank accounts'<sup>6</sup> and the roll out of Universal Credit, which will be paid directly into bank accounts, more people than ever have access to a bank account. The number of people in the UK without a current or basic bank account in their name has fallen from 4.4 million in 2002-3 to around 1.5 million people in 2015-16.<sup>7</sup>
- 2.3 Identification requirements still bar some. Migrants, gypsies and travellers, homeless people, people leaving abusive partners, young people leaving local authority care, and people with learning difficulties and poor mental health, can all struggle to get access to a bank account if they are unable to provide standard forms of identification to meet money laundering regulations. And despite policy changes to relax the restrictions, some people, such as those living in temporary accommodation, may still be denied access despite having the required documentation.
- 2.4 While the number of people with access to a bank account has increased, there is evidence many are choosing not to use them. Estimates suggest around eight million people in the UK have access to a bank account but do not actively use it.<sup>8</sup> In London, this could be as many as a million people.
- 2.5 The reasons why people choose not to use a bank account vary, but it is often motivated by a single determining factor. A preference for cash, a lack of trust in banks, or services that do not extend beyond simply the transactional can all prevent someone from using a bank account. More data is needed to understand the extent of this issue in London, and the motivations and behaviours behind it.

### Access to savings and affordable credit

- 2.6 As well as having the ability to manage day-to-day finances effectively, another important aspect of being financially secure is the capacity to absorb financial shocks, either through drawing down on existing savings or being able to access affordable credit.
- 2.7 Saving rates in the UK are currently at historically low levels. This is partly because of low interest rates, but declining real wages and the squeeze on



benefit payments are making it harder for many people to ‘put something aside’. And for those that can, many mainstream savings products are not working for them. As Sian Williams of Toynbee Hall<sup>9</sup>, a frontline charity based in the East End, told us: “Many more people are saving in some informal way than the figures would suggest [...] we need to start designing products and services that meet the way people really behave.”<sup>10</sup>

- 2.8 Affordable credit is also scarce for many people living on low incomes. As credit markets have contracted, more people have turned to payday lenders and other high-cost credit providers to absorb financial shocks. According to Provident Financial, there were between ten and 12 million users of the ‘non-standard’ credit market in the UK in 2016.<sup>11</sup>
- 2.9 A lack of affordable credit is contributing to the ‘poverty premium’ many low-income households face. According to research by Bristol University, the poverty premium—the extra charges poorer people face for essential goods and services—is costing low-income households on average £490 a year; high-cost credit, such as payday loans, is a major contributor to this (see table).<sup>12</sup>

Type of premium	Examples of premiums (per year)	Number of low-income households* incurring this type of premium
Prepayment meters (PPM)	PPM for electric (£35) or gas (£35)	2.6m (33%)
Non-standard billing methods	Paying energy bill on receipt (£38); Paying contents insurance monthly (£9); Paying car insurance monthly (£81).	3.9m (50%)
Not switched	Not switched energy provider (£317)	5.8m (73%)
Paper billing	Paper bill for electric or gas (£5); Paper bill for landline/broadband/mobile (£23)	3.9m (49%)
Area-based premiums	Car insurance in a deprived area (£74); Difficulty accessing good value shops (£266)	5.8m (73%)
Insurance for specific items	Insurance for individual appliances (£132); Mobile phone insurance (£60)	1.8m (23%)
Access to money	Fee charging ATMs (£25); Cheque cashing services (£30)	2.3m (29%)
Higher-cost credit	Payday loan (£120); Doorstep/home collected credit (£540); Rent-to-own (£315)	1.3m (16%)

\*Income is less than 70% of median income

Source: Bristol University; Joseph Rowntree Foundation

### Expensive credit or no credit at all?

- 2.10 A lot of attention has been paid to payday lenders and other high-cost credit providers. Regulation in the market for payday loans and high-cost credit has seen more than 1,400 consumer credit firms either refused authorisation or withdraw their applications since 2014.<sup>13</sup> But, while driving out sub-standard practices is clearly a positive development, banning these lenders is unlikely to stop the demand for this type of credit.
- 2.11 There needs to be a better understanding of how and why people use payday loans and other high-cost credit providers. Payday loans are intended to be used on a short-term, intermittent basis for unexpected or emergency expenses, but there is evidence they are increasingly being used for necessary expenses such as utilities, rent or food. Research by StepChange, the debt advice charity, found more than a million people in the UK were using high-cost credit to cover everyday household expenses.<sup>14</sup>
- 2.12 People who use high-cost credit are not always acting irrationally. Payday lenders and high-cost credit providers are often lenders-of-last-resort for borrowers with no other options. In some circumstances, expensive credit is better than no credit at all.
- 2.13 And worryingly, the stigma of payday loans can result in their users being barred from accessing affordable credit in the future. As Sian Williams observed: “We are definitely seeing credit scoring agencies and users of credit scoring agencies making a black mark for using short-term, high-cost credit.”<sup>15</sup>
- 2.14 It is also worth remembering that unarranged overdraft fees and minimum payments on credit cards are often more expensive than payday loans. According to research by Which?, in some cases, banks are charging consumers more than 12 times the cost of a payday loan for an unarranged overdraft. Research by StepChange found its clients were charged an average of £225 a year in unarranged overdraft fees.<sup>16</sup> And for those that can afford to make the minimum repayments on their credit card, they can often get locked into expensive and long-term debt. According to the Financial Conduct Authority, 1.6 million credit card holders are making “systematic minimum repayments.”<sup>17</sup>

### Understanding the nature and scale of the problem

- 2.15 A wide-ranging and representative annual survey of London households’ activities and interactions with financial providers would give policymakers and the industry a better understanding of how and why people on low incomes borrow and save. This would enable them to develop and design products and services that work more effectively for them.

- 2.16 The survey could be based on the Federal Deposit Insurance Corporation (FDIC) National Survey of Unbanked and Underbanked Households, which is used in the US.<sup>18</sup> The FDIC, in partnership with the US Census Bureau, has conducted its survey biennially since 2009. The survey provides estimates of US households without a bank account, as well as the proportion of those with an account but who have accessed alternative financial services in the past 12 months. The survey also provides “insights to inform efforts to better meet the needs of these consumers within the banking system.”<sup>19</sup>

### **Recommendation 1**

The Mayor should commission a wide-ranging and representative annual survey of London households on their activities and interactions with financial providers to give policymakers and the industry a better understanding of how London’s ‘underbanked’ transact, borrow and save.

#### **Accessing advice and support**

- 2.17 It is impossible to make financially healthy decisions without the right information. But take-up of credit and debt advice is still comparatively low. A report by Citizens Advice found only ten per cent of people in problem debt had spoken to a debt advisor in the past year, and instead relied on informal support from friends and family.<sup>20</sup>
- 2.18 Yet targeted and expert financial advice and support can be more effective in helping people deal with financial pressures. Previous research by Citizens Advice identified that people would be more willing to take financial advice if they were offered it at key moments in their lives; for example, having a baby, moving house or during severe illness.<sup>21</sup>
- 2.19 The roll out of Universal Credit is likely to increase demand for financial advice and support from local authorities. But our call for evidence found a number of local authorities in London were concerned about their capacity to respond to this demand. Local authorities in London should work together to share good practice and identify gaps in local welfare advice and money and debt advice services, with the aim that each borough develops a financial inclusion strategy. The Financially Inclusive Tower Hamlets programme, which was initiated by Toynbee Hall in conjunction with the London Borough of Tower Hamlets and local voluntary sector organisations, demonstrates the potential to galvanise limited resources and bring together multiple organisations at a borough level to tackle the effects of financial exclusion.<sup>22</sup>
- 2.20 While there are pockets of good practice, local authorities in London should also continue to review their debt collection practices, and identify ways they

can support debtors by offering more flexible ways to repay debt. For example, through realistic payment plans, write-offs, and a ‘breathing space’ period for those in serious debt. Research by Citizens Advice found over two thirds (69 per cent) of debtors in council tax arrears found it harder to clear their debts because of the council’s collection processes.<sup>23</sup> The Money Advice Trust ‘Stop the Knock’ campaign identified ways councils could improve their debt collection processes.<sup>24</sup> The Local Government Association has also been working with Citizens Advice to encourage local authorities in England to adopt a new protocol to improve council tax collection.<sup>25</sup> We would like to see all London boroughs adopt this standard.

## **Recommendation 2**

Local authorities in London should work together to share good practice and identify gaps in local welfare advice and money and debt advice services—as well as continue to review debt collection practices—with the aim that each borough develops a financial inclusion strategy.

# 3. Young Londoners

## Key findings

- Young people are more exposed to economic uncertainty and financial insecurity than generations before.
- They need support to access the right services and resources to be financially healthy. Financial education is a step in the right direction.
- Targeted intervention towards school leavers is equally important as this age group are at a critical point in their lives in terms of the financial choices they will have to make.
- A specific focus on preventing fraud and identity theft can ensure fewer young people are financially excluded in the future.

# Young Londoners

## Generation debt

- 3.1 There is growing evidence more young people are finding themselves in financial difficulty. The Financial Conduct Authority (FCA)'s Financial Lives Survey 2017 report found approximately 44 per cent (1.8 million) of people in the UK in 'financial difficulty'<sup>26</sup> were between the ages of 18 and 34. And around 40 per cent (3.2 million) of those over-indebted in the UK are from the same age group – commonly known as millennials.<sup>27</sup>
- 3.2 The reasons why more young people are in financial difficulty are multi-faceted. But increasing housing costs, declining real wages, and insecure employment are contributing to rising financial instability for London's young people. According to a survey by the Young Women's Trust, more than half (56 per cent) of 18 to 30 year olds in London worry about how much their job pays, while around a quarter (27 per cent) say they are in debt all the time.<sup>28</sup>
- 3.3 Faced with rising debt and increasing living costs, young people are struggling to put something aside. According to LV=s (Liverpool Victoria) report, Income Roulette, four in ten late-millennial (25-34 years old) renters were not able to save any money each month. And despite perceptions that young people are prioritising live-for-now spending over saving, only 13 per cent from the same study said this was an obstacle to saving. Instead, debt was the biggest barrier, with student loans (40 per cent) and credit card bills (32 per cent) the main causes.<sup>29</sup>
- 3.4 Young people are more likely to use high-cost credit to cover living costs. The FCA's survey found around a third of all users of high-cost loans (1.1 million) are 18-34 year olds. And young people account for more than half (300,000) of all payday loan users. Andrew Bailey, the Chief Executive of the FCA said: "We should not think this is reckless borrowing. This is directed at essential living costs."<sup>30</sup>
- 3.5 It is perhaps not surprising then that young people are less satisfied with their financial situation than older age groups. According to the FCA survey, 56 per cent of 18-34 year olds report low satisfaction with their financial circumstances compared to 37 per cent of the rest of the UK adult population.

Around a quarter (27 per cent) of 18 to 30 year olds in London say they are in debt all the time.

*Survey by the Young Women's Trust*

- 3.6 And there is increasing evidence money worries are negatively affecting young people's mental health. A survey by the Varkey Foundation of more than 20,000 15-21 year olds from 20 countries across the world, ranked the UK nineteenth on a mental wellbeing score. And over half (54 per cent) of the UK millennials questioned said money was one of their top three causes of anxiety.<sup>31</sup>

"Getting out of debt and getting back on my feet is not a straightforward thing. I cried yesterday when I found out my landlord is increasing my rent. Last year I had to move out because my rent became too high. I thought I would have to move into a hostel."

*K. 25, Fundraiser*

#### Financial education in London schools

- 3.7 More than ever, children and young people need to be equipped with the right tools and resources to be financially healthy. The FCA survey found 40 per cent of 18-24 year olds were less confident about managing their money, compared to 22 per cent of the rest of the UK adult population.
- 3.8 Financial education and advice in schools is a step in the right direction to support young people in the future. On the back of new legislation to make financial literacy education part of the statutory secondary school curriculum, the financial services industry and charitable sector has offered practical support to schools to deliver financial education programmes.
- 3.9 Yet financial education is still not actively taught in many schools. According to the Money Advice Service, only four in ten students in local-authority-maintained schools said they had received financial education. In contrast, approximately 58 per cent of students in academies, free schools and independent schools said they were taught financial education, despite these schools being exempt from any statutory duty to deliver it.
- 3.10 Financial education is often given low priority in schools. It is mainly taught as part of citizenship classes where it is crowded out by other topics. According to Russell Winnard of Young Money: "It went into probably the worst subject on the National Curriculum that it could have gone into [...] If you go and look at the programme of study, it is clunky, it just sits there as a tagged-on bullet point at the end."<sup>32</sup> Instead, he argues financial education should be taught as part of personal, social, health and economic (PSHE) education.
- 3.11 Funding financial education is also preventing more schools from teaching it. According to Guy Rigden of MyBnk, which predominately works with London schools to deliver financial education, there is a willingness from schools to teach it, but the cost was holding them back. He said MyBnk recently offered to pay around two thirds of the cost, but many schools told him: "we simply do not have any money for this."<sup>33</sup>

3.12 A reduction in private sector investment in financial education has not helped. According to Sarah Porretta of Lloyds Banking Group, putting financial education on the school curriculum had the unintended consequence of deterring private funding: “Many of the banks had huge schools’ programmes and the bottom fell out of those funding streams, because as soon as it was on the curriculum, it appeared to be a *fait accompli* and a lot of those banks changed onto other things.”<sup>34</sup> And while some major banks are still delivering financial education programmes, many have ended them.

3.13 Still, there are signs of a renewed focus on promoting financial education in schools. This is partly being driven by the FCA’s interest in vulnerable customers and how banks serve them. As Sarah Porretta observed: “Financial education is part of that vulnerability agenda. That is perhaps where those green shoots are coming from. Banks are rewiring the way they engage vulnerable customers.”<sup>35</sup>

“It would be helpful to go to a bank, because they know about it; it would be much better if they would help us, but I think if we go there and ask them [about managing our money] they will say ‘oh, that’s not what we do, that’s up to you’.”

A. 16, College student

3.14 The Mayor said he wants all young Londoners to “leave education with numeracy skills and an understanding of finance.”<sup>36</sup> While the Mayor has limited powers to directly influence primary and secondary education, he can play an important enabling role. We would like to see the Mayor work with London schools, the financial services industry and charitable sector organisations delivering financial education to build on, and harness, new and creative ways to deliver high quality, sustainable, financial education to London’s young people.

### Recommendation 3

The Mayor should work with London schools, the financial services industry and charitable sector organisations delivering financial education to build on, and harness, new and creative ways to deliver high quality, sustainable, financial education to London’s young people.

#### Supporting the financial health of London’s school leavers

3.15 The Mayor can play a critical role in supporting the financial health of London’s school leavers. Through his growing links with the FE sector, the Mayor can encourage initiatives to support the financial health of 16 to 19 year olds in London. This age group is at a critical point in their lives in terms



of the financial choices they have to make. Many sign contracts for mobile phones and gym memberships without a clear understanding of the commitments they are making or the true costs involved. 'Just-in-time' financial support and advice at key moments in a person's life can have a positive impact on their financial resilience.

- 3.16 Fraud and identity theft are the main areas this support should focus on. Young people are more likely to be excluded by banks because of their vulnerability to fraud. The rise of so-called 'mule accounts' where a young person is enticed by criminals into accepting a job on the condition they transfer some of the money they receive into another bank account is a form of money laundering. And the prevalence of this scam has made banks understandably wary of offering services to those most vulnerable to it.

"I got my phone from Argos, and I signed the contract for 12 months... but around February, someone stole my phone, but because it's a contract I have to pay, and pay, and pay... and that was the worst because I didn't even have the phone"

*G. 16, College student*

- 3.17 Young people's vulnerability to fraud and identity theft is highlighted in any discussion with London colleges. And in surveys by Young Money, it regularly features as one of the most important issues for teachers and young people. Sophie Knight, a Senior Student Advisor at United Colleges Group, often sees young people struggling to access financial services because of mistakes they had made with banks or other financial providers in the past:

"They don't understand what it means to go wrong with your bank at the age of 16 and then not to be able to get a bank account. Just like what you do online has an impact in years to come, what you do with your money, and what you then do with the card or what you allow to happen to your card, and all those kind of things, is a little bit missing in their understanding."<sup>37</sup>

- 3.18 But schools and colleges need better resources and training to teach young people about the risks. As Russell Winnard observed: "In order to teach young people about identity theft and fraud you have got to understand it. There is a lack of high-quality resources in those areas because they are challenging."<sup>38</sup>
- 3.19 Banks also have a responsibility to educate young people about the dangers. While banks are understandably cautious about giving young people bank accounts, they should not be automatically excluded. Without a financial 'footprint', the life chances of these young people are severely constrained.
- 3.20 We would like to see the Mayor work with the industry, schools and colleges to create a young person's banking charter with the aim of ensuring every young person between the age of 16 and 18 in London has access to a bank

account. The charter should include a commitment from banks to provide young people with a bank account by default. In return, the Mayor should partner with banks, credit unions and financial education providers to support schools and colleges to teach young people about the benefits of banking, as well helping to raise awareness of scams through campaigns such as 'Take Five' – a fraud awareness campaign run by UK Finance.

#### **Recommendation 4**

The Mayor should work with the financial services industry, schools and colleges to create a young person's banking charter with the aim of ensuring every young person between the age of 16 and 18 in London has access to a bank account.

The charter should include a commitment from banks to provide young people with a bank account by default. In return, the Mayor should encourage banks, credit unions and financial education providers to support schools and colleges to teach young people about the benefits of banking, as well helping to raise awareness of scams through campaigns such as 'Take Five' – a fraud awareness campaign run by UK Finance.

- 3.21 It is important to recognise that many young people are careful with their finances and should not be unfairly stigmatised as fiscally irresponsible. The fact remains young people have suffered the biggest drop in real wages of any generation since the financial crisis,<sup>39</sup> making it often harder for them to manage their finances and stay out of debt.
- 3.22 Young people are developing different relationships with their banks than previous generations. They see their associations with banks as transactional rather than something more personal, and are increasingly turning to online alternative providers that meet their needs and match their lifestyle. The increasing popularity of mobile banks, such as Monzo, 'digital wallets', and budgeting apps underlines this. The world of financial services is changing, and young people are driving this change.
- 3.23 But for those young people facing barriers to access or lacking the skills to manage their finances online, they need help and support. That is why it is vital banks, credit unions, schools, colleges, and charities continue to work together to ensure they are not left behind, and have the tools and resources to make financial decisions which will improve their life chances.

# 4. London's self-employed and small business owners

## Key findings

- Many of London's smaller businesses are facing some of the challenges individuals do in accessing quality and affordable financial services.
- As banks have constrained lending, smaller businesses are turning to sub-prime lenders for credit.
- But many of these businesses—which are often self-employed individuals—are overlapping their personal and business finances: with sub-prime lenders lending to the individual rather than the business.
- An absence of practical 'hands-on' advice is leaving them increasingly vulnerable.

## London's self-employed and small business owners

- 4.1 There is a lot of research focused on the challenges SMEs (small and medium-sized enterprises) face to thrive and grow, particularly around access to finance. This is because of the important role SMEs play in London's economy: SMEs represent around half of all employment in the capital.
- 4.2 Conditions for accessing finance for SMEs have improved since the financial crisis. The rise of peer-to-peer lenders and other alternative finance providers has helped close the SME lending gap. Since 2010, Funding Circle, which is backed by the British Business Bank, as well as other mainstream banks, has lent more than £2bn to small UK businesses.<sup>40</sup>
- 4.3 Policymakers have tended to focus on SMEs with growth potential in highly profitable sectors, and for good reason. The Mayor's office, through the London Economic Action Partnership (LEAP), has led some innovative work in this space with some tangible results. The London Co-Investment Fund—an £85 million public-private venture capital fund—has invested in 90 companies in high-growth sectors such as science, digital and technology, and has created more than 600 jobs.<sup>41</sup>
- 4.4 But many smaller businesses supporting London's real (non-financial) economy are facing some of the challenges individuals do in accessing quality and affordable financial services, as well as the advice and support to be financially healthy.
- 4.5 There is evidence that commercial banks are lending to fewer smaller businesses because of the costs involved in assessing the risks.<sup>42</sup> This is a particular issue for businesses with either inadequate credit or trading history. Bank branch closures may also be constraining lending. A report by Move your Money found "bank branch closures dampen SME lending growth by 63 per cent on average in postcodes that lose a bank branch."<sup>43</sup>
- 4.6 The problem has been exacerbated by the rapid rise in the number of sole trader businesses in the capital. Since 2010, the total number of SMEs in London has increased by 40 per cent (around 300,000 new businesses), and sole trader businesses, which employ no other person, make up the majority of (around 85 per cent) of these new businesses.<sup>44</sup>
- 4.7 The rise of the gig economy means many of these sole trader businesses are self-employed workers establishing themselves as companies. To separate out these businesses from the wider SME market, it is helpful to use the RSA's (the Royal Society for the encouragement of Arts, Manufactures and Commerce) definition of self-employed and microbusinesses (SEMs) for the remainder of this report.

## The rising cost of credit for SEMs

- 4.8 As for many of London's financially marginalised, it is not access to credit but the cost of credit which is leaving SEMs vulnerable. The market for business lending has changed rapidly in recent years as a variety of forms of finance, including invoice finance, merchant advances and payday lending, has emerged. Many SEMs are overlapping their personal and business finances: relying on a wider range of sub-prime lenders willing to lend larger and larger amounts based on the individual rather than the business. As Faisal Rahman of Fair Finance, a responsible finance provider, told us:

"The average customer coming to Fair Finance five years ago, was a small business lending customer, would probably have one or two facilities that might have included an overdraft. Today the average small business loan customer coming to us has around six different forms of credit. Some of those credit providers are charging anything, once you have annualised the interest charge, from 70 per cent up to 160 per cent."<sup>45</sup>

- 4.9 The lack of regulation in business lending has been a major factor in more sub-prime lenders entering the market. Unlike consumer lenders, business lenders are not obliged to disclose their annual interest rate, total cost of credit, or any other comparable rate of funding, in a standard format. This is leading to some SEMs paying more for credit than they had anticipated, and a general lack of transparency in the market.

## Access to advice and support

- 4.10 For many SEMs, the pathway to financial sustainability is not just through access to finance but quality advice and support. While there are many advice services available to businesses, there is a lack of clarity about when the information is free and when it becomes formal advice with legal liabilities and regulatory constraints.
- 4.11 Business advice and support is poorly viewed by many SEMs. There is an absence of practical 'hands-on' advice for SEMs to help manage their creditors or reorganise their finances. Current models of business advice and support are also seen as largely inaccessible. As Faisal Rahman noted, SEMs struggle with time: "They do not have the time to go to a pointless workshop or sit in a room talking to someone. What they really want is a bit of support to identify the problem and then to go and find out how they can fix it."<sup>46</sup>
- 4.12 But the transition from face-to-face advice to online processes has not resulted in innovative models that are more responsive to the time pressures SEMs face. There is a clear role for technology to play in ensuring good quality advice is delivered in an appropriate way to SEMs.

- 4.13 Mentoring can play a role in supporting new businesses. But finding the right people can be difficult. There is little point in working with a mentor who does not have direct experience of managing a small business, for example. Mike Conroy of UK Finance agreed that more could be done to “bring people in who have been there and done it with real businesses.”<sup>47</sup> It was also generally agreed that mentoring is more helpful for growth businesses than start-ups.
- 4.14 The LEAP offers business advice and support to SMEs through its Growth Hub. The Hub, which is run as part of the National Business Support Helpline, provides a business helpline, as well as a live webchat facility, but both facilities only operate Monday to Friday between 9am-6pm. The LEAP also runs a service called Start, Scale, Grow, which offers one-to-one “mentoring with business experts and masterclasses in financial planning and digital marketing.”<sup>48</sup>
- 4.15 While these services are useful, we would like to see the Mayor commit to improving the offer for London’s SEMs. This could include lobbying for an extended hours business advice line or webchat facility to be established to be more responsive to the time pressures many SEMs face, as well as recruiting mentors with ‘real world’ experience of running small businesses.

### **Recommendation 5**

The Mayor should lobby Government for an extended business advice line or webchat facility to be established to be more responsive to the time pressures many self-employed and microenterprises (SEMs) face, as well as recruiting mentors with ‘real world’ experience of running small businesses.

# 5. Mission-led banking and innovation

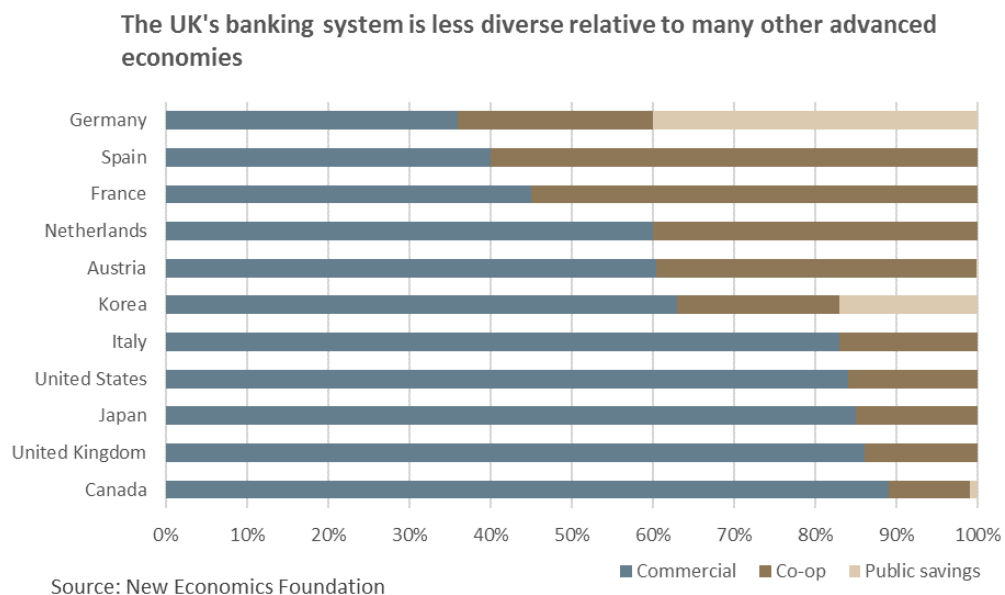
## Key findings

- Unlike many of its European counterparts, the UK banking system is heavily reliant on shareholder-owned banking institutions.
- A more diverse banking system would support more diverse lending to reach many of London's underbanked.
- Innovation is poised to radically transform the financial services market.
- While innovation can lead to both positive and negative outcomes, there are a growing number of innovators harnessing new technologies for profit and for public good.

## Mission-led banking and innovation

### Mission-led banking

- 5.1 The UK's banking system is heavily reliant on a handful of shareholder-owned banking institutions. In contrast, most other advanced economies have far more diverse banking systems, with loans and deposits distributed across different types of banks, including co-operative banks, public banks and large commercial banks. Research by the New Economics Foundation shows the level of disparity between the UK and other countries (see chart).



- 5.2 A more diverse banking system can support more diverse lending. There is evidence stakeholder banks can outperform commercial shareholder banks when it comes to lending to the real economy. According to research by the New Economics Foundation, stakeholder banks lent 66 per cent of assets to the real economy, compared to 37 per cent by commercial banks.<sup>49</sup> That is why we would like to see the Mayor help credit-unions, responsible finance providers and mission-led banks extend their reach to support Londoners.

### Credit unions

- 5.3 Credit unions are savings co-operatives that can offer more sustainable and affordable sources of credit to low-income households. For example, London Mutual and London Community Credit Union offer a range of services and have large memberships as they have grown across Borough boundaries.
- 5.4 Many credit unions are supporting innovative work to help people make sound financial decisions. Sian Williams highlighted the work Toynbee Hall is doing with credit unions to help young people access housing by developing a rent deposit product, while also providing financial education programmes.



- 5.5 The London Assembly has previously called for greater awareness of the credit union sector. Our report in 2014, 'Final demand: personal problem debt in London', recommended the Mayor establish a 'money advice week' to promote affordable credit options, as well as debt advice services.<sup>50</sup> We continue to make this call, as well as recommending, as we did in 2014, that the Mayor use Transport for London advertising sites to promote the credit union sector more widely in London.

### Recommendation 6

The Mayor should commission a 'money advice week' to promote affordable credit options, as well as debt advice, and use Transport for London advertising sites to help promote the credit union sector more widely in London.

- 5.6 While credit unions can play an important role in supporting the financial health of Londoners, they will always be limited in their ability to reach those facing financial insecurity or on low incomes. Because of legal restrictions,<sup>51</sup> credit unions cannot scale-up to spread the risk of taking on more vulnerable clients or lend to businesses. And while there is a lack of data on credit unions' membership profile, there is evidence members tend to be in employment and have a relatively stable financial profile. This partly explains why lending growth has not kept pace with deposits in the sector.<sup>52</sup>
- 5.7 Instead, credit unions should be seen as one of a number of important players in the sphere of mission-oriented banking. Responsible Finance Providers (RFPs) are another.

### Responsible Finance Providers

- 5.8 RFPs are not restricted in the same way credit unions are. Unlike credit unions, RFPs, such as Fair Finance in East London, do not have members and do not take deposits. There is also no cap on the level of interest that RFPs can charge on loans. And while the loans they offer tend to have higher interest rates than what credit unions offer, they are focused on a riskier customer segment and are still below those of payday lenders and other high-cost credit providers. RFPs cater for businesses as well as individuals, and are often funded through a combination of commercial finance from banks as well public funding.
- 5.9 RFPs lend to some of the UK's poorest communities. According to Responsible Finance, the trade body representing RFPs in the UK, more than a third of the individuals RFPs lend to are in the "UK's 45 per cent most disadvantaged areas." £22 million was lent to individuals in the form of small loans in 2017.<sup>53</sup>

- 5.10 Similarly, RFPs' business lending is targeted at smaller and younger businesses struggling to access finance because of either inadequate credit or trading history. According to figures produced by Responsible Finance, more than £67 million was lent to SMEs in 2017; the bulk of which was to microbusinesses less than two years old.<sup>54</sup>
- 5.11 RFPs can also help businesses become investment ready. Many RFPs offer business support services which can enable a business to demonstrate to future lenders a track record in borrowing and repayment. These assurances can then allow the businesses RFPs support to access mainstream finance in the future.
- 5.12 But many RFPs are struggling to cover the cost of defaults. Because RFPs, in general, lend to 'hard to reach' communities, marginal businesses or individuals that require more support than just a loan, they have a higher default rate than many commercial lenders. In 2017, nine per cent of loans made by RFPs were in arrears for 90 days or more, and nine per cent were written off.<sup>55</sup>
- 5.13 RFPs are, in many ways, at a crossroads. Until now, the majority of RFPs have relied on significant levels of public funding to operate. But government funding is being withdrawn. Some RFPs are adapting their model in response. For example, Newable, formerly GLE OneLondon, has achieved financial and operational sustainability by lending to more secure and larger businesses.
- 5.14 In contrast, Fair Finance, which does not rely on government funding, lends to consumers and businesses at higher rates than many other RFPs but has grown significantly in recent years. It has been able to raise funding through socially-minded investment and partnered with a number of banks. Its lending profile is diverse and covers some of the most deprived communities in London.

## Fair Finance

Fair Finance is a social business, launched in East London in 2005 by Faisal Rahman OBE. The business has evolved from a small branch in London to a national presence. Fair Finance offers both personal and business loans as well as money advice. It has four branches across London, as well as an online presence, and has developed partnerships with local community organisations, housing associations, banks and mobile fintech providers.

Fair Finance's typical personal loan and term is £500 over six months. These loans are typically for washing machines or other household items. Its Annual Percentage Rate is around 136 per cent. For the same amount and duration, Fair Finance's loans (£642.50) work out significantly cheaper than comparable high-cost credit loans, which can total anywhere between £780-1,000.

Fair Finance also offer business loans of up to £50k to small businesses and entrepreneurs. While initially focused in London, this is now a national service.

Fair Finance has pioneered data sharing on its lending activity. It publishes on its website all the personal and business loans, by volume and value, it has made since its launch in 2005, as well as providing key demographic data. The data shows the majority of its loans are to postcodes in the UK's highest areas of deprivation. And almost two-thirds of its loans are to women.

Since its launch, Fair Finance has helped over 30,000 financially excluded Londoners and financed over 300 businesses employing nearly 1,000 people. It has lent over £25m with almost all the money coming from banks and social investors.

- 5.15 While there is an ongoing debate around the extent to which RFPs should be publicly funded, RFPs have enormous potential to tackle market failure, leverage private finance, and create wider economic value. There is an opportunity for the Mayor to support the responsible credit sector in the future by using existing SME funding provision to enable RFPs to support SEMs in London struggling to access affordable credit.
- 5.16 The GLA is taking under its control an SME 'fund of funds' worth £100 million.<sup>56</sup> Part of this will include a £5 million microloan fund focused on supporting microenterprises. We would like to see the Mayor ensure the fund is promoted effectively to SEMs in London's poorest communities struggling to access affordable credit because of a lack of credit history or assets, with a view to involving RFPs in its delivery in the future.

## Recommendation 7

The Mayor should ensure the GLA's microloan fund is promoted effectively to SEMs in London's poorest communities struggling to access affordable credit.

## Community banking

- 5.17 Community banks also offer the potential to provide financial services with a social aim. As with credit unions, community banks take deposits from individuals and businesses, invest it safely, and lend it out. But where community banks can differ from credit unions is in their ability to scale-up by sharing risk-pooling infrastructure. This model of banking represents around a third of all banking assets in Germany.
- 5.18 Evidence from Germany suggests community banks are better at maintaining lending in downturns. Because of their 'local' focus, community banks, as with RFPs, can make lending decisions using non-standard and soft information (information based on the subjective interpretation of the person collecting it), which is too costly for mainstream banks to source.
- 5.19 Community banks can also be better placed to lend to the real economy. Being accountable to stakeholders rather than shareholders means there is less pressure to generate short-term profits. As Tony Greenham, Deputy Chair of the Greater London Mutual, told us, "they are profit-making, not profit-maximising", which allows them to provide patient capital—where an investor is willing to forgo an immediate return on their investment in anticipation of more substantial returns in the future—to local businesses.
- 5.20 There are already examples of local authorities investing in community banks. Portsmouth Council has approved a £5 million investment in Hampshire Community Bank, and the Cambridge Local Government Pension Fund were co-founders and joint-investors of the Cambridge & Counties Bank, along with Trinity College, University of Cambridge. Warrington Borough Council has also recently invested £30 million to acquire a 33 per cent stake in Redwood Bank, a challenger bank.
- 5.21 Plans are in place for a community bank in London. The Greater London Mutual Bank (GLM) is currently seeking catalyst investment in its co-operative community banking model. The bank hopes to serve both individuals and businesses by offering individuals a "full-service current account regardless of the customer's credit history or potential profitability to the bank", and business accounts for a flat fee, with access to cash deposit and withdrawal services.
- 5.22 The GLM model has several potential advantages. First, it is scalable so it will be able to serve all of London, rather than a specific geographic location. Second, by marketing itself to more profitable customers, it will be able to use an element of cross-subsidy to bear the higher transaction costs of providing affordable credit to individuals and businesses in London currently struggling to access it. And third, as the model is profit-making, rather than profit-maximising, it can focus on providing credit to individuals and businesses

using soft and non-standard information that requires skilled staff with the time and resources to acquire it.

- 5.23 But to succeed, the GLM requires public investment. Because of its focus on providing patient capital, the model is less attractive to shareholders looking to produce a speedy, high return on their investment. Instead, community banking models, as in Germany and Switzerland, rely on state investment to enable them to scale-up and to perform the dual mission of supporting the local economy and providing a fair return for investors.
- 5.24 Any public investment brings risk, but with the right safeguards we believe the GLM model could, in the future, play a complementary role to credit unions and RFPs, in supporting individuals and business in London struggling to access quality and affordable financial services. These safeguards would include robust governance arrangements, and a commitment to lend only using deposits and to not borrow from, or invest, in wholesale financial markets.
- 5.25 There are already conversations taking place between the GLM and credit unions about working together to provide products and services that complement and reinforce one another. We would encourage the Mayor to explore how community banks, like the GLM, and credit unions could be supported to work together to fill gaps in existing provision, and provide products and services that improve the financial health of Londoners.

### **Recommendation 8**

The Mayor should explore how community banks and credit unions could be supported to work together to provide products and services that improve the financial health of Londoners.

- 5.26 Mission-led banks, lenders and credit unions have the potential to dramatically improve the financial health of Londoners. But for the most vulnerable in society, more radical solutions may be required, such as funding to promote access to affordable credit.

### **The rise of the innovators**

- 5.27 Innovation is poised to radically transform the financial services market. Advances in technology, changes in consumer behaviour, and regulatory intervention have combined to create an opportunity for innovators to design products and services to improve the efficiency, effectiveness and equitable provision of consumer financial services.
- 5.28 The rise of mobile banking, digital wallets and budgeting apps is already transforming people's experience of financial services. As Sarah Porretta told

us, technological advances in the financial services market is giving people more “transparency and control” over their finances.<sup>57</sup> Access to the latest technologies is also bringing clear financial benefits for many consumers and businesses. Research by the Lloyds Banking Group and Toynbee Hall found being digitally capable was worth an average of £744 a year.<sup>58</sup>

- 5.29 Regulatory intervention is increasing the pace of change. The introduction of ‘open banking’, as recommended by the Competition and Markets Authority to improve competition, will require banks to open-up customer data to third parties.<sup>59</sup> Start-up companies will be able to use this data, as well as advanced digital technology, to create better consumer experiences by responding to the complexities of people’s lives.
- 5.30 But for all the potential benefits of these developments, there is a risk they will discriminate against, rather than support, the underbanked. Not all consumers are ‘digital-first’, and even for those that are, low levels of financial capability still can persist. The ‘gamification’—using gaming elements, like challenges and competition, to reward positive behaviour in a non-gaming setting—of savings products and services has the potential to change consumer habits, but access remains an issue.
- 5.31 The transition to cashless transactions also risks harming those on low and often volatile incomes. Many of London’s underbanked operate in the informal economy where cash is still the main medium of exchange. But as London’s infrastructure increasingly requires people to go cashless, there is a risk this group will be further marginalised without the right safeguards and support.
- 5.32 The introduction of open banking raises important questions about how personal data is used. Firms could, for example, use it to exclude people on lower incomes by ‘cherry picking’ the most profitable consumers or misuse it through so-called ‘dark nudges’ – techniques which rely on insights from behavioural science to exploit rather than help a consumer. There needs to be a regulatory framework and agreed standards around how this data is used and for what purpose.
- 5.33 There are no easy solutions to these challenges. But by focusing on improving the digital capability of Londoners, the Mayor can support them to be resilient to these changes. The GLA has signed up to the government’s Digital Inclusion Charter, which aims to reduce the number of people who are offline by 20 per cent (nationally) every two years.<sup>60</sup> Following the appointment of the Chief Digital Officer, we would also like to see the Mayor refresh the digital inclusion strategy, published by the previous Mayor in 2015, with a focus on helping to improve the financial health of Londoners through digital technologies, recognising the link between digital and financial inclusion.

## Recommendation 9

The Mayor should refresh the Digital Inclusion Strategy with a focus on helping to improve the financial health of Londoners through digital technologies, recognising the link between digital and financial inclusion.

- 5.34 While recognising innovation can lead to both positive and negative outcomes, there are a growing number of innovators harnessing new technologies and information for profit and for public good. Tech City UK's 'Fintech for All' competition was a Government-backed initiative to spotlight fintech companies responding to the challenge of financial exclusion.<sup>61</sup> The Financial Health Fellowship<sup>62</sup> incubator programme, run in partnership by the Finance Innovation Lab and Toynbee Hall, has shown how the third sector and Londoners can successfully participate in creating financial innovations that support financial health too.
- 5.35 Both programmes highlighted a range of innovations: from those at the earliest stage of development to those fully operational and already making a difference in improving the financial health of their users. They each offer solutions to a range of different challenges, but share the common goal to make financial systems fairer and more inclusive. For example, [Pockit](#)<sup>63</sup> is a prepaid Mastercard for customers struggling to get access to a mainstream bank account. [Credscope](#)<sup>64</sup> is an ethical credit reference service that uses alternative data to assess a person's credit worthiness who might otherwise be denied access to credit, due to a lack of information. [StorkCard](#)<sup>65</sup> helps parents manage the cost of having a baby by offering them a low-interest, short-term credit card that, after two years, automatically converts into a long-term loan. And [Mespo](#)<sup>66</sup> is an app that can help reduce the poverty premium many low-income households face by analysing a user's bank account and finding ways to help them save money by switching to a cheaper energy supplier, for example.
- 5.36 The Mayor, through the Chief Digital Officer, should harness the creative energy of these innovators and others by convening a summit with industry leads, fintech providers, not-for-profit organisations, local government, and the charitable sector to explore new ideas and innovations that can support the financial health of Londoners.

## Recommendation 10

The Mayor should convene a summit with industry leads, fintech providers, not-for-profit organisations, local government, and the charitable sector to explore new ideas and innovations that can support the financial health of Londoners.

# Our approach

The Economy Committee agreed the following terms of reference for this investigation:

- To assess how the Mayor and the financial services sector are supporting households and SMEs in London to access affordable and appropriate financial services.
- To identify new and innovative ways for how the Mayor and the financial services sector can promote and support financial inclusion. For example, through the creation of a community bank for London.

At its public evidence sessions, the committee took oral evidence from the following guests:

- Professor Sharon Collard, Director of the Personal Finance Research Centre at Bristol University, and Member of the Financial Inclusion Commission
- Mike Conroy, Executive Director for Corporate and Commercial Banking, UK Finance
- Joan Driscoll, Senior Manager, London Mutual Credit Union
- Tony Greenham, Director of Economy, Enterprise and Manufacturing, RSA, and Deputy Chair of the Greater London Mutual
- Angela Jackson, Director of Centre for Lifelong Learning, City and Islington College
- Natasha Jones, UK Head of Corporate Communications, Funding Circle
- Sophie Knight, Senior Student Advisor, United Colleges Group
- Sarah Porretta, Head of Financial Education and Inclusion, Lloyds Banking Group
- Faisel Rahman OBE, Managing Director, Fair Finance
- Guy Rigden, CEO, MyBnk
- Laura Rodrigues, Senior Public Policy Advocate, StepChange
- Jennifer Tankard, Chief Executive, Responsible Finance
- Professor Richard Werner, Director, Centre for Banking, Finance and Sustainable Development (University of Southampton Business School)



- Sian Williams, Director of the Financial Health Exchange, Toynbee Hall and Member of the Financial Inclusion Commission
- Russell Winnard, Head of Educator Facing Programme and Services, Young Money
- Rowena Young, Executive Director, Just Finance Foundation

During the investigation, the committee also received written submissions from the following:

- Association of British Credit Unions Limited
- The Big Issue Group
- City of London Corporation
- Credscope
- Creditspring
- Credit Union Solutions
- The Fairbanking Foundation
- Financial Inclusion Commission
- Greater London Mutual
- Inclusion London
- London Borough of Brent
- London Borough of Ealing
- London Borough of Hounslow
- London Borough of Sutton
- Mastercard
- MyBnk
- Responsible Finance
- Rev. Dr Catherine Shelley
- Royal Greenwich Welfare Rights Service
- UK Finance
- Professor Richard Werner
- Young Money

In addition, the committee carried out interviews with students from City and Islington College.

# References

- <sup>1</sup> [London's Poverty Profile 2017](#), Trust for London (2017)
- <sup>2</sup> The Money Advice Service describe over-indebtedness as having one or both of the following characteristics: keeping up with domestic bills and credit commitments is a heavy burden; payments for any credit commitments and/or any domestic bills have been missed in any three or more of the last six months.
- <sup>3</sup> [A picture of over-indebtedness](#), Money Advice Service (2017)
- <sup>4</sup> [Postcode lending](#), UK Finance
- <sup>5</sup> [Developing a vision for financial inclusion](#), Kempson and Collard (2012)
- <sup>6</sup> Basic Bank Accounts were introduced by UK banks in 2003 and later reinforced by the Payment Accounts Directive (PAD) passed by the EU in 2014, which states payment accounts “must be offered to all customers, without prejudice based on their nationality, place of residence, race, age, sexual orientation or disability.” In 2014, the Government made a revised agreement with the major banks to ensure basic bank accounts were fee-free.
- <sup>7</sup> [Financial Inclusion Monitoring Report 2017](#), University of Birmingham (2017)
- <sup>8</sup> [Challenges and opportunities of the unbanked and under-banked](#), Open Democracy (2016)
- <sup>9</sup> Toynbee Hall give some of the UK’s most deprived communities a voice, providing access to free advice and support, as well as developing policies to tackle social injustice.
- <sup>10</sup> [London Assembly Economy Committee 13 September 2017](#)
- <sup>11</sup> [Annual report 2016](#), Provident Financial (2017)
- <sup>12</sup> [The Poverty Premium - When low-income households pay more for essential goods and services](#), University of Bristol (2016)
- <sup>13</sup> [Speech by Tracey McDermott, Acting Chief Executive, FCA, April 2016](#)
- <sup>14</sup> [The high cost of credit](#), StepChange (2017)
- <sup>15</sup> [London Assembly Economy Committee 13 September 2017](#)

- <sup>16</sup> [Falling into the red: How overdrafts can lead to problem debt](#), StepChange (2016)
- <sup>17</sup> [Credit card market study: final findings report](#), Financial Conduct Authority (2016)
- <sup>18</sup> [2015 FDIC National Survey of Unbanked and Underbanked Households](#)
- <sup>19</sup> [Bank efforts to serve unbanked and underbanked consumers](#), Federal Deposit Insurance Corporation (2016)
- <sup>20</sup> [Stuck in debt](#), Citizens Advice (2017)
- <sup>21</sup> [The free advice gap: spreading the benefits of access to high-quality money advice](#), Citizens Advice (2015)
- <sup>22</sup> [Financially Inclusive Tower Hamlets](#)
- <sup>23</sup> [Catching up - improving council tax arrears collection](#), Citizens Advice (2016)
- <sup>24</sup> [Stop the Knock: Six steps for local authorities](#), Money Advice Trust (2017)
- <sup>25</sup> [Citizens Advice and LGA launch council tax collection protocol](#), July 2017
- <sup>26</sup> The Financial Conduct Authority defines people as being in difficulty if they have already failed to pay domestic bills or meet credit commitments in three or more of the last six months.
- <sup>27</sup> [Understanding the financial lives of UK adults](#), Financial Conduct Authority (2017)
- <sup>28</sup> [Worrying Times](#), Young Women's Trust (2017)
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# Other formats and languages

If you, or someone you know, needs a copy of this report in large print or braille, or a copy of the summary and main findings in another language, then please call us on: 020 7983 4100 or email: [assembly.translations@london.gov.uk](mailto:assembly.translations@london.gov.uk).

## Chinese

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## Vietnamese

Nếu ông (bà) muốn nội dung văn bản này được dịch sang tiếng Việt, xin vui lòng liên hệ với chúng tôi bằng điện thoại, thư hoặc thư điện tử theo địa chỉ ở trên.

## Greek

Εάν επιθυμείτε περίληψη αυτού του κειμένου στην γλώσσα σας, παρακαλώ καλέστε τον αριθμό ή επικοινωνήστε μαζί μας στην ανωτέρω ταχυδρομική ή την ηλεκτρονική διεύθυνση.

## Turkish

Bu belgenin kendi dilinize çevrilmiş bir özetini okumak isterseniz, lütfen yukarıdaki telefon numarasını arayın, veya posta ya da e-posta adresi aracılığıyla bizimle temasa geçin.

## Punjabi

ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਸੰਖੇਪ ਅਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਲੈਣਾ ਚਾਹੋ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਇਸ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਉਪਰ ਦਿੱਤੇ ਡਾਕ ਜਾਂ ਈਮੇਲ ਪਤੇ 'ਤੇ ਸਾਨੂੰ ਸੰਪਰਕ ਕਰੋ।

## Hindi

यदि आपको इस दस्तावेज़ का सारांश अपनी भाषा में चाहिए तो उपर दिये हुए नंबर पर फोन करें या उपर दिये गये डाक पते या ई मेल पते पर हम से संपर्क करें।

## Bengali

আপনি যদি এই দলিলের একটা সারাংশ নিজের ভাষায় পেতে চান, তাহলে দয়া করে ফো করবেন অথবা উল্লেখিত ডাক ঠিকানায় বা ই-মেইল ঠিকানায় আমাদের সাথে যোগাযোগ করবেন।

## Urdu

اگر آپ کو اس دستاویز کا خلاصہ اپنی زبان میں درکار ہو تو، براہ کرم نمبر پر فون کریں یا مذکورہ بالا ڈاک کے پتے یا ای میل پتے پر ہم سے رابطہ کریں۔

## Arabic

الحصول على ملخص لهذا المستند بلغة،  
فرجاء الاتصال برقم الهاتف أو الاتصال على  
العنوان البريدي أو عنوان البريد  
الإلكتروني أعلاه.

## Gujarati

જો તમારે આ દસ્તાવેજનો સાર તમારી ભાષામાં જોઈતો હોય તો ઉપર આપેલ નંબર પર ફોન કરો અથવા ઉપર આપેલ ટપાલ અથવા ઇ-મેઇલ સરનામા પર અમારો સંપર્ક કરો.





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