



**Resolution**  
**Foundation**  
*Financial Health Forum*

**Wednesday 16 September, 2009**  
**AEGON, 90 Long Acre**

# Financial Health Forum

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## Overview

Reporting back

1. Trust in financial services

Activity Update

1. The economic context
2. Financial health review
  - Financial inclusion
  - Financial capability
  - Financial services
3. A look at international initiatives

# Reporting back: trust in financial services

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*“Trust and trustworthiness are crucial to any exchange relationship, and nowhere is this more apparent than in financial services. The long-term nature of many financial products, their complexity, and the importance of financial assets to individual well-being, mean that customers perceive high levels of risk when making purchase decisions.”* - Chris Cummings, AIFA

**Is trust in financial services increasing or decreasing?**

# Reporting back: trust in financial services

Two levels of trust:

**1. Base level (cognitive) trust:** relates to the extent to which an organisation can be relied on to do what it says it will do.

**2. Higher level (affective) trust:** relates to the extent to which the organisation is concerned about the interests of its customers.

The Financial Services Trust Index 2009, Nottingham University Business School on behalf of the Financial Services Research Forum

# Reporting back: trust in financial services

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Majority say trust in financial services is decreasing:

*“Banks lent money they didn’t have to lend, and customer spent money they didn’t have to spend. This led to the current breakdown of trust.”* – Joe Garner, HSBC

“It is a sad fact that just at the time when the UK public needs to have confidence in financial services, global economic events have shredded almost the last vestiges of trust we had in our largest financial services institutions.” – AIFA, *‘Restoring Trust in Financial Services’*

*“Consumers, historically, have trusted banks with their money, even if they haven’t trusted them to work in their best interests. This is no longer the case.”* – Anthony Thomson, The Financial Services Forum

“Consumer confidence in the general economic situation has fallen and trust in financial services has been damaged.” – FSA, *Financial Risk Outlook 2009*

# Reporting back: trust in financial services

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Resolution Foundation: *'Financial Worries'* Omnibus Poll prepared by YouGov (March 2009)

When you need general financial advice, where do you usually get it from?

2007: 48% from friends or family; **45% from bank or building society; 32% from an Independent Financial Advisor**; 11% from the Citizens Advice Bureau; 18% other and 8% non-applicable.

2009: 45% from friends or family; **28% from bank or building society; 20% from their IFA**; 11% from the Citizens Advice Bureau; 17% other and 15% non-applicable.

# Reporting back: trust in financial services

## Not as bad as we think?

### **The Trust Index** (Nottingham University Business School/FSRF)

- Consumer trust in financial services is “in fact remarkably robust in the face of industry specific crises and economic difficulties.”
- “...respondents are more convinced about the reliability/dependability of FSIs and less convinced about the extent to which FSIs have their interests at heart.”
- IFAs are the most trusted of all financial services institutions, followed by investment companies, and building societies. Banks and credit card companies are the least trusted of all UK financial bodies.

**Datamonitor:** Despite 54% of consumers agreeing that they had lost trust in their primary bank since the financial crisis, and 64% lost trust in the entire industry, rates of trust in the our primary banks remain at 72%.

# Reporting back: trust in financial services

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## Variables in trust

### Face to face relationships

- Decline in trust among users of internet channels.
- In general, face-to-face relationships evoke greater trust than remote distribution.
- With the increased use of internet banking, this face to face aspect is lost.

### Age

- Around 20% of customers can be characterised as low trust: “over-represented in this group are the young, male consumers and consumers who use remote access.”
- Those aged between 25 – 35 show significantly lower degrees of trust in FSIs.

# Activity update: The economic context

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- Bank of England maintains bank rate at 0.5% and increases size of asset purchase programme by £50bn
- Progress of the recession
- Housing
- Unemployment
- Personal insolvencies reach record high

# The economic context

- Interest rates are being kept at their historic low of 0.5%.
- Another £50bn of new money into the economy as quantitative easing.
- Total spending now £175bn, unexpectedly going over the £150bn set aside by the chancellor.
- In a statement, the Bank of England said UK recession "appears to have been deeper than previously thought."



BANK OF ENGLAND

# The economic context

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## UK recession 'at an end'?

- Three quarters of UK businesses describe their attitude towards the economy as either 'hopeful' or 'excited'\*. A similar amount are either continuing to grow or predict they will return to growth within the next 12 months.
- The Institute of Chartered Accountants' index of business confidence saw its biggest rise for two years. "This quarter's Business Confidence Monitor suggests that the UK recession is at an end," said Mr Izza. Many are now more optimistic that the global recession is ending." (BBC, 24 Aug 2009)

However...

\*Barclays Commercial Bank Poll <http://www.newsroom.barclays.com/>

# The economic context

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## Housing

- **Gross mortgage lending:** Went up 26% in July, totalling an estimated £16 billion. This figure is however still down 36% from July 2008.
- **Repossessions:** Figures released in August show that there were 11,400 cases of possession (equivalent to one mortgage in 1,000) in the second quarter of 2009, 10% fewer than in the first quarter of the year but 14% more than the second quarter of last year.
- **UK house prices:** Starting to go up, but are still 10.7 per cent lower than in June 2008.

Council of Mortgage Lenders, [www.cml.org.uk](http://www.cml.org.uk)

# The economic context

Recent research from the Chartered Institute of Housing



- 84 per cent of respondents reported increasing demand for debt advice and counselling.
- 22 per cent of respondents say their housing organisations are struggling to meet current demand for debt advice; a further 34 per cent state their organisations will struggle to meet any increase in demand.
- Research has historically shown that most people aspire to own their own home, but a recent survey commissioned by the CIH suggests that only about one third of 18-24 year olds think this tenure is right for them.

# The economic context

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## Housing – the response

- **Protection for tenants:** Housing Minister John Healey has set out plans to give new legal protection to tenants vulnerable to being thrown out on the street with little or no notice if their private landlord is repossessed.
- The Minister is also calling on lenders to use alternatives to repossession, such as appointing Receivers of Rent to collect rent and manage occupied properties.
- The **Debt Advice Foundation** has launched a new helpline for people who have been affected by the recession after reports showed existing charity services were struggling to cope with a rise in demand. It is being funded by contributions from lenders, including banks and building societies.

[www.debtadvicefoundation.org](http://www.debtadvicefoundation.org)

# The economic context

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## Unemployment

- The number of people out of work in the UK has risen to its highest level since 1995.
- Unemployment increased by 220,000 in the three months to June, taking the jobless rate to 7.8% (2,435,000 people total).
- Claims for unemployment benefit were the highest in 12 years, increasing by 24,900 in July to 1.58 million.
- Now seeing unemployment across the income range whereas before it was largely higher earner occupations that were affected.

# The economic context

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## Unemployment – the response

- **Work for your Benefits Pilots** (DWP, July): People who have been out of work for two years will be required to do up to six months of valuable work experience to help them get jobs in two pilot areas. They will be given up to six months of intensive work experience which will help improve their employability.
- **Valuing Employment Now** (BIS): Aims to radically increase the number of people with learning disabilities in employment by 2025. The Government wants as many as possible of these jobs to be at least 16 hours per week.
- **Backing Young Britain** (Sept): The government's initiative to encourage business to “play a part” in ensuring that young people do not join the ranks of the long-term unemployed.

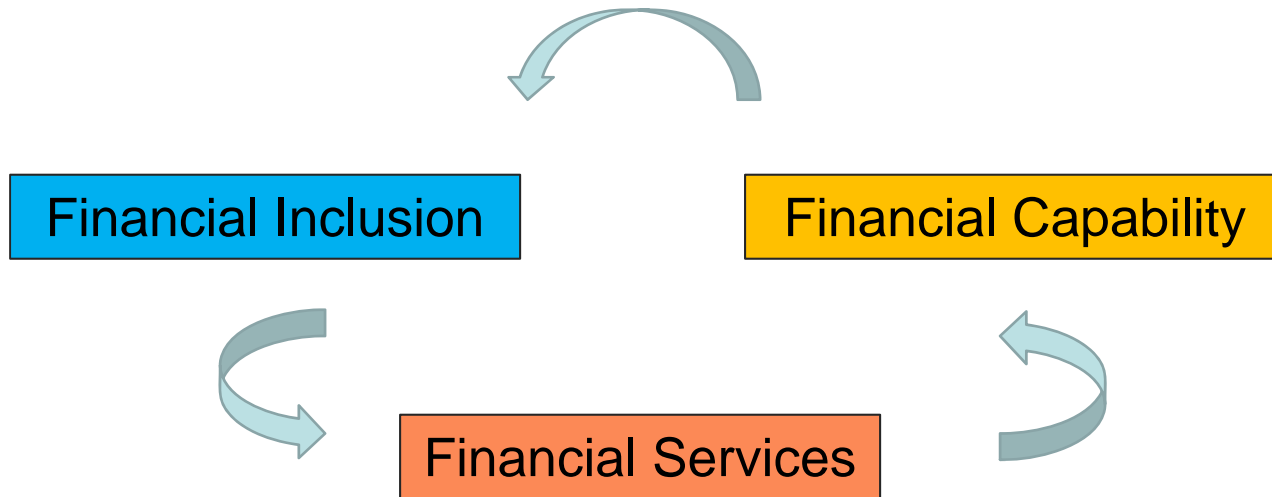
# The economic context

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## Personal insolvencies reach record high

- Over 33,000 personal insolvencies in the three months up to June 2009, the highest number since the Government's Insolvency Service began in 1960.
- A rise of 9% on the previous 3 months and a 29% rise since 2008.
- The overall personal insolvency figure was pushed up by the advent of the new **Debt Relief Orders** (April 2009) .
  - A new form of insolvency procedure aimed at helping people who have debts of less than £15,000 and few assets.
  - It places a hold on the recovery of debts for one year and if the applicant's financial situation has not improved then their debts will be wiped clean.

# Financial health review



# Financial Inclusion

- New figures on the Shared Goal on Banking
- Draft Legislative Reform Order published
- OFT consults on irresponsible lending guidance
- Post Bank launches first detailed proposals
- The Consumer White Paper
- Rural Money Matters
- More cash machines to offer £5 notes

# Financial Inclusion

## Shared Goal on Banking reached, however...

Year	Unbanked households (including 'did not state')	<b>Unbanked households - Positively affirmed no account</b>	Unbanked adults (including 'did not state')	<b>Unbanked adults - Positively affirmed no account</b>
2007/08	1,249 (5%)	690 (3%)	1,850 (4%)	890 (2%)
2006/07	1,370 (5%)	780 (3%)	2,090 (5%)	1,010 (2%)
2005/06	1,300 (5%)	760 (3%)	1,970 (4%)	1,000 (2%)
2002/03	1,840 (7%)	1,390 (6%)	2,830 (6%)	2,020 (4%)

The figure for the unbanked previously included respondents who did not state whether they had an account, as well as those who positively affirmed they did not have an account.

## Draft Legislative Reform Order published July 2009

Changes will give credit unions the flexibility to

- Accept local community groups, companies and social enterprise into membership
- Allow existing credit unions to extend membership to new groups of people, such as housing association tenants and employees of nationwide companies
- Credit unions will also be able to choose to pay interest on savings and develop new services to meet the needs of their members

The LRO is expected to be laid in Parliament in October.

## OFT consults on irresponsible lending guidance

- The Office of Fair Trading (OFT) has launched a consultation setting out practices they consider constitute irresponsible lending.
- Minimum standards required from businesses clarified which, if breached, could lead to the OFT taking enforcement action against the lenders.
- Guidance covers each stage of the lending process as well as a range of potential issues.

*Irresponsible lending – OFT guidance for creditors* available at [http://www.offt.gov.uk/shared\\_offt/consultations/oft1107con.pdf](http://www.offt.gov.uk/shared_offt/consultations/oft1107con.pdf)

## Post Bank launches first detailed proposals

- ‘Delivering the Post Bank: Financial services for people, communities and small businesses at the Post Office’
- Lays out four options for delivering the Post Bank:
  1. **Northern Rock:** could form the foundation of a new, mutually structured people’s bank
  2. **Buying out Bank of Ireland**
  3. **Incorporating national savings and investments:** The Post Office is a significant distribution channel for NS&I
  4. **Mutual Banking and the TSB Model**



## The Consumer White Paper (July 2009)

### **Helping people in difficulty with debt**

- If approached through a not-for-profit debt adviser, the major banks are now offering consumer a 30 day grace period during which debts are not pursued on unsecured loans and overdrafts.
- A good practice council tax collection protocol by the LGA and Citizens Advice was launched in July to provide better help for customers in difficulty with council arrears.
- Investing a further £300,000 in free face to face debt advice.

### **Better compliance by the debt recovery sector**

- Government has agreed with industry measures to strengthen compliance by debt collectors. In addition to 30 day breathing space, debt collectors must investigate disputed debts seriously and suspend collection while doing so. Also introduced a suite of advice leaflets and update their web-site.

### **Affordable housing bills**

- Government published a consultation document on the Walker Review in July: an independent review of household charging and metering for water and sewerage services to explore whether new actions are needed to ensure a sustainable and fair system of charging, particularly for the more vulnerable consumers.

## Rural Money Matters

- Around 1 million people live in rural areas with high levels of financial exclusion; issues often less visible in rural areas.
- *'Rural Money Matters: a support guide to rural financial inclusion'* has been produced and launched by the Department for Work and Pensions 'Now Let's Talk Money' programme in partnership with the Commission for Rural Communities.
- The DWP is funding a new post in the Rural Financial Inclusion Champion Team to encourage the use of Rural Money Matters.



## More cash machines to offer £5 notes

- Banks that run cash machines normally try to keep costs down by offering only a limited selection of notes. Customers almost always get offered a choice of only £10 and £20 notes.
- HSBC will be stocking 100 of their cash machines in the Midlands and South west of England with more £5 notes in a Bank of England trial.
- In August, a new cash machine dispensing only £5 notes was unveiled in East London. The machine, which is free to use, is designed to help customers manage their budgets.

# Financial Capability

- Financial comparison web-sites to have code of conduct
- PFEG launches first ever 'My Money Week'
- 'Weightwatchers' financial health model for women
- Extending the FSA levy to fund Money Guidance
- Financial Capability division of the FSA now separate
- Conservatives – future of the FSA

# Financial Capability

## Financial comparison web-sites to have code of conduct

- The Comparison Consortium to establish a standard of practice for price comparison websites of financial products and services.
- The aims of the Consortium include improving factors such as heavy jargon and unnecessary requirement of personal details.
- [www.comparisonconsortium.com](http://www.comparisonconsortium.com)



comparisonconsortium

## PFEG launches first ever 'My Money Week'

- My Money Week took place from 29 June – 5 July 2009.
- The week provides a nationwide focus on financial capability for young people in primary and secondary schools throughout England.
- It offers schools a flexible framework of options and resources to inspire students and teachers to get to grips with the practicalities of personal finance education.
- Next year: 28 June to 4 July 2010.



## ‘Weightwatchers’ financial health model for women

- Paper challenges the industry to evolve from the traditional 'product' driven offering to one based on 'outcomes'.
- Suggests a model for the new 'financial health plan' based on the WeightWatchers health plan.
- Recent research undertaken by the CII supports the view that women feel less confident about making financial decisions than men.
- Concept developed by Carole Nicholls, past President of the Personal Finance Society (more at <http://www.cii.co.uk>).

## Extending FSA levy

- ‘Reforming Financial Markets’ (July 2009)
- Some financial services firms do not come under the FSA levy as they are licensed solely by the OFT for consumer credit activities. This means they do not necessarily pay to support financial capability initiatives.
- Government intends to take a power to bring relevant consumer credit firms into the funding base for Money Guidance.
- The Government is committed to introducing a levy regime for those firms affected and will consult further on the detail of the scheme.

## Financial Capability division of the FSA now separate

- The Financial Capability division at the FSA will move from the existing Retail business unit to become a standalone division.
- Headed up under Director Chris Pond and will report directly to Hector Sants.
- FSA in a better position to take forward the national roll-out of the Money Guidance service, as announced in the 2009 Budget.
- Will come into effect on October 1.

## Conservatives – future of the FSA

“We will abolish the Financial Services Authority, and will create instead a strong new Consumer Protection Agency. This will take responsibilities to protect the consumer that are currently and confusingly divided between the FSA and Office of Fair Trading, and place them in a single powerful body able to stand up for consumers and ensure they are treated fairly” - *From Crisis to Confidence: Plan For Sound Banking* (white paper)

- Conservatives said they will abolish the Financial Services Authority if they win the election as part of an overhaul of the tripartite system.
- This change would put the Bank of England in charge of supervising the banking industry.
- George Osborne has promised to move cautiously in dismantling the FSA.

# Financial Services

- Lloyd's to review closure of Cheltenham & Gloucester Branches
- Santander to re-brand Abbey, Bradford & Bingley and Alliance & Leicester
- UK version of the Community Reinvestment Act
- Tesco expanding financial services operations
- Resolution buys Friends Provident

## Lloyd's closes all Cheltenham & Gloucester Branches

- Lloyds Banking Group announced in June that it was planning to close all Cheltenham & Gloucester branches.
- The planned closure was to result in an estimated 1,660 jobs being cut.
- Lloyd's announced in August that it would review this decision but did not state why it had decided to review its original plan.

**C&G** Cheltenham & Gloucester

## Santander to re-brand Abbey, Bradford & Bingley and Alliance & Leicester

- The banks will be renamed by the end of 2010.
- Around 1,900 jobs have already gone as part of its efforts to combine the acquired banks.
- Credit cards will be offered to new customers under the Santander brand from next month.



## UK version of the Community Reinvestment Act

Urban Forum: “Frustrated by the lack of obvious ‘return’ on the huge public investment in the banks and a lack of vision and ambition over what our post-recession society might look like...we are calling for a Community Reinvestment Act to be introduced and for community reinvestment banking to be established within financial institutions.”

- The envisaged community reinvestment bank in the UK would:
  - Run as a commercially viable business
  - Provide financial services ‘without discrimination’
  - Reinvest profits into supporting community action through grants programmes and other support.

## Tesco expanding financial services operations

- Andrew Higginson, Head of Tesco's financial services division announced in August that they are "building a bank from scratch."
- The supermarket plans to offer current accounts and mortgages for the first time from next year.
- Last year Tesco bought RBS's 50% stake in Tesco Personal Finance (TPF) and Higginson said the opening of a new call centre, due to open next year, was a "significant step" towards offering a full banking service.



## Resolution buys Friends Provident

- In August, Friends Provident accepted a £1.86bn takeover offer from Resolution.
- Under the terms of the agreement, Friends Provident management will remain in place, led by well-regarded chief executive Trevor Matthews. The brand will also continue to be used.
- Likewise, the acquisition of Friends Provident by Resolution Holdings (UK) Limited has no bearing on the work of either the Resolution Foundation or Friends Provident Foundation.

# International Initiatives

- **United States:** Individual Development Accounts (CFED): similar to the UK's Saving Gateway except that the money is supposed to go towards purchasing an asset (most commonly buying a first home, paying for post-secondary education, or starting a small business)
- **France:** Réseau Financement Alternatif : Mutual Learning on Financial Inclusion (information hub)  
<http://www.fininc.eu/index,en.html> - covers information on and reasons for financial exclusion across Western Europe
- **Canada:** *YourMoney* seminars provided by the Canadian Bankers Association. Delivered in-class by community banking volunteers
- **Australia:** Currently looking at the impact of the recession on women. Women account for 80% of Australia's 'hidden unemployed'

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# *Discussion*

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# Next Steps

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- Conference Season
- Financial Health Index
- January 2010 Meeting

# Party Conferences

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Private breakfast roundtables in partnership with the Money Advice Trust –  
*Building a Financial Health Service fit for purpose*

Liberal Democrats with Vincent Cable MP

08:00-09:30, Monday 21 September

Blandford Syndicate 2, Marriott Highcliff Hotel

Labour with Sarah McCarthy-Fry MP

08:00-09:30am, Tuesday 29 September

Room 120, The Grand Hotel

Conservatives with Mark Hoban MP

08:00-09:30am, Wednesday 7 October

Houghton Suite, Midland Hotel

# Party Conferences

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Fringe events in partnership with Demos

**Liberal Democrats:** Lean Government: How to make cuts without wounding low earners

Sunday 20 September, 18.15 – 19.30, Priory 1, Connaught Hotel

Speakers:

- Jeremy Browne MP, Shadow Chief Secretary to the Treasury
- Clive Cowdery, Chairman, Resolution Foundation
- Jamie Bartlett, Head of the Independence Programme, Demos
- Jenni Russell, writer and commentator, The Guardian (Chair)

# Party Conferences

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**Labour Party:** How to balance the books without wounding low earners

Tuesday 29<sup>th</sup> September, 17:45-19:00, Fecamp Lounge, Old Ship Hotel

Speakers:

- David Blunkett MP for Sheffield, Brightside
- Clive Cowdery, Founder, Resolution Foundation
- Sonia Sodha, Head of the Capabilities Programme, Demos
- Jenni Russell, Writer and commentator, The Guardian (Chair)

# Party Conferences

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**Conservative Party Conference:** Lean Government: How to makes cuts without wounding low earners

Wednesday 7 October, 12:30-14:00, Charter 1, Manchester Central

Speakers:

- David Willetts MP, Shadow Secretary of State for Universities and Skills
- Clive Cowdery, Founder, Resolution Foundation
- Jamie Bartlett, Head of the Independence Programme, Demos
- Mike Emmerich, Chief Executive, Manchester's Commission for the New Economy
- Jenni Russell, Writer and commentator, The Guardian (Chair)

# Financial Health Index

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## Aims

1. To provide a statistical analysis of the changing financial position of UK households and individuals.
2. To assess the 'financial health' of UK households
3. To establish the position of low earners compared to other groups

## How?

Establish a set of relevant indicators that can be used to form two separate indices:

1. Household Financial Health Index
2. Individual Financial Health Index

# Financial Health Index

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## Preliminary Indicators

- Gross Disposable Income
- Earnings growth
- Savings – amount per month
- Insurance – type
- Pensions – amount per year
- Benefit/tax credit take-up
- Weighted inflation

# Financial Health Index

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## What we need now

- Input on the usefulness of the index
- Input on the appropriateness of the measures used
- Ideas for additional measures

# Next Steps

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Next meeting: January 2010

- Focus?
- Objectives?