FINANCIAL HEALTH EXCHANGE

Financial inclusion and financial capability:

What's in a name?

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Introduction

Money is a hot topic these days – who has it, who doesn't, and how the financial choices we all make today will impact not only our own future, but the future economy of the UK. Owning the right financial products and having the know-how to use them have become increasingly important as the financial services market continues to grow ever more complex and penetrates all aspects of our lives. Having control over personal financial affairs can mean that individuals are more able to access employment, are protected against unexpected events and can save for the future. Some would argue that money is not the be all and all end in life but no one can deny that being in control of your finances can mean greater choice, opportunity and security.

Financial inclusion and financial capability are two terms commonly used to describe the work taking place in policy and practice in this area in the UK. Broadly and historically speaking, inclusion refers to access to financial products and capability refers to successfully managing those products and making informed choices about personal finances. As terms they are sometimes used interchangeably, sometimes distinguished as different, and while the issues concerning both have been discussed in depth in previous research, nowhere is the relationship between the two directly addressed: does one 'cause' the other? Can there be capability without inclusion? Are the two concepts really just describing the same phenomena? As we make progress in this area, and re-assess priorities for the sector going forward, we need to consider the terminology and ask: is the language we use still relevant?

In the 2008 report 'Financial services provision and prevention of financial exclusion', the authors explain that the term 'financial exclusion' was first coined in 1993 by geographers who were concerned about bank branch closures and the resulting limited physical access to banking services[i]. This idea grew but it was not until around 1998 that the term was first used in a broader sense to describe people who have limited access to mainstream financial services[ii]. It was in that same year that the Credit Union Taskforce was created by HM Treasury and the fourteen policy action teams were established as a result of the Social Exclusion Unit report "Bringing Britain Together: a national strategy for neighbourhood renewal". One of these teams was tasked with developing a strategy to increase access to financial services for people living in deprived neighbourhoods[iii]. It was from this point that financial inclusion in its current form really took off in the UK.

The origins of financial capability are not so easy to identify. The Financial Services and Markets Act (2000) asserts that one of the four statutory objectives of the Financial Services Authority was to "promote public understanding of the financial system[iv]". The foundations for the national strategy for financial capability went on to be established by the FSA in 2003 with the aim of "providing customers with the education, information and generic advice needed to make their financial decisions with confidence"[v]. There is some evidence to suggest that financial capability had its roots in financial literacy but the true origin of the term is not completely clear.

What is clear is that since 1993 this area has grown and evolved and now not only uses terms like inclusion and capability, but also terms such as financial well-being, financial education and financial health. In light of this new terminology and the progress the sector has made, does the term financial exclusion still relate to that geographical exclusion that was described back in 1993 or is it a completely different entity? And how does financial capability fit into that definition? This piece examines the meaning of the terms financial inclusion and financial capability, their relationship to each other and what that relationship means for the sector going forward.

Financial Inclusion

Definitions – any consensus?

Definitions of financial inclusion can be found on web-sites and in publications and reports from the third sector, lobby groups, high street banks and Government. Some state their definitions of financial inclusion explicitly while other definitions are less tangible and harder to extract. While there are discernable themes running through the definitions, there is not a strong consensus on what the term definitively means.

This is unsurprising given that a wide range of services find themselves incorporated under the umbrella of 'financial inclusion'. Financial exclusion is often a symptom of other issues within a person's life – perhaps they have spent time in prison, or maybe they have just fled from an abusive relationship – and so the resulting definitions of financial inclusion are often embedded in the framework and the structures of a particular organisation or a particular sector. For good reason, many organisations base their understanding of financial inclusion on the needs of their specific client group. It works well in practice and certainly makes more sense for the client but the result is that financial inclusion is difficult to define in absolute terms.

So is it just about access to products and the market?

Pulling definitions of financial inclusion from a variety of sources reveals that there are some similarities across the board. In particular, definitions have historically highlighted three key aspects: 1) access to financial products and services; 2) financial capability (managing money effectively, planning for the future and coping with financial distress); and 3) financial literacy. By far, the majority of definitions of financial inclusion contain references to access:

- "A state in which all people have access to appropriate, desired financial products and services…access on the part of financial product, services and advice suppliers[vi]"
- "Financial inclusion means that everyone in society is able to access and use a range of important financial goods and services – bank accounts, loans and advice, to name a couple[vii]."
- "…the ability of individuals to access appropriate financial products and services[viii]"
- "Financial inclusion is about ensuring everyone has the opportunity to access the financial services products needed to participate fully in modern-day society and the economy[ix]."
- "Without access to appropriate banking services, affordable credit, accessible savings products, money advice or insurance, they are faced with making financial decisions that often result in greater financial hardship and over indebtedness[x]"
- "…improved access to appropriate financial services for those who are currently excluded, particularly those on low incomes or otherwise vulnerable to the failure of the market to respond to their needs[xi]"
- The Coalition Government also highlights the importance of access to financial products and services, in particular stressing access to banking: "The Coalition Government is committed to improving access to banking for consumers. It believes that the benefits of having access to banking will help tackle some of the problems faced by low-income families. This includes being able to receive payments through a variety of channels, offering a more secure place to keep money and reducing the cost of household bills. Consumers should also be able to trust the products and services available to them and have a wide range of choice[xii]."

By focusing on access, these definitions in one sense point to 'hard outcomes' – number of bank accounts opened, number of loans taken out, amount saved in savings accounts, etc. Interpreted this way, financial inclusion is potentially easy to 'measure' and can be gauged by looking simply at what financial products the population as a whole holds. If, however, these definitions are referring more to an individual's *ability* to access financial products and services, or *how* the individual uses the products once accessed, the picture becomes more complex. This difference is clearly demonstrated through the example of the Shared Goal on Banking. The 2002 - 2003 Family Resources Survey reported that 2.8 million adults living in 1.8 million households in the UK did not have access to a bank account, so in 2004 the Government and the banking industry committed to halving this number. This goal was reached in 2009, but as acknowledged in the fourth annual report on progress, "The BBA have supported the Taskforce by providing usage information, gathered by their members, on basic bank account usage. However, bank data itself will not show the true extent of bank account usage…An individual may hold a dormant account at one bank alongside an active account at another". In other words data on product access, although useful, needs to be supplemented by data on product usage in order to build a full picture of inclusion.

As mentioned above, while some definitions clearly distinguish inclusion from capability, it doesn't take long for the lines to become blurred:

- "It is achieved by financial literacy and financial capability on the part of the consumer…"
- "But, more than that, people need financial capability – the skills and motivation to plan ahead, find information, know when to seek out advice and apply it to their own life."
- "The Government's key goals for financial inclusion are about ensuring that everyone has access to appropriate financial services, enabling them to manage their money on a day to day basis, plan for the future and deal effectively with financial distress"

So what does this blurring of the lines mean for our understanding of the two terms? This is discussed more fully later on.

Who are we talking about when we talk about financial exclusion?

It is difficult to say who exactly is most likely to experience financial exclusion. Historically, the research has pointed to certain groups and in particular is often linked in the literature to poverty or living on a low income:

- "Previous research in Europe has shown that complete financial exclusion among households has very strong links to low income. It was, therefore, most common among people who were not in paid work and in households where there as no wage earner[xiii]"
- "In considering financial exclusion in the future, the main finding was that there will continue to be people who cannot take full advantage of the benefits of using bank accounts and other financial services, despite the impact of current policy. In particular, those whose low income is an exacerbating factor are likely to continue to be excluded from using many financial services[xiv]"
- A cursory review of previous research demonstrates that there are key groups in society at risk or 'vulnerable' to financial exclusion because of their circumstances. These are, to name a few: single people; lone parents; people living in social housing; those living in deprived districts or boroughs; people living on benefits, specifically Income Support, Housing Benefit, and Council Tax Benefit; people who are unemployed or on low income, often unable to work through long-term illness or disability…[xv]"

People who 'self exclude' from mainstream financial services are also in this group. There are a number of reasons why someone may not engage with mainstream financial services including mistrust or a legacy of not engaging with financial services within their family or their community. Money management is often linked to a series of other decisions and sometimes borrowing money from friends and family, or saving informally at home is preferable to going through a financial institution. It also might be the way that personal finances have always been managed so why change the system? Some sectors of society are also not targeted or marketed to when it comes to financial products so are not always aware of the options available to them. If they are difficult to engage anyway, this can compound the issue.

In general, however, the 'financially excluded' are not a homogeneous group and therefore can be difficult to define. As discussed above, there is no single reason why someone experiences exclusion, and most often it is due to a complex set of interrelated factors such as age, income, gender, assets, ethnicity, job security, etc.[xvi] Potentially, because this group is so difficult to define, the emphasis has historically been on looking at the population as a whole when it comes to increasing levels of financial inclusion. As mentioned above, through the Shared Goal on Banking the Government set a target to halve the number of households without a bank account and this goal was reached in 2009. In 2006 Experian produced a Map of Affordable Credit which looked at the UK as a whole and mapped need against lack of access. But as the sector moves forward, and these high-level goals are reached, the sector will need to adapt to address areas where inclusion is still an issue.

Is it exclusion on the side of the individual or the market? Or is it both?

For the past few years, the responsibility for financial exclusion has at least partially been laid at the door of the banks. Concerns that products on the market are not suitable for certain groups or that particular clients are not commercially viable and therefore not targeted have been the key concerns historically: "Too often the poor are excluded from financial services because banks view them as a poor credit risk, or do not understand their financial needs.[xvii]" Alongside this, there is concern that strict money laundering regulations mean that many are refused accounts for not having the right ID and address verification: "Because of procedures that are in place to stop criminals using accounts to launder money, there might be difficulty in providing required proof of identity for people on low incomes, disabled people, homeless people, young people, migrants, and refugees…[xviii]" The recession has shone an even bigger spotlight on the need to provide a variety of products to suit a diverse market; or, in the case of credit access, to rein access in. But is the focus still on the banks?

Money Saving Expert Martin Lewis runs a web-site to help consumers find deals on the high street. As well as advertised as free to use, free of ads and UK based, it is also marketed as the 'consumer's revenge'. This notion depicts an image of the warrior consumers: armed with the knowledge necessary to take on the banks and the rest of the commercial world in order to get the most out of their money: they are smart, confident and get what they want from their financial services. The warrior consumers feels that despite best intentions, no one else is going to look out for their best interests so they had better be prepared to do it themselves. The idea that the average consumer should be armed with knowledge, confidence and motivation to take control of their finances is at the heart of what it means to be 'financially capable'; an issue that we will look at here.

Financial Capability

Definitions – any consensus?

Definitions of financial capability were drawn from similar sources to financial inclusion and, just like financial inclusion, are as far ranging. If anything, definitions of capability are actually broader than those of financial inclusion as they touch on several themes.

Pulling definitions of financial capability from publications and web-sites it is clear that there is some consensus; namely that capability is broadly about knowledge, skills, motivation, awareness and confidence in relation to money management:

- “This is a broad concept, encompassing people’s knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market”[xix]
- “We want everyone to have the knowledge, skills and confidence to make informed decisions around budgeting, borrowing, saving and banking – especially adults on low incomes or at risk of social or financial exclusion.”[xx]
- “Our mission is to ensure that all young people leaving school have the confidence, skills and knowledge in financial matters to participate fully in society”[xxi]
- “Our vision is of better informed and more confident consumers who are able to take greater responsibility for their financial affairs and choose products and services that meet their needs.”[xxii]
- “Financial capability is vital in providing people with the awareness and knowledge they need to access the products that work for them and to prevent themselves from getting into financial difficulty.”[xxiii]

One theme that is very apparent in these definitions is that financial capability is not just about knowledge and skills; it is also about having the confidence and motivation to execute these knowledge and skills. A consumer can receive all the education in the world and be provided with all of the skills they could ever possibly need to manage their money effectively, but if they do not have the motivation or the confidence to use these skills and knowledge, it is not going to result in positive behaviour.

Financial capability is much more about ‘distance travelled’ and in contrast to some aspects of financial inclusion, much more about soft outcomes. So whereas it is possible to chart basic progress in financial exclusion through hard outputs such as ‘bank accounts opened’ and ‘amount saved in savings account’, financial capability is measured much more through skills gained, increases in knowledge and progress made over time. The time factor is key as many changes in behaviour can take a long time to develop and even longer sometimes to put into practice. There are a limited number of longitudinal studies on the benefits of financial capability training or financial education which means it is not so easy to demonstrate its importance or its long-term effects.

Alongside the numerous advocates of financial capability training and education, there are some that argue that the emphasis placed on it is not only misleading, but potentially damaging to the consumer. In her 2008 paper Lauren Willis asserts that, while the vision of consumers becoming responsible and empowered market players as a direct result of financial literacy training is an alluring one, it is hard to support empirically. She also asserts that consumers cannot and should not be expected to take full responsibility for their financial situation given the complexity of the modern marketplace: “When consumers find themselves in dire financial straits, the regulation through education model blames them for their plight, shaming them and deflecting calls for effective market regulation. Consumers generally do not serve as their own doctors and lawyers and for reasons of efficient division of labor alone, generally should not serve as their own financial experts[xxiv].” This is very much in contrast to the clued up ‘personal finance warrior’ that we associate with Money Saving Expert model and a variety of other advocates for financial capability. Willis is saying that for this model to work, the market would need to be either less complex or a lot more fair. There is also evidence to suggest that perpetuating this model costs not only the individual but all of society; research by the Financial Inclusion Centre suggests that expecting the 'hidden hand' of the market to work and enable consumers to take control of their finances has led to a cost of approximately £6.6bn per annum[xxv].

Who are we talking about when we talk about being 'financially capable'?

Like financial exclusion, lack of financial capability has historically been linked to poverty in the literature: "Poor financial decision-making can affect people who do not have low incomes, but those most affected are the people who suffer from a greater loss of welfare as a consequence of those decisions. In other words, better-off people are more likely to have the advantage of a 'cushion' of financial assets and access to affordable credit, so do not need such good financial skills. They might be able to get by with only a rough knowledge of how much they earn and how much things cost, and are not financially excluded[xxvi]." However, it is not a poverty issue in the same sense as with financial inclusion and it is more difficult to identify particular groups who are financially 'incapable'. Part of the issue is that what might be considered perfectly 'capable' for one individual might not be deemed 'capable' for another individual; it is a subjective notion.

Some agencies, such as HM Treasury, assert that everybody in society, regardless of income, needs a certain level of financial capability: "As financial products become more sophisticated and the pace of economic, social and demographic change increases, it becomes more important for consumers to engage with financial services with skill and assurance…[xxvii]" Many of HM Treasury's programmes are therefore aimed at the population as a whole. The same is true of the 'Money Made Clear' service which is administered by the Consumer Financial Education Body (CFEB). It provides impartial information and tools for individuals to access on-line to help them manage their finances. It covers all areas – from credit to pensions – and encourages the consumer to take control of their own money management by accessing the information, tools and advice available. These tools are available for everyone and aimed at the general population. This is in contrast to the literature on financial exclusion which often identifies very specific groups, and as discusses above, it is likely that financial inclusion initiatives will increasingly be targeted at these groups in the future. While accessing financial products and services is an issue for certain groups, managing money effectively and responsibly is viewed as an issue for everyone.

What is the relationship between financial inclusion and financial capability?

To find out how those working in the sector view the relationship between the two, we ran a series of focus groups around the country. Nine focus groups were conducted in four locations around the UK with a wide range of financial inclusion and financial capability stakeholders as part of the 'Joining the Dots' events run by Transact, the National Forum for Financial Inclusion. This was not intended as an exhaustive research exercise, more so an opportunity to gain some insight from a few key stakeholders in different parts of the country.

The general consensus from the different groups about the relationship between financial inclusion and financial capability is that it is a complex one. Much as in the literature, there is no widespread agreement about the definitions of the two separate terms or the relationship between them. Some people feel that financial capability is one aspect of financial inclusion whereas other people view them as two distinct, yet still related concepts. However, several strong themes emerged from the discussions and came up time and time again in the different groups in various locations.

Financial inclusion and financial capability work best when they work together

“It’s a balance between the two isn’t it?” – Respondent, Newcastle

The broad consensus from the focus groups was that financial inclusion and financial capability work together and mutually reinforce one another. There was disagreement however, in the extent to which knowledge can change behaviour; an issue that the Financial Services Authority has explored in depth.

In their 2007 paper the FSA wrote that increasing financial capability can have a direct impact on behaviour: “Arming people with a basic understanding of how to look after their money and dealing with financial services will help them to make sound choices, take advantage of cheaper services and avoid expensive mistakes. Our financial capability work is therefore vital in the journey towards financial inclusion[xxviii]”. However, in 2008 their paper on behavioural economics demonstrated that the relationship was not so straightforward: “Two links must hold for conventional financial education to be effective. Education must improve relevant knowledge and understanding (financial literacy) and better knowledge must change behaviour. Unscrambling causality from correlation is hard. The best empirical work finds that financial education is not likely to have major lasting effects on knowledge and especially on behaviour (p.2).”

It is difficult to state the extent to which financial capability training can change behaviour, especially in the absence of conclusive evidence. But what we can affirm is that financial capability training can increase knowledge and confidence and through those channels it can provide people with different options. A key example is credit unions; in every focus group participants said how service users rarely know about credit unions. Through attending a financial capability session they can learn about the credit unions and therefore see that there is another alternative to where they save their money, access credit, etc. The same is true of financial education in schools; while children may receive a lot of their money management skills from their parents, learning about money and personal finance at school gives them an alternative. They learn that there are ways to manage money that might be different from the way their parents do so “I think you get your attitude to money from your parents, and what schools could provide is the skills to then enable you to make the choice to follow your parents, or not” – Respondent, Merthyr Tydfil. This is especially important given that there is evidence to suggest that children are interacting with money issues earlier and earlier[xxix].

At the same time, having a market that is effective in providing a wide range of products can enable individuals to access financial products and services that are appropriate to their needs. It is important to note here that having that access does not automatically make people good at managing their money; just as conversely, people can be very good at managing their money in the absence of mainstream financial products. It is mainly that having access to a wide range of products means that you have more options and therefore more choice “Having access to products can help you manage your money better – there are offers available to you if you have bank accounts, if you’re a regular customer you can smooth spend, that kind of thing” – Respondent, Edinburgh. “I think we have a great emphasis on when we think about financial inclusion, forgetting that it’s not about whether or not you have a bank account or whether you have a loan with the bank; it’s about the fact that you have access to that if you need it.” – Respondent, Newcastle. Financial capability and financial inclusion therefore work best when they work together, and when delivered together effectively, they can provide people with more choice.

Financial exclusion impacts everyone in society

“The fact that there is financial exclusion has relevance for everybody, because everybody in the end pays a price because of it” – Respondent, Merthyr Tydfil

While respondents feel that some groups in society are disproportionately affected by financial excluded, such as those living in poverty, there is widespread agreement that financial exclusion has an impact on everyone: “I think financial inclusion is a cost to society. I think on the whole it affects people on low incomes but it has a knock on impact which everyone should be worried about” – Respondent, Edinburgh. Debt was named as one example of how financial exclusion can affect everyone – high interest lenders can perpetuate a cycle of debt which can have a negative impact on the economy and therefore society as a whole. There was an overwhelming feeling that we can’t put those experiencing financial exclusion in a box, because the issues and the results affect everyone “The fact that there is financial exclusion has relevance for everybody, because everybody in the end pays a price because of it…it’s in everybody’s interest if people can get the best out of their own financial resources” (Respondent, Merthyr Tydfil).

Alongside this sense that financial inclusion is everyone’s responsibility was a sense that no one is ever safe from exclusion: “A small change in circumstance, redundancy, unemployment, relationship breakdown…anybody can become financially excluded” – Respondent, Newcastle. In contrast to a lot of the literature, the general consensus among the groups was that it would be naive to think that exclusion only affects certain groups, because many of us are one disaster away from being excluded ourselves. So, just like financial capability, financial inclusion is in one way or another relevant to everyone.

People make choices based on a variety of factors

“The financial aspect of it’s not the be all and end all for a lot of people, a lot of it’s to do with the service they’re getting or the availability of it” – Respondent, Edinburgh

Many participants in the focus groups said that providing financial capability training and ensuring access to appropriate financial products is only one side of the coin. Once an individual is given access to products and services and enough information to make a choice, where will that choice lead them? Is arming them with information enough to ensure they make an ‘informed’ choice? “You can make sure that there’s an infrastructure so that people have fair access to affordable services. But after that really, it’s choice.” – Respondent, Merthyr Tydfil. When confronted with a financial decision, there are various drivers involved; and the consensus from all of the groups was that there are multiple drivers behind the financial decisions people make in their day to day lives. That is to say, increases in knowledge or confidence will not always lead to a change in action. In particular, there are two drivers that came up consistently in conversation: how easy a product is to access and the legacy of its use in their family or amongst their social group.

There is no doubt that having a service delivered to your door is a lot easier than having to leave your house. Add to that the stress of having to search out a particular provider and divulge a lot of financial information to a stranger and it is no surprise that doorstep lenders like the Provident have such success. Simply having that person come to your door can also sometimes be the actual driver behind taking out a loan – someone is standing in front of you offering money so why not? “A lot of these customers can access other products but choose not to, because the convenience of the person coming to the door is actually the driver” – Respondent, Edinburgh. People are also often reluctant to change their behaviour, so if they have been receiving credit this way for years they may be reluctant to change. The FSA identifies this as ‘status quo bias’ in their 2008 behavioural economics paper: “people generally don’t like changing strategies or behaviours…By sticking with their existing option, people shield themselves from the regret arising when a new choice leads to a worse outcome than the original choice[xxx]”. If you have gotten used to paying back a few pounds a week to a lender that comes to your door, you might be reluctant to change to a different type of provider that might change this familiar situtuation.

Doorstep lenders are also successful because they are often integrated into a community, sometimes across generations, and this adds that extra element of trust "You access one particular credit source because that's what your mum did, that's what your grandma did …it's the best source because your family says it is" – Respondent, Newcastle. There is a lot of emphasis placed on making 'informed' decisions; having all of the information available to weigh up the costs and benefits and arrive at the best decision. But for many people that information can come from a variety of sources, a key one being family and friends. If your mum has always used a particular credit source then why would you seek out an alternative? If your friends save their money in cash and keep it in their house then that may seem like the best option to you as well. Not only are these choices normalised, but for many people the choices made by their family and friends carry far more credence than what they are told to do by other, external sources. There are arguments against this type of behaviour naturally – high cost of credit, lack of security when it comes to savings – but there is no doubt that one driver behind these particular financial behaviours is legacy and trust.

So, what's in a name?

After taking on board feedback from the focus groups, views from stakeholders and evidence in the literature, a key question remains: is terminology important? Does it actually matter if a certain intervention is identified as financial inclusion or financial capability? Will the outcomes be the same no matter what they are called?

The Money Advice Trust contends that agreed terminology is important for the sector. In their 2007 response to HM Treasury's consultation on Financial Capability, they write that without an agreed terminology there is the risk of fragmentation in the design of policies, scope of funding programmes and comprehensiveness of services that aim to help people combat their financial exclusion[xxxi]. They even identify financial inclusion and financial capability specifically within this context, saying that "It would be of immense benefit to all stakeholders, not least to consumers, if a greater level of agreement could be reached on the definition and use of these terms". Indeed there is a strong argument for an agreed terminology. Agreeing how to use the two terms across the sector would make it easier for targeted funding, partnership working, acting as a unified sector and for service users themselves to identify services that may be right for them.

In contrast, the Citizens Advice Bureau make the case that terminology isn't important in every context. In the introduction to their Financial Capability Starter Pack it says "Financial capability, financial literacy, financial education. Does it matter what it's called? In our view, not much…Whatever the name, we believe it's about empowering people so that, if they want to, they can take action to better their lives[xxxii]. The Starter Pack is aimed at local bureau managers and the message it sends is that it is more important to get started on this work and start delivering on the ground than it is to worry about what this work is called.

In a sense, the best way to move forward is to incorporate both of these views. The Citizens Advice Bureau makes the point in their Starter Pack that for the actual work, and the actual outcomes of service users, the terminology does not matter. The Money Advice Trust highlights how an agreed terminology is important for a cohesive sector in order to speak with one voice to those outside of it. For the people that come through the doors of financial inclusion/capability services, it is doubtful that they care what the service they are receiving is called; all they know is that they are getting help with their finances. However, when it comes to making the case for this work, lobbying Government and influencing the policy agenda going forward, the message will be much stronger if the sector is united under one banner. The banner could be financial inclusion or it could be financial capability or it could be a new term altogether; the important issue is that the sector agrees on a terminology so that it is identifiable to those it seeks to work with.

The situation going forward

With the uncertainty surrounding funding for the future, the sector is preparing for the worst. Financial Inclusion Fund contracts are coming to an end in March 2011 which will mean a huge cut to vital financial inclusion services. The first round of the Financial Inclusion Fund ran from 2005 to 2008 and provided the sector with £120 million pounds over those three years. The second round of the Financial Inclusion Fund has been running since 2008 and allocated an additional £130 million to the sector. This funding included £38 million for affordable credit in the form of the Growth Fund, £12 million for the Financial Inclusion Champions to coordinate financial inclusion activity across the UK and £74 million for free face to face money advice as well as a variety of other services. This means that this funding has supported the sector for six years and the loss of these contracts will have a huge impact on not only the financial inclusion and capability sector, but on the people that it serves.

With central support likely to be restricted and the new focus on the Big Society it is expected that more responsibility will be placed on local services to deliver financial inclusion and financial capability initiatives. The sector has enjoyed strategic direction from the Government for the past six years and, in the absence of this, needs to focus on continuing to provide a targeted and joined-up network of activity.

This is an issue that came across clearly in the regional events held by Transact, the National Forum for Financial Inclusion, in September and October of 2010[xxxiii]. When asked what they felt the key challenges are for the sector going forward, four of the most common responses were:

- Reductions in funding and the end of current funding streams
- The notion of the ‘Big Society’ and how this will work in practice
- Joined-up working
- Changing government agendas

When asked about the opportunities for the sector going forwards, participants in all of the areas covered by the events said that improving joined up working and building new partnerships is a key way to move forward for the sector.

Alongside the predicted cuts and the resulting implications for working is a sense that the focus of the sector is changing as well. Historically, financial inclusion has focused a lot on market exclusion, but as the sector moves forward and makes progress, there has been more of a shift to the individual. There is a growing sense that we need to empower individuals to manage their money as best they can instead of turning to the high street banks or policy makers. If this ends up being the case and the sector experiences a shift in focus then it will have implications for how organisations will frame their services.

In light of all of these potential changes to funding streams, sector leadership and how we view our work going forward, joined up working and sector cohesion are even more important than they have been in the past. It is up to the sector to make sure that its aims stay a priority and for that we need to be speaking with a common voice. There will continue to be differences around how the work is put into practice, often based on client needs, but if we can at least identify that work with common terminology, we can start to work as a unified sector. Whether we adopt financial inclusion or financial capability or whether we move to a new term altogether, the sector needs to be unified and speaking the same language. Only then can we be sure others are fully aware of the diverse, far-reaching and important work going on in this sector.

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