Dormant Assets Consultation Response Briefing

As part of the expansion of the Dormant Assets Scheme, the government is consulting on whether the original causes of the Scheme, including financial inclusion, are still appropriate.

With the impact of the pandemic and the cost of living crisis, it's more important than ever that people have access to fair financial products and services that support their wellbeing and resilience.

This consultation is the key opportunity to secure long term funding for financial inclusion. If you share our vision for a fairer financial system, it would be great if you could respond to the consultation. Every response counts and we appreciate your support.

We would appreciate it if you could do two things

1. Submit a response to **strongly agree** that financial inclusion remains a cause
2. Set out why, with reference to the priority areas where funds can make a systemic impact

To support your response this briefing includes:

- A summary of the areas where, based on our engagement with a wide stakeholder group, we believe there is consensus of where funds could be used to make systemic change. This delivery will include significant collaboration and funding into delivery partners, including a number of you
- Key messages and data points on why it matters
- How to respond
- Appendix: the criteria against which submissions are being assessed

We hope the key messages and data points below might be helpful for your response. Do let us know if there is other data that would be useful for you in setting out your own arguments and response.

Summary of priority areas

Fair4All Finance has worked with a wide range of partners to establish priority areas for future funding. Extra funding would significantly expand its work in several key areas that would have a huge impact on millions of customers in vulnerable circumstances:

- **Significantly expand the supply of affordable credit provision**
  - Fund expansion of affordable provision from community finance and other financial services providers to meet the estimated £1.5bn gap in regulated provision of small amounts of unsecured credit
  - Scale the **No Interest Loan Scheme**, depending on the outcome of the pilot
  - Deliver an **affordable consolidation loan scheme** to provide a stepping stone for those debt burdened who are still able to reset themselves
- **Develop affordable insurance provision and solutions** such as home, motor and income protection to improve financial resilience and help address the poverty premium, potentially though an insurer of last resort
- **Deliver new systemic product/solutions to tackle the poverty premium** such as an affordable appliance scheme to tackle furniture poverty
- **Improve access for people who are particularly excluded from financial services** by embedding accessible and inclusive features into products and services. Integrate financial education, savings tools such as save as you borrow, and wraparound support into customer journeys
- **Drive awareness and understanding** of fair and affordable financial products and services

Key messages and data points

Tackling financial exclusion and low financial resilience will remove key barriers to opportunity and growth

- Money worries at work lead to more absences and lower productivity and those in problem debt are less likely to start a business, study, retrain or change jobs. There's also a connection between employment rates and problem debt
- Those without a buffer provided by savings, insurance or access to affordable credit are less able to withstand life's ups and downs and have to choose between going without essentials or turning to high cost credit or illegal money lenders. These can have **a huge impact on people's physical and mental health**
- There is also an established connection between over indebtedness and poor mental health. People in problem debt are far more likely to experience mental health problems and can get stuck in a destructive cycle, sometimes losing employment or falling out of the labour market altogether

- Certain groups are more disadvantaged than others – including women, people living with disabilities and certain black, Asian and minority ethnic communities
- Location plays an important part too, with problems more acute in areas of the country where local economies are weakest

Numbers of people in financially vulnerable circumstances are increasing and market provision is not meeting their needs

Financial exclusion affects over 14.2m adults in the UK adults in the UK, up by 30% during the pandemic

- One in five adults has less than £100 in savings
- One in four households have no home insurance
- 11m people struggle to access affordable credit
- 5.6m people have one or more high cost loans, often to cover day to day expenses
- While many people on middle and higher incomes saved during the pandemic, lots of families have seen their savings eroded and around 11m people built up some £25bn of debt

The rising cost of living will tip more people into financial vulnerability

- At £2,500 a year, typical household energy bills will be double what they were last year
- Consumer price inflation was 9.9% in August – and it's even more for low income households who spend a higher proportion of their income on food and energy
- This means an extra £454 on annual food bills for the average family

The supply of products and services tailored to support building resilience falls well short of the need

- Regulated credit options have fallen dramatically. FCA data shows that between 2019 and 2021 there were 3.25m fewer high-cost short-term credit and home credit loans issued - £1b less in lending. Without access to fair and affordable credit, there is a real risk that more people turn to dangerous illegal money lending. It's estimated that there could be more than 1m people in debt to a loan shark
- Customers deemed to be higher risk are often unable to access affordable insurance or banking products and services
- Customer journeys often lack appropriate signposting to ensure people reach the right support for them

fair4all finance

Maintaining long term funding for financial inclusion will improve the lives of millions of people, and unlock growth and opportunity across the country

- Dormant assets funding offers the chance to further move the dial on financial inclusion and create a sustainable market for millions of people currently excluded or underserved
- Financial services are an engine of growth in the UK, making up 8.3% of total economic output. PWC estimate that 20.3m adults in the UK are financially underserved, an increase of 50% from 2016. This means there is a real opportunity to bring more people into the financial services system, improving the lives of millions of people and driving growth
- We know that access to fair financial products and services has a transformative effect on people's wellbeing, as well as creating wider benefits to society:
  - An independent report into one of Fair4All Finance's investees, Fair for You, found they generated over £50m of social value since 2015, including saving over £2m from reduced use of NHS services. They positively impacted customers by reducing living costs, improving sleep, diets and mental health

Fair4All Finance has already created significant impact since 2019 with dormant assets funding

- Fair4All Finance has committed £30m to 35 community finance providers so far, supporting over 50% of affordable lending capacity to people in some of the most disadvantaged areas in the country
- Its investments are backing business plans projected to **triple the availability of affordable credit to c£900m** by 2025
- The No Interest Loan Scheme pilot is providing a vital financial cushion for people who are unable to access or afford existing forms of credit
- Fair4All Finance is working to create long term systemic change in the financial services sector. For example, its policy recommendations on building a sustainable credit market have been reflected in the Woolard Review and it is working with banks, the regulator and others to take these forward

Dormant assets funding for financial inclusion is targeted to communities who need it most, right across the country

- More than half of customers supported by Fair4All Finance investment live in the most deprived 20% of areas, based on the Index of Multiple Deprivation (IMD)
- 35% are lone parents with dependent children compared to 9% within the UK
- 58% are social housing tenants compared to 17% within England
- While its funding is for England, Fair4All Finance collaborate across all four nations where possible

How to respond

- The consultation closes at **23:45 on Sunday 9 October 2022**
- You can find the consultation here and respond by filling out the online survey or completing the response sheet and emailing it to dormantassetsconsultation@almaeconomics.com
- You don't have to answer every question if you don't want to. The most important questions are in **section two**

Section two – Financial inclusion

1 To what extent do you agree or disagree with the following statement?

'Financial inclusion should remain a cause of the Dormant Assets Scheme in England' (select only one)

Strongly agree/Agree/Neither agree nor disagree/Disagree/Strongly disagree

2 Please explain the reasons for the answer you have given

(open answer)

Appendix 1

Extract from the Consultation on the English portion of dormant assets funding

2.2 Essential criteria

We consider the following eight criteria to be essential features of any future cause chosen for the English portion:

1. **Any cause must constitute a social or environmental initiative.** This requirement is set out in primary legislation. Examples of what we would consider to be ineligible include political activism, activities of an exclusively religious nature, paid for lobbying, and gifts.
2. **There must be sufficient scope to fund initiatives that would not otherwise be funded by central government.** This is known as the principle of additionality, and its definition is set out in primary legislation. The principle means that allocating dormant assets funding to a particular cause, community, or organisation should not result in the reduction of government funding to that entity. This does not mean that dormant assets funding cannot operate in the same sphere as central government. However, there must be evidence of how it could be additional (and preferably complementary) to central funding, not a substitution. Annex B provides more detail on our policy on additionality.
3. **A portion of the £738 million must have a meaningful impact.** Industry stakeholders have estimated that the expansion of the Scheme will unlock £880 million for good causes over time. This would translate to £738 million for England. There must be evidence that the scale of the problem could be addressed within a portion of this overall quantum.
4. **The funds must seek to make sustained, high-impact change.** Building on the previous criteria, we want to ensure that piecemeal interventions are not the focus of this funding as this would dilute its impact. Rather, the English portion should be used to fund long-term initiatives capable of moving the dial on entrenched social or environmental issues.
5. **There must be an ability to attribute and measure the impact achieved.** Being able to measure the impact of dormant assets funding is essential to ensuring the transparency of the Scheme, as well as its success. We would expect to see tangible progress made within five years.

6. **It must align with key government policy priorities, including securing voluntary industry support.** Examples include:

   • aligning to and supporting net zero goals, including those set out in the UK government's net zero strategy. For instance, projects are encouraged to demonstrate low or zero carbon best practice; adopt and support innovative clean tech; and/or support the growth of green skills and sustainable supply chains;

   • contributing to the wider government priority of levelling up left-behind communities, as outlined in the Levelling Up White Paper; and

   • securing the support of the Scheme's voluntary industry participants, who have been – and will continue to be – crucial to its success.
7. **There must be scope for nationwide impact across England.** The impact of the funding should be most felt across the most disadvantaged areas in England, and not be concentrated in one particular region.
8. **Dormant assets funding must be appropriate for the cause.** It should be capable of weathering the highly uncertain funding flows and timings associated with this unique type of public money.

2.3 Desirable criteria

In addition to the eight essential criteria, the government will be mindful of the following three desirable characteristics of any social or environmental cause:

1. **Contribute positively to good community relations and integration.** The ability to promote good community relations and advance integration would be considered favourably.
2. **The ability to leverage in other sources of funding is desirable.** The ability to corral other funders into the same space supports the amplification of the Scheme's impact.
3. **Using existing organisations and/or systems of delivery, governance, and accountability is preferable.** There is a value for money argument for utilising existing structures, where possible without risking impact, rather than establishing new ones. While this consultation does **not** ask for input on specific distribution mechanisms, this is something the government will take into consideration when assessing the relative merits of proposals.