September 2000

Response to the DTI Foresight Panel Financial Services

The Joseph Rowntree Foundation welcomes the opportunity to respond to the consultation by the Panel on financial services personal and consumer sub group paper. The Joseph Rowntree Foundation is the UK's largest social, research and development charity. It supports a programme of around £7m of research and development activity over the course of the year. Summaries of research we have funded - *Findings* - are available free on our website. All the references contained in this response can be obtained there.

The Foundation was particularly pleased to note than an important contributor to our work on financial exclusion, Elaine Kempson, is represented on the Panel. As a consequence, it is clear that literature on financial exclusion is well represented within the material available to the Panel. Our response focuses on the gaps we have identified in the analysis currently expressed in the Panel report, derived from other areas of our work.

The geographical dimension - service withdrawal

The first gap we would like to highlight is in a relation to the geographical dimension of financial and other service exclusion. Research we have commissioned by the School of Architecture, Planning and Landscape at the University of Newcastle Upon Tyne (Private sector service withdrawal in disadvantaged neighbourhoods - February 2000, Findings 230) indicates that there is evidence of service providers either physically withdrawing from marginalised neighbourhoods or distancing themselves from customers there. The research, which consisted of qualitative interviews in two particular neighbourhoods, found that only two of the households interviewed had bank accounts with facilities such as cheque guarantee cards and only one had an overdraft facility. The bank and building society branches in those neighbourhoods had been closed; there was only limited penetration of cash point machines. The geographical concentration of such households in particular areas is of especial concern here.

The research also indicated that telephone connection rates were lower than the national average in these neighbourhoods. This put the new, electronic information sources and services such as the internet beyond the reach of those who do not have telephones. The current high costs of pre-pay, no contract mobile phones make them too expensive as an alternative.

Although from the scenarios contained in the Panel's report, it is clear that the Panel assumes that information technology will get cheaper and more diffused within the population in the next few years. On the basis of our work, there appears to be an issue around the costs of such technology for the poorest, and the lack of alternative access points in particular geographical areas.

Our work on social exclusion in rural areas would suggest that the geographical considerations apply to both inner city neighbourhoods and rural villages and market towns (Exclusive Countryside? Social exclusion and regeneration in rural areas - July 2000 Foundations 760).

Planning for the future - the 'capacity' gap

The second gap relates to the framework within which the Foresight Panel has undertaken its work, which is essentially a rational one. Work we have undertaken on the ability of consumers to financially plan their future (Planning for the Future: the difficulties people face - May 2000 Findings 570) indicates that:

- the people interviewed do not make detailed, formal plans for the future;
- even if people were both willing and able to think and plan ahead, their capacity to do so is often limited by economic insecurity and lack of resources;
- those with less secure (and low) incomes have a reduced capacity to make plans for the future; and there are indications that even those who do plan make ineffective plans for the future which may prove insufficient to provide for their needs.

The researchers conclude that there are real constraints on the ability that individuals have to make adequate financial planning choices for the future.

A model of welfare reform and service provision which is based wholly on providing better information and advice is flawed. It runs the risk of not addressing the difficulties thinking through implications for financial choices for today and their long term future people on low incomes have to make.

Compulsory pensions - a new 'enforcer' role for the State

The third 'gap' we have identified is linked to this: it relates to the assumptions underpinning the role of the State in the future. The shift of the burden of responsibility away from the State toward the individual with all of the associated transference of the burden of risk is taken as read. Although we would not dispute that this is certainly occurring, the implicit assumption is that the State can be either full insurer and provider **or** minimalist safety net.

Both the Rowlingson study and our own Inquiry into the costs of long term care suggests that there is a "third way" with the State functioning as a "regulator" of compulsory contribution schemes. In terms of long term care, our 18 month Inquiry in 1996 entitled 'Meeting the costs of continuing care' suggested that the creation of compulsory schemes to make the costs of long term care throughout an individual’s working life would ensure that an appropriate amount of funding entered the system universally. The Rowlingson study suggests that although compulsory pension schemes (in this case occupational pensions) were resented by individuals at first, their perception was that in the long term, they were very helpful.

We would encourage the Foresight Panel to consider a different market scenario where the creation of compulsory, potentially arms length, schemes could be created to ensure that those who could afford to make contributions did so with the commensurate economies of scale of a universal scheme. Obviously, the State would need to make appropriate contributions for those who were not in paid work at any given time.