Treasury Committee Financial Inclusion Strategy Inquiry Fair4All Finance Evidence

Executive summary

Fair4All Finance welcomes the Government's Financial Inclusion Strategy and the Treasury Select Committee's inquiry into the Strategy. Financial exclusion remains a significant and systemic challenge in the UK, affecting household resilience, economic participation and growth. Tackling such an issue requires sustained, system-wide coordination led by government across industry, regulators and the third sector.

We are pleased to have a key role in delivering several projects under the Strategy, across credit, insurance and financial capability. We look forward to working with Government to deliver these projects at pace, and we expect to keep the Committee updated about the progress and impact of these initiatives.

The major challenges to financial exclusion in the UK include low household financial resilience, the poverty premium, poor accessibility and a lack of inclusive design practices. Many households lack savings buffers and are highly exposed to financial shocks, while those on low or volatile incomes face products and systems that are poorly designed for their circumstances. Limited access to affordable credit and insurance compounds vulnerability, often forcing households towards high-cost or inappropriate alternatives. These challenges intersect with structural barriers associated with disability, ethnicity, mental health challenges and economic abuse.

The Financial Inclusion Strategy broadly addresses the right issues and adopts a welcome, cross-cutting approach. The six pillars align with Fair4All Finance's own drivers of exclusion, and the inclusion of mental health, accessibility and economic abuse as cross-cutting themes is appropriate. As the Strategy

develops, there are additional areas that could be covered, for example on access to affordable motor insurance for low income households, which was not considered in the final report of the government's Motor Insurance Taskforce.

The metrics for the Strategy have not yet been set out but these will be critical in assessing whether initiatives have been successful in combating financial exclusion. Alongside the use of outcome-based metrics, the Strategy would benefit from specific and measurable national targets.

We agree that an initial two-year review can be appropriate for establishing early momentum and testing whether delivery structures are functioning. But a two-year review cycle will not be sufficient on its own for a challenge as structural and significant as financial exclusion, and longer term targets should be set.

Similarly, the sustainability of the Strategy could be enhanced by deepening industry contributions and diversifying sources of investment. At present, delivery of the Strategy relies heavily on time-limited public and dormant assets funding, with minimal contribution from industry. We hope the Strategy is a starting point for stronger industry engagement and believe clearer expectations and incentives could help to unlock sustained private sector investment, such as greater investment by UK banks into the community finance sector. In addition, Treasury-supported mechanisms, including guarantees, could play a transformative role in encouraging investment and scaling affordable credit.

Fair4All Finance stands ready to support the Committee and Government in delivering transformative change through the Strategy.

Introduction

Fair4All Finance welcomes the Government's Financial Inclusion Strategy and the renewed focus it brings to tackling the issue of financial exclusion in the UK, which requires sustained and cross-sector collaborative action to tackle.

We also welcome the Treasury Select Committee's inquiry into the Strategy and the opportunity it provides to further explore the barriers that prevent millions of people from fully participating in the financial ecosystem, impacting household resilience, social mobility and economic growth.

Fair4All Finance is a not for profit organisation set up through government in 2019, through the Dormant Assets Scheme, to increase financial inclusion. We work across three key areas to make sure financial services provide what people need to manage their money, build their resilience and lead richer lives:

- **Influence** key actors across the system to prioritise, enable and deliver financial inclusion
- **Transform** the market to test and deliver the right products for all customers who need them
- **Scale** fair and affordable products to meet the needs of millions of customers

We have been pleased to provide input into the development of the Financial Inclusion Strategy, with our CEO Kate Pender sitting on the Financial Inclusion Committee, and chairing the Sub Committee on Access to Credit.

We will also be directly delivering a number of key elements in the Strategy, including:

- Piloting a small sum loan product with mainstream banks, so more people can access affordable, responsible credit when they need it
- Working with the FCA and industry to remove barriers and increase the uptake of contents insurance among social renters
- Addressing gaps in income protection insurance for underserved groups of people, including the self-employed
- Supporting the credit union sector to achieve transformational growth through regional collaboration and technology investment, with a new £30 million fund
- Funding financial education and capability for people in financially vulnerable circumstances through an initial £15 million investment.

To support the successful delivery of the Strategy, we are rapidly designing and operationalising these workstreams. We are pleased to play a leading role in achieving these outcomes and our function as a delivery partner informs this response to the Committee's inquiry. We look forward to keeping the Committee updated on progress and impact throughout the delivery of these initiatives.

Our response

Scope and foundations

- **What do you see as the major challenges to financial inclusion in the UK?**

Low financial resilience – access to savings, insurance and credit

A central challenge to financial inclusion in the UK is that too many households lack sufficient financial resilience. For these households, even a relatively small disruption - such as a car repair or a short period of illness - can cause someone to fall into financial difficulty. Tackling this challenge requires increasing access to the essential financial safety nets of savings, insurance and credit.

Research by Bristol University found that holding £2,000 in in savings is associated with a nearly 60% reduction in the risk of falling behind on bills.[1] Yet according to the FCA Financial Lives Survey, one in ten UK adults have no cash savings whatsoever, and a further 21% have less than £1,000 in savings.[2] Steps to increase savings levels must focus on measures with strong evidence of behavioural change, for example, learning from the success of pensions autoenrolment and the evidence that Nest Insight has developed

[1] Personal Finance Research Centre, Bristol University, 2025, Understanding the role of savings in building longer term financial security

[2] FCA, 2025, Financial Lives Survey 2024. Other estimates for low resilience are even higher, with StepChange Debt Charity finding that four in ten UK adults could not meet an unexpected expense of £1,000 without borrowing. StepChange, 2025, Somewhere Safe to Turn

on the opt-out payroll saving model.[3]

People in financially vulnerable circumstances also struggle to get adequate insurance cover. Often it is those most in need who have to go without protection. The FCA estimate that 8.6 million adults have no general insurance – such as contents, home or motor insurance – with lower product holdings among people in low income households and those in the most deprived areas of the UK.[4] There are also significant 'poverty premiums' in the insurance market. For example, it is estimated that living in a deprived area can add £234-£314 to the cost of car insurance compared to wealthier areas, while paying monthly when you cannot afford to pay in one go can cost an additional £384.[5] The result of higher costs and lower access is that common place events - like a washing machine breaking down – can be experienced as a significant financial shock that leads to long term difficulty.

Access to affordable credit

Affordable credit is another key element of financial resilience. Delivered appropriately, it helps people meet unexpected costs, smooth their incomes, or make upfront purchases they couldn't otherwise afford. However, too many people cannot access the credit they need. The FCA found that in the last two years, 5.5 million people avoided applying for credit, assuming they would be rejected or could not afford the product[6]. And LEK Consulting have estimated that there is a £2 billion gap in the provision of affordable credit that is not being met by the market.[7]

Without legitimate access to credit in times of financial distress, some people are turning to informal or illegal sources. IPSOS research for Fair4All Finance found that 4% of adults, equivalent to 1.9 million people, report personally using an unlicensed lender or loan shark in the last year, and a further 20% have borrowed from family and friends.[8]

The last decade has seen significant shifts in the UK consumer credit market, with access to credit for those on the lowest incomes becoming increasingly difficult. Regulatory action and reforms have led to welcome improvements in lending practices in the 'subprime' credit market. This has contributed to a decline in the size of the high-cost credit sector and helped to protect customers from unaffordable lending and problem debt. However, there has not been a corresponding increase in responsible alternative credit options for people with low incomes.

The community finance sector, including credit unions and community development financial institutions (CDFIs), provide vital access to affordable credit for people who would otherwise be excluded. However, the sector does not have the capacity to scale to meet all the demand on its own, and most mainstream

[3] Nest Insight, 2025, Easier to save
[4] FCA, 2025, Financial Lives 2024 Survey: Financial Inclusion Selected Findings
[5] Personal Finance Research Centre, Bristol University, 2024, Driving up costs: The car insurance poverty premium in 2024
[6] FCA, 2025, Financial Lives Survey 2024
[7] LEK, 2023, Improving Access to Lending for the Financially Vulnerable
[8] Fair4All Finance, 2025, Insights on unregulated lending

lenders do not offer access to the small sum, short term credit that is so important for the financial resilience of low income households.

We welcome the Strategy's recognition of the greater role that can be played by mainstream financial institutions, and we are pleased to be delivering a pilot of a small sum lending product with a bank – learning from the successful 'small dollar loan' programme, which has seen major banks displacing payday lending in the USA.[9]

The poverty premium and the cost of being excluded

A further challenge in achieving widespread financial inclusion is the relationship between exclusion and the poverty premium – the additional costs faced by people on low incomes for day-to-day goods and services. Research from Fair by Design and The Fabian Society suggests that the poverty premium affects a quarter of all households and costs each household in poverty £444 per year on average.[10]

In financial services, the poverty premium includes higher monthly premiums for those can't afford to pay annually for insurance, or the higher borrowing costs faced by those who are excluded from mainstream credit. Over time, these additional costs drain already limited household budgets, making it harder to build resilience, and reinforcing cycles of exclusion.

Accessibility and inclusive design

Many people face barriers to participating in the financial services system due to a lack of accessibility. Poorly designed products can exclude people due to a lack of standard identification, unstable housing, digital exclusion, disability, mental health conditions, or experience of economic abuse.

At the same time, the rapid shift towards a digital-by-default financial system, combined with widespread branch closures and declining cash acceptance, risks entrenching a two-tier system. Access should therefore be understood not simply as product availability, but as usability, trust, and suitability. Financial inclusion will remain elusive unless products are designed around the realities of people's lives and supported by flexible delivery models that work for those facing vulnerability.

- **Does the Financial Inclusion Strategy (FIS) address the main challenges to financial inclusion in the UK?**
- **Are there any major areas of financial exclusion not addressed by the strategy?**
- **Are the six pillars of the strategy the right foundation for achieving its objectives?**
- **Is the Government taking the right approach by treating mental health, accessibility, and economic abuse as cross-cutting themes within the Financial Inclusion Strategy, rather than as standalone priorities/pillars?**

[9] Fair4All Finance, 2025, Small sum lending: insights from the USA
[10] Fabian Society, 2024, Cost Cutters

Improving financial inclusion is a huge issue in the UK which requires sustained collective and collaborative action. We believe the Strategy provides a vehicle for Government to set direction and coordinate the resources of industry to deliver the change that is needed.

The Strategy sets out the right areas of focus and takes a comprehensive approach by looking across a range of product areas. This breadth is essential because financial exclusion is multi-faceted and interconnected with issues such as income volatility, debt, and lack of access to credit, insurance and the ability to build up a savings buffer.

The cross-cutting themes of mental health, accessibility and economic abuse are important to understanding and addressing some of the most acute forms of financial exclusion, and the ways in which structural barriers shape whether groups can access financial products and services. We believe treating these as themes rather than standalone pillars is appropriate, as they can cut across multiple product areas.

The six pillars of the Strategy broadly align with the six drivers of financial exclusion[11] previously set out by Fair4All Finance. Both frameworks recognise the importance of increasing financial resilience through better access to credit, savings and insurance, as well as considering contributing factors, such as accessibility and problem debt.

As the Strategy develops, it should also look to address access to motor insurance for people on low incomes. Currently, around 2.6 million people are effectively priced out of driving because they cannot afford car insurance[12], creating a barrier to employment and community participation, particularly in areas with limited public transport. This exclusion also carries an economic cost and addressing it could boost the UK economy by an estimated £369 million each year.[13]

During the development of the Financial Inclusion Strategy, responsibility for this issue was understood to sit with the Motor Insurance Taskforce. However, the Taskforce's final report does not include solutions for low-income or excluded consumers, leaving an important gap in the financial inclusion landscape. Renewed efforts to improve access to motor insurance could play an important role within the wider financial inclusion agenda, supporting both economic growth and social mobility.

Targets, timeframes, and resources

- **Are the targets set in the strategy reasonable and achievable?**

The Strategy includes some clear targets that are deliverable within the stated timeframe, particularly where they relate to defined programmes already in motion - such as the rollout of 350 banking hubs by the end of the parliament, the establishment of industry working groups on Identity and Verification and

[11] Fair4All Finance, 2023, Financial Inclusion Plan
[12] Citizens Advice, 2024, 2.6 million people don't drive as they can't afford car insurance cost
[13] WPI Economics, 2025, Financial Inclusion and Growth

Inclusive Design, and pilots focused on improving access to products for underserved groups. These initiatives are realistic as delivery targets - as actions that can be launched, governed and monitored in the short term - and we welcome the Strategy's intent to build momentum quickly.

The Strategy is currently more limited in its use of outcome-based targets and metrics which would measure the changed experience of those who are financial excluded or in vulnerable circumstances. Quantifiable targets have not yet been set out but these will be critical in assessing whether initiatives have been successful in combating financial exclusion. The Strategy notes that HM Treasury will consider a series of outcome-based metrics as part of its two-year review, and we hope to see national targets that are specific, measurable and time-bound.

- **Is the proposed two-year timeframe for reviewing progress appropriate? Does this period allow sufficient time for the plans to develop without risking unnecessary delay?**

We agree that a two-year review can be appropriate for establishing early momentum and testing whether delivery structures are functioning. In particular, the Strategy already builds in six-monthly reporting from some working groups (notably the Identity and Verification Working Group and the Inclusive Design Working Group), which is helpful for maintaining pace and transparency.

That said, we do not believe a two-year review cycle is sufficient on its own for a challenge as structural and significant as financial exclusion. Some of the most potentially transformative interventions require a longer implementation runway time to design, implement, and scale and due to the shorter review period, may have been left out. For example, while the Strategy does encourage employers to explore innovation beyond traditional opt-in saving models, a more ambitious Strategy with a longer timeframe may have pursued a more transformative approach, including implementation of payroll savings on an opt-out or autosave basis, as supported by evidence from Nest Insight. This would likely require multi-year coordination across government, employers, technology providers and regulators that would not be appropriately reviewed through a two-year review period.

We believe the Strategy's progress could be tracked across different timespans, for example:

- 2 year horizon: governance, pilots launched, early delivery outputs, published reporting, and evidence of scale pathways
- 5 year horizon: successful pilots mainstreamed, measurable changes in access and product uptake, sustained industry commitments, and improved consumer outcomes
- 10 year horizon: structural reductions in exclusion, poverty premium reduction, and improvements in household financial resilience and wellbeing.

This approach reflects the reality that financial inclusion requires sustained coordination and investment, not only short-term initiatives. A longer horizon, alongside a two-year review timeframe, would ensure that short-term reviews do not inadvertently discourage investment in initiatives that deliver systemic change over time.

- **Are sufficient resources and funding allocated to support the initiatives outlined in the strategy? Is the funding sustainable to support long-term impact?**

The Strategy includes many welcome initiatives which address notable market gaps and have the potential to significantly support financial inclusion, including a number of initiatives which Fair4All Finance is pleased to be delivering under the Strategy.

The sustainability of funding of wider initiatives would be enhanced by encouraging more industry funding and mainstream bank investment, to reduce the reliance on time-limited public and dormant assets funding. Public and philanthropic grant funding for transformation costs and innovation can be complemented by long-term impact investment and repayable commercial investment from a range of investors. For example, currently a very low proportion of the total investment into CDFIs comes from UK high street banks – increasing this investment (using dormant assets and other funding as leverage) could support the significant scaling of CDFIs' impact.

We hope the Strategy is a starting point for wider industry engagement and more long term investment into initiatives to tackle financial exclusion. This requires a stronger expectation on banks and mainstream financial services providers to engage through capital, partnerships and delivery rather than relying on social enterprises or the third sector to deliver inclusion.

For example, we would like to see mainstream financial institutions come together to scale the supply of affordable lending from CDFIs and other responsible lenders. This could operate through lenders signing up to a 'compact' structure, committing to providing investment into the sector as well as referring customers who may be better served by community finance providers.

The Strategy is also an opportunity for the Government to explore mechanisms that could reduce risk and incentivise private sector investment into development and provision of inclusive products and services. For example, the Sub Committee on Access to Credit explored the potential of different guarantee structures and how they could unlock affordable lending – we explore this in more detail below.

Without more sustained industry commitment and funding, there is a risk that the scalable and sustainable initiatives required to tackle financial exclusion on a systemic scale are not delivered. We would encourage the Government to use the Strategy as a springboard to set clearer expectations on industry contribution and view private sector funding as critical in providing sustainable long-term impact.

Policy design and effectiveness

- **How robust and effective are the monitoring and evaluation arrangements set out in the Financial Inclusion Strategy?**

We would welcome more clarity around monitoring and evaluation arrangements that are grounded in quantifiable metrics and targets. This will ensure that delivery is consistent and that momentum is maintained.

The Strategy sets out a six-month reporting cycle to HM Treasury for the Identity and Verification Working Group and Inclusive Design Working Group. We would support similar arrangements for other industry groups, such as the working group on travel insurance for people with pre-existing mental health conditions.

Similarly, though a two-year review period has been set out for the Strategy as a whole, we look forward to a clearer view over how the Strategy's implementation will be reviewed, what metrics and criteria will be used to evaluate it, who will be conducting the evaluation and how any findings will be translated in action.

The monitoring and evaluation arrangements could be strengthened by:

- Including clear outcome-based targets and metrics in reporting process to ensure focus is not activity but on the impact on consumers
- Developing clear expectations on when and how delivery partners will report progress against the outcome-based targets
- Commissioning an external evaluation to provide independent assessment of the Strategy's success.

Stronger monitoring and evaluation arrangements would support learning, enable iteration and improvement where initiatives are not delivering as intended and will also help to ensure that the Strategy leads to sustained, systemic change.

- **Are the proposed metrics and review mechanisms sufficient to track progress, measure success and hold delivery partners accountable? What additional data should be collected?**

At present, the proposed metrics and review mechanisms set out in the Strategy would not be sufficient to track progress, measure success and hold delivery partners accountable. As much of the delivery depends on voluntary measures by industry, we agree that proper accountability will be important to the success of the Strategy.

Without firm quantifiable metrics and measurable targets, there is a risk that progress is measured through activity only, rather than outcome. Progress through activity remains important – reporting on establishing working groups and pilots does indeed demonstrate engagement and willingness to act but it may not show whether financial exclusion has been reduced or if gaps in accessibility, affordability and financial resilience have been filled in the same way that outcome-based metrics can. The absence of such metrics and measurable targets makes it difficult for Parliament, stakeholders and consumers to assess whether delivery partners are contributing effectively towards tackling financial exclusion, and therefore, makes it more difficult to hold delivery partners accountable.

We are pleased to have a key role in delivering several projects under the Strategy, across credit, insurance and financial capability. We look forward to working with Government to deliver these projects at pace, and we expect to keep the Committee updated about the progress and impact of these initiatives.

Stakeholder engagement

- **Were all relevant stakeholders adequately represented in the development and delivery of the strategy? If not, who was missing?**

Fair4All Finance led the Access to Credit Sub Committee as part of the development of the Strategy. This group included a broad range of stakeholders such as consumer organisations, banks, building societies, and community finance providers. In addition to the Sub Committee's work, we convened roundtable discussions with consumer groups, community finance organisations, non-bank lenders, and representatives from the devolved administrations. We also held bilateral meetings with a wide range of stakeholders to ensure diverse perspectives were considered. A full list of the members of the Sub Committee can be found here.

Additionally, Fair4All Finance worked with Three Hands Insight to deliver a lived experience session for the Financial Inclusion Committee and the Economic Secretary to the Treasury, on 7 April 2025, working closely with the HM Treasury team to arrange this. The session brought together individuals with direct experience of financial exclusion, including a victim-survivor of economic abuse and people living with health conditions, to share their perspectives and experiences with the Committee and inform the development of the Strategy. The discussion highlighted challenges around accessing responsible credit, managing debt and securing appropriate and affordable insurance products. A full report of this session can be provided upon request.

Broader considerations

- **To what extent will the Strategy aid the Government in its growth mission?**
- **Can or should any of the policies contribute to reducing inequality, for example by improving access to financial markets?**

The Strategy has clear potential to advance the Government's growth mission while reducing inequality by tackling financial exclusion – an entrenched barrier to wellbeing, security and prosperity – and by strengthening household and workforce resilience. With the right degree of collaboration and commitment across sectors, efforts to meaningfully expand access to payroll savings, insurance and responsible credit can enable households to smooth income volatility, manage financial shocks and avoid problem debt, supporting workforce participation and productivity.

Research commissioned by Fair4All Finance from WPI Economics found that unlocking access to affordable credit, insurance and savings for excluded households could add £6.4bn to UK GDP annually, a total of £25.6bn over the remainder of this Parliament.[14] The modelling shows that:

- Increasing workplace savings uptake could channel £110m per year into long-term investment

[14] WPI Economics, 2025, Financial Inclusion and Growth

- Removing the poverty premium from car insurance could yield £369m per year through higher employment
- Boosting financial wellbeing via better access to credit and savings could deliver £5.9bn per year through improved productivity and employment

This modelling draws on a wider body of evidence around financial distress and the employment market. For example, money worries at work lead to more absences and lower productivity, with the total cost to employers due to financial distress estimated at £10.3bn per year.[15] There is also an established connection between over indebtedness and poor mental health. People in problem debt are also far more likely to experience mental health issues[16] and can get stuck in a destructive cycle, sometimes losing employment or falling out of the labour market altogether.

Improving access to fair and affordable financial products is central to addressing these challenges, and practical interventions can demonstrate how inclusive markets drive both resilience and growth.

Customer case study – financial inclusion and economic empowerment

Madeline is a 41-year-old single mother of three children. One of her children is disabled and, as her full-time carer, Madeline is unable to work. She needed a car to take her daughter to medical appointments and more generally to allow her to get out and about.

She applied for a loan with Leeds Credit Union to buy a car. Unfortunately, because of some recent missed payments on her utilities accounts, she was initially declined due to her low credit score.

Leeds Credit Union invited Madeline to apply for a No Interest Loan Scheme (NILS) loan, supported through the pilot run by Fair4All Finance with a guarantee provided by HM Treasury.

This meant that Madeline was able to receive a £1,500 interest-free loan, with weekly repayments of £29 over 12 months. With this amount, she was able to buy the car and set aside a small amount for her daughter's upcoming birthday. She told Leeds Credit Union that having access to this loan has been 'a massive help'. Madeline has already started paying off her loan.

Fair4All Finance's investments, funded through the Dormant Assets Scheme, demonstrate how targeted interventions can reduce inequality while supporting growth. We have committed over £60m to more than sixty community finance providers, improving access to affordable credit and helping

[15] Cebr for Aegon, 2023, Financial wellbeing and productivity in the workplace

[16] Money and Mental Health, Facts

customers build savings and resilience.

An independent report into one of our investees, Fair for You, which provides affordable loans for furniture and appliances, found that every £1 they lent generated £17 in benefits to society, by reducing essential living costs, improving sleep, diets, and mental health, and reducing costs for the NHS.[17] And last year across our portfolio, 35% of our investee lending went to lone parents with dependent children – a group disproportionately affected by financial precarity.

- **Should the Strategy include measures to address particular challenges related to financial exclusion only faced by those with certain protected characteristics?**

The Strategy should continue to recognise and respond to the specific challenges faced by people with one or more protected characteristics, as these are clearly connected to financial exclusion. Disability and ethnicity are two areas where targeted measures would be particularly welcome. Alongside coordinated cross-sector action and regulatory leadership, the Inclusive Design Working Group could play a role in ensuring products and services meet the needs of all customers, including those who currently face barriers and/or discrimination.

Disabled people often face higher living costs and lower incomes, creating a persistent financial wellbeing gap. Scope estimates that disabled households need an additional £1,095 per month to achieve the same standard of living as non-disabled households, due to extra costs such as mobility aids, higher energy use and transport.[18]

Research by Bristol University found that one in three disabled households say 'it is a constant struggle' to meet their bills and credit commitments. This research also found that many disabled customers find it difficult to access financial services. Half of disabled people (53%) reported difficulties getting to a bank branch; 44% found dealing with customer services on the phone confusing and/or difficult; and 37% said they had problems getting to or using a cash machine.[19] The FCA Financial Lives Survey 2024 reported that 2.3 million adults (4%) had specific access requirements, eg due to an impairment or health condition, that need to be met to enable them to contact their financial services providers more easily or access their services. Less than half (47%) reported that their provider had made the necessary adjustments to meet these access needs.[20]

Fair4All Finance's Levelling the Playing Field report highlights that people from minority ethnic groups experience discrimination and multiple barriers to accessing mainstream financial services in the UK. Research by IPSOS for Fair4All Finance found that one in five (22%) people from minority ethnic groups had experienced discrimination due to race when dealing with financial providers, and accompanying qualitative research pointed to a mismatch in perception of the progress mainstream financial

[17] Financial Inclusion Centre, 2023, Measuring the impact of Fair for You on customer health and wellbeing
[18] Scope, 2025, Disability Price Tag
[19] University of Bristol, 2023, The financial wellbeing of disabled people
[20] FCA, 2025, Financial Lives 2024

institutions believe has been made to the experiences people from minority ethnic groups report.[21] Data from the FCA's Financial Lives Survey shows that decline rates for credit applications are higher for people from minority ethnic backgrounds, with Black and Black British consumers particularly affected.[22]

People from minority ethnic backgrounds are also affected by the 'ethnicity premium' in markets such as car insurance, where people of colour are charged 40% more than white people, worth £250 per year.[23] FCA analysis of ethnicity and motor insurance prices, published in December 2025, finds that the majority of price difference reflects the difference in the real relative risks of geographical areas, though there are also smaller differences in pricing that remain unexplained.[24] Nonetheless, the clear relationship between areas with greater minority ethnic representation, deprivation, and higher pricing have been compared to 'postcode profiling' and 'modern redlining'.[25]

- **Is there scope for Treasury-supported mechanisms to provide affordable or interest-free credit to individuals who struggle to access mainstream lending?**

Affordable credit plays a vital role in helping households to manage essential costs, avoid high-cost credit and build financial resilience. We welcome the commitments in the Strategy to pilot a Small Sum Lending personal loan product with a mainstream lender, and to launch a Credit Union Transformation Fund, both of which Fair4All Finance will be delivering and which will play an important role in expanding access to responsible credit.

Alongside these important interventions, there remains a need to scale investment into affordable credit. We believe that government-backed guarantees can play a transformative role in expanding the provision of affordable credit to financially vulnerable households. They do so by reducing perceived and actual risk for investors and lenders, thereby making it commercially viable to serve customers who are currently excluded from mainstream credit markets.

There is an estimated £2 billion gap in the commercially viable affordable credit market, with a further £4–5 billion in unmet credit demand among non-standard customers who could be served through subsidised lending mechanisms.[26] Guarantees represent one of the most effective tools available to government to catalyse bank participation, leverage private capital, and scale up responsible lending.

Government-backed guarantees are well established in other markets – notably in SME finance (via the British Business Bank) and the mortgage market (Help to Buy, Mortgage Guarantee Scheme) – as a cost effective way to leverage large scale investment. Expanding government-backed guarantees into personal lending could deliver substantial social and economic returns.

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[21] Fair4All Finance, 2023, Levelling the Playing Field
[22] FCA, Financial Lives 2024
[23] Citizens Advice, 2023, People of colour still paying £250 more on car insurance per year than white people
[24] FCA, 2025, Motor insurance pricing and local area ethnicity
[25] Clearview Research, 2025, Systemic Barriers to Financial Inclusion Project: Rapid Literature Review
[26] LEK, 2023, Improving Access to Lending for the Fianancially Vulnerable

The use of government-backed guarantees would complement wider policy aims under the Financial Inclusion Strategy, particularly those aimed at expanding community finance through new capital investment from banks and social investors, encouraging and enabling responsible commercial lenders to offer affordable credit, and encouraging mainstream banks to offer Small Sum Loans (loans of less than £1,000).

Guarantees offer a pragmatic and fiscally responsible means of expanding affordable credit. They have been proven to work through the No Interest Loans Scheme pilot and other Fair4All Finance initiatives, which make use of funding guarantees (designed to attract investment into lenders) and lending guarantees (which allow lenders to extend access), as well as combinations of the two approaches.

Case study: The No Interest Loans Scheme (NILS)

In partnership with HM Treasury, Fair4All Finance delivered a pilot of a No Interest Loan Scheme, launched in 2022 and supported by JP Morgan, Scottish and Welsh Devolved Administrations, Fair by Design and Toynbee Hall. The scheme has delivered over 14,000 loans to customers who would otherwise have been excluded from credit, with more than £10.7 million lent. It operated through a partial bad debt guarantee, which significantly reduced the risk to community lenders and enabled sustainable lending.

Early findings and qualitative evidence suggest that many people used their loan to pay nursery fees, put down rental deposits, buy household essentials such as furniture or appliances, and to flex spending to meet the costs of summer childcare or Christmas. This scheme has shown it is possible to lend effectively to customers who are excluded and that the function of a government-backed guarantee can enable initial access, after which the payment behaviour of customers has led more than half to have an ongoing opportunity to borrow from their lender if needed in the future.

The NILS pilot demonstrates that guarantees are a cost-effective mechanism for responsible risk-sharing, allowing lenders to reach customers who would otherwise be excluded. A full evaluation of the No Interest Loans Scheme pilot will be published in 2026, which we hope will make the case for a national roll out of the scheme.

We believe that guarantees to lenders could be provided on a cost effective basis. Operating these schemes can be cost neutral from the outset as fees and interest earned cover expenses.

Fair4All Finance will be launching a £25m Guarantee Fund pilot in 2026, using dormant assets funding to provide guarantees to scale investment into, and lending by, CDFIs and other responsible lenders. We will be keen to share learnings from this pilot with Treasury. However it should be noted that a government-

backed guarantee (such as those provided by the British Business Bank) could be even more effective in leveraging additional investment as banks could benefit from the reduced Risk Weighted Asset requirements, encouraging them to invest more.

Thank you for considering our submission. We would be very pleased to discuss this further and to provide any additional information that may be helpful at any stage.