



Financial Inclusion: Access to banking

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“This briefing paper examines banking exclusion alongside recent policy responses and proposals.”

Key Points

- Having a bank account can be a gateway to other products and services, such as affordable credit or insurance. It can also be a means of avoiding the extra costs of pre-payment meters and pay-as-you-go tariffs.
- Causes of exclusion from banking are interlinked and include: geographical exclusion; condition exclusion (e.g. the failure to qualify because of minimum deposit required, poor credit history or identity requirements); marketing exclusion, and self-exclusion.¹
- The number of households without bank accounts in the UK has fallen in recent years, but is still a problem for a significant proportion of lower income households and those living in deprived areas. Family Resources Survey data for 2007/08 show that approximately 0.89m people, in 0.69m households do not have access to a bank account of any kind.²
- Owning a basic bank account does not mean an individual has left the cash economy, many people empty their account as soon as they receive their benefits or wages. A narrow definition of inclusion can therefore have the effect of disguising the scale of financial exclusion.
- Although those on the lowest incomes are also those least likely to have a bank account, exclusion from banking is not solely determined by income. Vulnerable groups include lone parents, homeless people, care leavers and recently released prisoners.
- Mistrust of banks remains an issue among many sections of the population and banks should do more to improve openness to all customers, regardless of income level.



Access to Banking

In December 2004, the UK Government HM Treasury and the banking industry agreed a shared goal of halving the number of adults in households without a bank account. In 2009, the UK Government and the Financial Inclusion Task Force announced that the 'Shared Goal' had been met.³ The baseline for the shared goal was set by the Family Resources Survey (FRS) data for 2002/03 when 2.8m adults in 1.8m households were found to have no access to a bank account. The latest report on access to banking by the Financial Inclusion Taskforce shows that the number has fallen to less than 900,000 in 2007/08. Despite this progress, there is still cause for concern, because, in an increasingly cashless economy, the consequences of not holding a bank account are ever more exclusionary.

Unbanked households tend to be concentrated at the lower end of the income distribution, with half (51%) of them being found in the lower two deciles.⁴ Some groups are over-represented among the unbanked, such as single person households and retired people. There are also groups, such as homeless people who do not appear in official statistics.⁵ Importantly, opening a bank account does not ensure full financial inclusion for individuals. In fact many people with basic bank accounts are on the margins of banking and barely use their account. Around half of basic bank account holders prefer to withdraw all their money each week and manage it as cash, because it gives them more control over their finances than using an account that does not suit their needs, or because they have a basic bank account that lacks flexibility of access.⁶

The recent economic downturn and problems within the industry in the UK have in many ways undermined public confidence in the banks. Undoubtedly, a continuing challenge will be to convince the banking sector to be proactive about basic bank accounts which are for consumers from low income groups, who are generally seen as high-risk and low-profit.⁷ A positive effect of the 'banking crisis' may be to re-energise interest and support for the development of a broader range of alternative banking products to improve choice. Existing research has identified a range of issues which lead to dissatisfaction with banking and should inform the development of banking services that better meet the needs of low-income consumers.

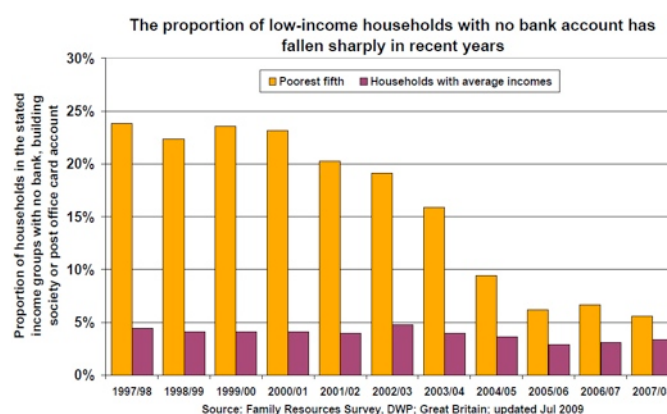
Who is 'Unbanked'?

Analysis of UK data collected in the Family Resources Survey shows the proportion of low-income households without any type of bank account has fallen sharply from 20-25% in the late 1990s to 6% in 2007/08. In 2009, the Financial Inclusion Taskforce announced that the number of individuals who are unbanked had fallen to below 900,000.⁸

The proportion of low-income households without a bank account is now very close to the proportion of households on average incomes who are without a bank account: 6% compared with 3%.⁹ Figure 1 shows the proportion of households without a bank, building society or other account.

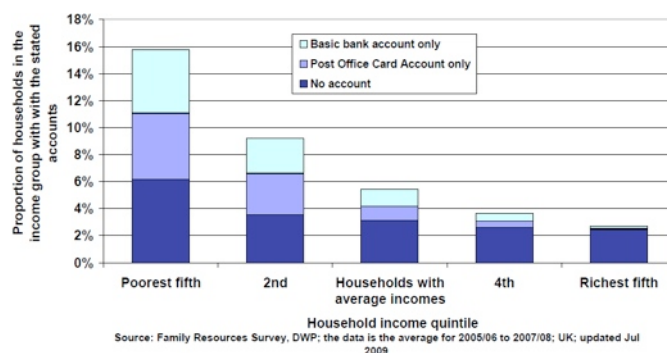
The fall in the proportion of low-income households without a bank account has largely coincided with the introduction of two new types of account, namely basic bank accounts and post office card accounts (POCA).

Figure 1: Proportion of households without a bank, building society or any other kind of account¹⁰



If, as is argued by some, POCAs should not be included as a proper account because of their limited functionality, the proportion of low-income households without an account rises from 6% to 11%. Figure 2 shows, for differing levels of household income, the proportion of households with only a basic bank account or a POCA. The small number of households with both a basic bank account and a post office account but no other accounts are included in the 'basic bank account only' category.

Figure 2: Type of account by household income¹¹



Some groups are over-represented amongst unbanked households. Especially vulnerable are people living on low incomes, particularly if they are not in employment and living on social security payments from the state. Analysis of the Family Resources Survey data for 2007/08¹² has established that:

- Unbanked households are concentrated at the bottom of the income distribution, with half (51%) of them being found in the lower two deciles, while 80 per cent are in the bottom four deciles.
- Single person households are over-represented among the unbanked (comprising 64% of unbanked households compared with 36% of the general population) as are lone parent households (comprising 17% of the unbanked compared with 7% of the general population).
- The retired comprise 33 per cent of unbanked households, compared with 25 per cent of the general population.
- The majority of unbanked households are social renters, with 67 per cent of the unbanked in this category (compared to 18% of the general population).

Also at risk of exclusion are people with a history of bad debt, who often have their accounts closed if they fail to reduce their overdraft and then find it difficult to open another account.¹³

There are some groups which either do not appear within the official statistics, or who cannot be identified as such within them including; people in or shortly to leave prison; those living in homeless hostels or in shared accommodation; and, possibly, migrant workers.¹⁴ These groups' unusual and particular circumstances may require special initiatives to meet their needs. One example of such a targeted initiative is the Grand Central Savings Bank which opened in order to meet the banking needs of homeless people in Glasgow. It aims to support excluded groups to move towards mainstream banking. This is achieved by providing a face-to-face service that supports individuals to utilise their bank accounts and stabilise their financial management. This is one example of a service which supports excluded groups to move away from a 'cash-culture' in a sustainable way. Grand Central Savings is now expanding its service in Scotland.¹⁵

Causes of Exclusion

A range of research has identified the different causes of exclusion from banking which are often interlinked and include: geographical exclusion; condition exclusion (e.g. the failure to qualify because of minimum deposit required, poor credit history or identity requirements); marketing exclusion; and self-exclusion.¹⁶ These factors constitute a complex set of often overlapping barriers and, consequently, there is a similarly complex set of issues which successful financial inclusion initiatives have to address.

For some excluded groups, many of the immediate benefits of bank accounts are not perceived to be sufficiently compelling to motivate change, or are outweighed by other considerations. An essential element of budgeting on a low income is certainty and control.¹⁷ Many people use successful and long-established methods of cash-based money management which ensure that they keep track of income and expenditure and avoid getting into debt. Fear of the risks associated with using a bank account including the risk of debt associated with being unable to meet direct debit payments and/ or becoming overdrawn are barriers to opening a bank account or making use of an account.

Research has established that the bank branch infrastructure is far poorer in low-income neighbourhoods and that branch closure rates are higher.¹⁸ Cost-cutting measures launched by the banks to increase their profitability have led to a contraction of the bank branch network, with nearly 6,000 bank branches having closed since 1990. This has left nearly 1,000 mainly rural communities bankless, with this trend looking set to continue.¹⁹ A new and related cause for concern has been that the growth of the fee-charging ATM network appears to have been driven by bank branch closures. This disproportionately penalises families who have low weekly incomes, as they are most likely to make frequent withdrawals of smaller amounts from ATMs.

The people who remain unbanked are not a homogenous group and some face specific barriers that can be exacerbated by low income. For example:

- A range of issues confronts people with learning difficulties and their carers including difficulties in setting up and operating bank accounts. Also some basic bank accounts require an account holder to use an ATM. This presents problems for some people with learning difficulties who can have difficulty recalling a PIN.²⁰
- Older people may feel less comfortable with the process of electronic transmission and withdrawal of money through cash cards, and some may prefer to use more familiar methods of money management.²¹
- Mistrust of banks remains one of the biggest challenges for those wishing to promote financial inclusion. Research has identified that financially excluded people often describe feeling intimidated when entering a bank. The physical environment can contribute to this experience but it also relates to the perception that people with less money are treated poorly by bank staff.²²

There is growing concern that the experience of exclusion may be intensifying in the current financial climate which is risk averse since consumers from low income groups are generally seen as high-risk and low-profit.

Consequences of Exclusion from Banking

A bank account is now fundamental to full participation in economic and social life. For this reason the New Economics Foundation argues that access to a bank account is a basic human right that should be universal.²³ Without an account, managing money becomes more time-consuming, expensive and insecure. Banking exclusion imposes significant costs for individuals and wider communities.

A report by New Philanthropy Capital²⁴ summarises the consequences of not having a bank account as follows:

- the unbanked (and people who do not use their accounts) are more vulnerable to loss and theft, and have to pay commission to cash cheques

- access to discounts on bills that come from paying by direct debit, and many have to pay for fuel using pre-payment meters (estimated to cost £140 more every year) rather than by direct debit is restricted
- exclusion from online shopping and mobile phone contracts
- limited access to several other financial products, as bank accounts are a gateway to competitive credit, insurance and savings facilities
- difficulty moving into work since most employers now pay salaries electronically

As the number of individuals with bank accounts in the UK increases, those without accounts become an even more excluded minority.

Policy Responses

For more than a decade banking has been viewed not only as the gateway to wider financial inclusion but also as bringing significant social justice and poverty mitigation benefits. In 1999, New Labour's Social Exclusion Unit set up Policy Action Team 14 to look at this area and reported the need 'to increase access to banking services'.²⁵ Regulation of financial services is a reserved matter and in response to this report, the UK Government worked with the industry to develop a basic bank account.

At the same time, a decision was taken to move all benefits payments from giro to automated electronic credit payments by the year 2003 - saving the Government approximately £650m a year in administration costs and fraud.²⁶ When the Government first introduced the direct payment of benefits into accounts, claimants were offered a choice of whether to have the money paid into an existing bank account or to open a new basic bank account or post office card account (POCA). The POCA is a simple account that can be used to receive benefits, State pensions and tax credit payments. No other money can be paid into the account and it cannot be used for the receipt of wages from employment. Money can only be withdrawn over-the-counter in Post Office branches. The account does not offer standing orders or direct debits. The POCA has been very popular despite its limited functionality.²⁷

In March 2010, the Labour Government announced a 'major expansion' of the financial service offered by the Post Office following completion of a national public consultation.²⁸ Developments included the creation of an enhanced Post Office Current account and detailed negotiations are taking place with RBS and Santander to give access to their current accounts. This would mean that around 86% of current accounts would be accessible at Post Offices. To support to the expansion of services the network will receive £180m of new funding over 2011/12.

In the 2004 Spending Review, the Government announced that it was working together with the banks towards the goal of halving the number of adults in households without a bank account - and to have made significant progress in that direction within two years.²⁹ No deadline was set for achieving this goal. However, the

Financial Inclusion Taskforce has been monitoring progress and announced the goal had been met in 2009. The Government has sought to address the challenges in this area through dialogue and cooperation with the banking industry. A number of third sector organisations have argued that the partnership approach alone is insufficient and should be replaced or supported by either legislative action requiring banks to enhance the availability of transactional banking services, or by more explicit Government consideration of such action.³⁰

The ultimate aim of third sector activity is to strengthen the incentives of banks to serve excluded customers where possible and support alternative provision where not possible. There are a number of ongoing initiatives by voluntary and community organisations that have among their aims to help people access financial products, including bank accounts that are suitable for them.

- The SAFE project in east London aims to act as a bridge between Government and industry by providing support and advice to individuals, to help them understand the options available to them and to help them action their choice.³¹
- Grand Central Savings provides a banking service that supports the most excluded groups, including people who are homeless, to stabilise the management of their finances and fully utilise their accounts. The service aims to help excluded groups move towards mainstream banking services.³²

The third sector has also played an important part in the recent campaign concerning what it has argued are unfair bank charges. An understandable aversion to the risk of exposure to bank fees remains a continuing supply-side barrier to take-up. In many cases this aversion is based on previous experience.

The economic downturn and 'credit crunch' are likely to bring new challenges to this area of policy. For example, at the time of writing, only two basic bank accounts are currently open to undischarged bankrupts. As bankruptcies are likely to rise this year as a result of the recession, this is likely to result in an increasing number of people having a very limited choice of accounts.

Conclusions

As the Financial Inclusion Taskforce has recently noted, progress towards the shared goal of banking inclusion has, to date, been measured purely in terms of reducing the number of adults who do not have access to transactional banking. Initially, financial inclusion was shaped by the UK Government's Social Inclusion, Neighbourhood Renewal and Pathways out of Poverty agendas.³³ Here, a focus on the structural causes of poverty and exclusion was replaced with individuals' connections to paid forms of employment and the community. This shift towards individual responsibility manifested in a range of policies such as pension changes and the introduction of student loans. At the root of this approach was the belief that the market would meet the gap.

While the social consequences of financial exclusion were recognised by the UK government, a stated key driver for intervention was to address identified 'market failure' – the goods and services offered by the market did not meet the requirements of lower income groups.³⁴ This approach has been helpful as a first step towards the financial inclusion of excluded groups. However, there are conflicts within the approach between the dual aims of addressing exclusion and improving the financial services market for low income consumers.

Research has already identified that some have been disadvantaged by the move into banking. A nationally representative survey of low-income households found³⁵ around 4 in 10 of the total (and mainly those in the bottom 20% of household incomes), reported that they had suffered a net loss and some damage to their financial security as well as an increase in indebtedness. This damage arose primarily as a result of penalty charges associated with unmet direct debits and unauthorised overdraft charges. For some, bank accounts have evidently been a platform to inappropriate financial services and led to further impoverishment.

Mistrust of banks remains an issue among many sections of the population and banks should do more to improve openness to all customers, regardless of income level. Improving the accessibility and awareness of product information would be a first step. However, low-income consumers, in particular, are poorly served by the UK's banking system. Expanding access to basic bank accounts through the Post Office network may go some way to addressing this. Account-based money management will only be a realistic alternative to cash-based methods if it can offer similar levels of control and flexibility.

We would argue that the current dual approach needs to be replaced with a singular focus on social justice and the reduction of social and economic inequality – how can access to banking deliver clear benefits to low income households?

This is a problem which must be addressed since we live in an increasingly cashless society. Getting basic banking right will mean focusing on what low-income consumers need it to deliver by respecting, and building on, the money management strategies that work for them.

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Currency

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