

# Banking the Unbanked: Where are we now?

A Scottish Poverty Information Unit conference report

January 22<sup>nd</sup> 2008

## Chair

Keith Aitken, Broadcaster and Journalist

## Speakers

Professor Asif Dowla, Co-Author *The Poor Always Pay Back*

Mick McAteer, Financial Inclusion Centre

Andrew Rudge, Royal Bank of Scotland

Colin Kinloch, Financial Services Authority

Mike Dailly, Govan Law Centre

Jane Livingstone, Association for Real Change

John Moorhouse, Grand Central Savings Bank

Paul Brown, Legal Services Agency



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## **Disclaimer**

This report attempts to summarise the key points made in presentation and raised in debate. SPIU invites comment from delegates who consider that this record of events fails to represent the conference deliberations. Such comment will be published as an addendum to this report.

All links to websites provided in this report were correct at the time of writing.



## Introduction

Banking is an integral part of everyday life for most people, yet one in twelve households in the UK lacks access to a bank account, affordable credit and money advice.<sup>1</sup> Thus, financial exclusion affects over five million people in the UK. *Banking the unbanked: where are we now?* was a major conference hosted by the Scottish Poverty Information Unit (SPIU), Glasgow Caledonian University on January 22<sup>nd</sup> 2008, which aimed to bring together people from the financial services sector, the voluntary and community sector, academia and government to debate and discuss banking. Most importantly, the event aimed to identify practical sector-wide solutions for tackling financial exclusion. The one-day event proved to be an enormous success, attended by over 140 people representing a wide range of organisations.

This conference report by the Scottish Poverty Information Unit is in three parts:

Part 1 reports on the opening conference presentations. The speakers in this session introduced current policy in the UK, and examined key issues and problems for vulnerable groups. The aim was to build up a comprehensive picture of financial exclusion in the UK at the current time.

Part 2 reports on the second set of presentations. The speakers in this session focused on strategies to tackle financial exclusion and ways to better meet the needs of the unbanked and under-banked.

Part 3 reports on the closing panel debate. The session starts with an introduction to the work of Grand Central Savings bank before opening to debate. Panellists in this session focused on the key issues raised during the day's conference; the session also offered delegates the opportunity to debate with panellists.

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<sup>1</sup> HM Treasury (2004) *Promoting Financial Inclusion*, HMSO. Available at: [http://www.hm-treasury.gov.uk/media/A/0/pbr04\\_profininc\\_complete\\_394.pdf](http://www.hm-treasury.gov.uk/media/A/0/pbr04_profininc_complete_394.pdf)

## 1. Financial exclusion in the UK: issues and policy

Following the opening address, Chair Keith Aitken, one of Scotland's most respected journalists, commenced proceedings by introducing the first of the morning's keynote speakers. Principal Solicitor at Govan Law Centre, **Mike Daily**, addressed the conference on the problems and issues facing those who lack access to, and the use of, a range of financial services.

With a campaigning background on poverty and financial inclusion issues, Mike argued that the credibility of financial advice provided to customers by commercial banks was diminishing. In support of this claim, Mike drew attention to examples of financial irresponsibility, e.g. the mis-selling of Payment Protection Insurance (PPI), mortgage exit fees, exorbitant bank charges and irresponsible lending. He contended that these practices had netted the banking industry £billions in profits, repeatedly, at a great cost to the most vulnerable people in society.

Mike argued that banking has become as essential a service as water and electricity, in that it is increasingly expected that income and payments – be it salary, tax credits or welfare benefits – will be deposited directly into a bank account. However, and perversely, the highest bank charges and most expensive credit is paid by the most vulnerable in society, that is, low-paid, hard-working families and individuals, citizens on welfare benefits, and people who have fallen ill or are going through painful relationship breakdowns.

Calling for tighter regulation of the financial services sector through government intervention and UK law reform to protect vulnerable citizens, Mike concluded by stating:

“We will never tackle financial exclusion if we allow the financial services sector to rip citizens off through the mass mis-selling of products, and a charging system that fines a low paid customer a week's wages just for a few direct debits being bounced.”

Keynote speaker **Jane Livingstone**, a policy officer for Association for Real Change (ARC), followed, spotlighting a group within society who are, she argues, not always considered worthy of a bank account by the commercial banking industry, but who, through a number of current policies and practices (for example, direct payment of benefits), often need access to banking services in order to manage their own finances, including benefit payments. There are the estimated 1.5 million people in the UK with a learning disability<sup>2</sup>.

Drawing on findings from two years of research into the banking products and services on offer to people with learning difficulties<sup>3</sup>, Jane identified the key problem as the lack of understanding from frontline staff of the potential constraints faced by people with a learning disability, particularly in relation to perceptions of capacity to use banking services and problems faced in demonstrating identity.

One of Jane's key concerns was the limited awareness among frontline staff of how a learning disability might affect a person's capacity to operate an account, and what options are available to make banking more accessible. Few staff, for example, recognised that procedures such as signing cheques, using a cash machine, or remembering a Personal Identification Number (PIN), could be problematic, and many failed to point out currently available facilities that would be of help – such as chip and signature cards, and information in large print or on audio tape.

The requirements placed on banks in response to money laundering regulations pose a further problem for many people with a learning disability, many of whom do not possess the standard sources of identification (e.g. passport, driving licence, utility bill) required by banks to satisfy themselves of a person's identity and address in order to open a bank account. Only half of the

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<sup>2</sup> Mencap (2002) Making it work – a guide to employing people with a learning disability. Available at: [http://www.mencap.org.uk/download/MIW\\_EMP.pdf](http://www.mencap.org.uk/download/MIW_EMP.pdf)

<sup>3</sup> Livingstone (2007) *Banking Matters To Me*. Surrey: Friends Provident Foundation. Available at: <http://www.arcuk.org.uk/silo/files/301.pdf>

branch staff surveyed said they would accept a benefit letter or book (more readily available sources) as proof of identity<sup>4</sup>.

Whilst changes to regulations and the introduction of guidelines such as The Banking Code<sup>5</sup>, Corporate Social Responsibility (CSR) Policy<sup>6</sup> and Treating Customers Fairly<sup>7</sup>, have led banks to develop a range of resources and policies that should meet the needs of individuals with learning difficulties, problems remained with the implementation and delivery of these to customers. Jane argued that more effective staff training is required, both to improve services and to tackle false assumptions about learning disabilities. Furthermore, a more proactive approach to making those in need of alternative facilities aware of their availability is necessary in order to overcome the barriers faced by people with learning difficulties in exercising full autonomy over their finances.

Whilst noting that social policy should strive for inclusion, Jane argued that Credit Unions and micro-finance initiatives currently provide favourable alternatives to 'big banking' in that they offer a more client-centred approach, which unlike the mainstream banking and financial agenda, does not emphasise profit-making, target-setting and market orientation.

Concluding this first session of the conference, **Colin Kinloch**, policy adviser for the Financial Services Authority (FSA), described the FSA's role as a regulator and highlighted the range of work it has done to address financial exclusion. He focused on the issue of financial capability and provided an outline of the FSA's public awareness work in promoting financial capability in the UK.

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<sup>4</sup> ibid

<sup>5</sup> *The Banking Code: Setting standards for banks, building societies and other banking service providers*, The British Bankers Association, March 2005. Available at: <http://www.bankingcode.org.uk/pdfdocs/BANKING%20CODE.pdf>

<sup>6</sup> Further information and access to a range of documents relating to corporate responsibility policy and legislation are available at: <http://www.csr.gov.uk/index.shtml>

<sup>7</sup> *Responsibilities of providers and distributors for the fair treatment of customers*, Financial Services Authority, July 2007. Available at: [http://www.fsa.gov.uk/pubs/policy/ps07\\_11.pdf](http://www.fsa.gov.uk/pubs/policy/ps07_11.pdf)

The FSA views financial capability as a huge issue for society and individuals. In line with FSA's statutory objectives to both secure an appropriate degree of protection for consumers and promote public understanding of the financial system, it conducted a National Financial Capability Survey.<sup>8</sup> The survey collected information on people's understanding, attitudes and behaviour to financial matters, with the objective of establishing baselines against which it could measure progress. The FSA intends to repeat the survey every five years. Colin outlined four main themes that emerged from the study.

At a time when people are increasingly being asked to make financial provision for their future, many people are not equipped to do so. First, many people are failing to plan ahead adequately for retirement or for unexpected drops in income. Future problems are inevitable unless preventative action is taken soon. Second, whilst the survey revealed that only a small proportion of people currently have debt problems, given the failure to plan ahead, many more are vulnerable to financial difficulties or over-indebtedness, should they encounter negative changes in their financial circumstances. Third, people do not take adequate steps to choose products that meet their needs, for example through shopping around for the best deals. This not only results in higher outgoings than necessary, but leads to consumers being exposed to risks of which they are unaware. And finally, the under 40s are, on the whole, less capable than their elders at handling their finances.

Colin then went on to discuss in detail FSA's work with young people. Training programmes - developed in partnership with various schools, universities and youth workers - aim to pilot the delivery of financial skills such as basic banking and choosing credit and budgeting. These interventions aim to increase confidence and to help young people acquire skills to avoid financial exclusion. Working with young people is particularly important as the transition to adulthood is a key life stage at which people take responsibility for their finances for the first time. The FSA's *Money Made Clear* website is a key

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<sup>8</sup> *Financial Capability Baseline Survey: methodological report*, Financial Services Authority, March 2006. Available at: <http://www.fsa.gov.uk/pubs/consumer-research/crpr47a.pdf> .

initiative which aims to provide impartial information from the FSA<sup>9</sup>. The FSA has also developed a range of guides on mortgages, debt, bank accounts and pensions which are available on this website. It also produced *Money Doctors* toolkits for distribution in colleges and universities<sup>10</sup>. Thousands of intermediaries who work with 'Not currently engaged in Employment, Education or Training' (NEET) young adults were also trained by the FSA, to deliver basic financial literacy:

"We see financial capability as key to financial inclusion amongst the groups most vulnerable."

Poor literacy and/or numeracy skills amongst a significant proportion of the population make the task of improving financial capability difficult. For example, 21 per cent of adults in England have 'very low' numeracy, meaning they are unlikely to be able to perform even the simplest calculation<sup>11</sup>. In addition, debt has become a common (and socially acceptable) means of managing personal finances, making the task of changing attitudes ever harder, with many people becoming over-indebted.

## 2. Strategies to tackle financial exclusion

Keynote speaker **Professor Asif Dowla**, co-author of *The Poor Always Pay Back*<sup>12</sup>, and international authority on financial inclusion, began by considering the UK's statistic that one in twelve households lack access to a bank account, and turning it on its head. Imagine, he said, eleven in twelve households

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<sup>9</sup> [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

<sup>10</sup> For more information about this initiative  
[http://www.fsa.gov.uk/financial\\_capability/pdf/md\\_project.pdf](http://www.fsa.gov.uk/financial_capability/pdf/md_project.pdf)

<sup>11</sup> More information on levels of numeracy in England can be found in the *DfES Skills for Life Survey* (2003). Available at  
<http://www.dfes.gov.uk/research/data/uploadfiles/RR490.pdf>. Scottish data is available, for example see *Adult Literacy and Numeracy in Scotland*, Scottish Government, July 2001. Available at <http://www.scotland.gov.uk/Resource/Doc/158952/0043191.pdf>.

<sup>12</sup> Dowla, A. and Barua, D. (2006) *The Poor Always Pay Back: The Grameen II story*. London: Kumarian Press

underprovided by the financial services industry. This, he asserted, was the reality for two-thirds of the world's population.

As an expert on the operations of one of the world's most important micro finance institutions - the Grameen Bank (GrmBk) - Asif's presentation provided insight into how financial services can help, rather than hinder, the most disadvantaged.

The GrmBk model is recognized globally as a pioneering way of empowering some of the world's poorest people through the provision of various forms of micro-finance, which can be used to launch businesses and lift recipients and their families out of poverty. In doing so, it has quashed the mis-perception that poor people would not repay. As of January, 2008, it has 7.44 million borrowers, 97 per cent of whom are women. With 2,488 branches, GrmBk provides services in 80,949 villages, covering more than 96 per cent of the total villages in Bangladesh.<sup>13</sup> Recently, GrmBk has diversified its service by providing savings bank facilities. Indeed, Professor Dowla explained that the Bank's savings schemes have become extremely popular amongst its customers and has as a result generated a huge cash in-flow for the bank. Each month it is now bringing in over Tk 100 million (US \$ 1.75 million) as deposits on account of pension savings<sup>14</sup>.

GrmBk has reversed conventional banking practice by removing the need for material collateral and has created a banking system based on social collateral, providing credit to the poorest of the poor in rural Bangladesh. It even has a programme that lends to beggars.

Asif explained that borrowers of GrmBk own 94 per cent of the total equity of the bank because every borrower owns a share of the bank. The remaining 6

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<sup>13</sup> For more information on Grameen Bank, visit <http://www.grameen-info.org/bank/index.html>

<sup>14</sup> For more information on this and the impact of other changes to the services delivered by Grameen Bank visit <http://www.grameen-info.org/bank/bank2.html> .

per cent is owned by the government<sup>15</sup>. Where conventional banks punish when a borrower 'defaults' on repaying a loan – typically levying charges, and making efforts to recover the money, including taking over the collateral - GrmBk approaches default differently. Grounded on an understanding that the issue is not a 'portfolio at risk' but rather that it is a 'human at risk', efforts are directed to helping overcome difficulties by allowing borrowers to reschedule their loans. At the core of GrmBk's philosophy is a strong commitment to remove the barriers that restrict access to fair and affordable products and services.

Whilst it is recognised that the specific model that has proved to be so effective in rural Bangladesh would not necessarily achieve such tangible success in the UK<sup>16</sup>, Asif argued that there are still valuable lessons Scotland can learn from this model. He advised that research should be conducted with the un-banked in order to establish the existing financial landscape that is, poor people may not have bank accounts but it does not mean they don't borrow or save. If Scotland can identify the existing landscape, it should then build service models based on the existing structures. To be successful, solutions need to be based primarily on the needs of the users and not the service providers. Although we should be cognisant of cultural differences, Asif also suggested Scotland look at existing approaches such as mobile banking that is being tested in Africa. It might also be worthwhile considering sustainable models, for example it could be valuable to provide business development services to the financially excluded. The current Grameen model is based on 10 years of experience so we need to adopt a flexible approach and be prepared to experiment with different approaches.

**Andrew Rudge**, an environmental economist by training, with a remit for corporate responsibility issues for the Royal Bank of Scotland (RBS), shared examples of how RBS is endeavouring to break down the barriers for the financially excluded in Scotland.

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<sup>15</sup> <http://www.grameen-info.org/bank/GBGlance.htm>

<sup>16</sup> The approach was not successful in the US, where people were less inclined to embrace collective approaches to their financial affairs.

At the outset, Andrew stressed the need for the banking sector to work in partnership with the many others who share a vested interest in promoting financial inclusion. There are many stakeholders of whom the most significant are clearly those affected by financial exclusion, i.e. the unbanked and under-banked, along with their families. Yet frequently there is a conglomeration of affected families, which can often have an effect on local communities. This in turn can place pressure on resources, that is: local councils and housing associations, and ultimately national government.

On the positive side, there are many institutions working toward solutions, including Non-Governmental Organisations (NGOs) and charities, credit unions, community development financial institutions (CDFIs), academia and commercial banks. However, Andrew argued that we must also not overlook hitherto marginalised and demonised stakeholders, such as the doorstep lenders and loan sharks. He posed the question, “Should we not also be engaging these latter two entities in the quest for a fairer financial landscape?” Although often perceived to be the root cause of problems, any drive for an inclusive solution must acknowledge the role currently fulfilled by these agents in the marketplace. Their response to a changing financial landscape, Andrew argued, must not be ignored.

Returning to the mainstream financial market, Andrew argued that RBS is initiating positive change. Taking account of the multifaceted barriers surrounding access to banking facilities and affordable credit, RBS has responded positively and proactively. On one hand, RBS has improved access to its products, making them more user-friendly. It has the largest network of free-to-use ATMs across the country, deliberately installing ATMs in locations that were hitherto without such provision. Over 20 mobile banking branches serve over 350 rural communities across England, Scotland and Wales. RBS is continuously developing facilities using the latest technology - such as mobile phone banking - which has the potential to provide solutions for many of the financially excluded. A Polish language support telephone number was introduced to cater for the growing Polish community in the UK. RBS also

engages organisations like the Royal National Institute of Blind People (RNIB) to learn how to make RBS products and services more accessible. RBS is even revising the forms of identification required to open an account, while working within the constraints of the UK money laundering legislation.

On the other hand, recognising that some people's financial needs may be better fulfilled by organisations outside the mainstream banking sector, or at least outside a conventional branch, RBS has implemented a number of schemes, and works with a range of third sector organisations to improve the provision of a banking service and affordable credit to people on low incomes who are unable to access mainstream finance. The Trusted Partners programme, for example, works in partnership with a number of intermediaries, who process basic bank account applications and identification verification from their own premises.

Scotcash is one such intermediary. In partnership with Glasgow City Council, Glasgow Housing Association (GHA) and a number of other organisations, Scotcash offers affordable loans and impartial money advice, aiming to reduce dramatically the number of Glaswegians paying high rates of interest and facing the threat of violence in the event of non-payment.

“ A typical Scotcash loan of £200 with an APR of 48.16% would result in a total repayment of £224.72 while a typical home credit company lending the same amount would charge 281.80% APR, resulting in a total repayment of £320.00. In the case of loan sharks, interest can often rise to over 1,000%. “

RBS has also committed to provide a loan facility to Scotcash in future years to ensure ongoing sustainability. Over the next 20 years Scotcash expects to lend £42.6 million to almost 63,000 residents, saving them £29 million in interest.

RBS Innovate provides grants to non-profit organisations across the UK to test new approaches to the promotion of financial inclusion and capability. The stock of ideas generated by this funding is transferable across the industry. RBS acknowledges that no-one has a monopoly on best practice. Instead, RBS believes that sharing information is most appropriate; to this end, RBS readily makes this information available for use by other organisations across the

country. Yet, whilst collectively progress has been made, Andrew acknowledged that there is room for further improvement within the commercial banking sector.

Deeming financial exclusion to be one of the biggest public policy challenges facing the UK, **Mick McAteer**, Director of the Financial Inclusion Centre, concluded the second session of the day by calling for robust policy solutions and for further partnerships between institutional funders and the third sector. He set out to explore ways to increase funding for the third sector arguing that:

“The only solution to financial exclusion in this country lies with the third sector.”

Mick’s presentation highlighted examples of radical and innovative solutions to tackling financial exclusion. He argued that improvement in policy and third sector practices are the only sustainable means of promoting financial inclusion. He argued that the commercial imperatives of the financial services industry – which are enshrined in legislation requiring companies to work in the best interest of their shareholders – hamper the self-regulatory Banking Code in tackling financial exclusion. Ultimately, there is insufficient incentive to provide access to banking and affordable credit to lower-income groups who are considered ‘unprofitable’ and ‘riskier’. This lack of affordable credit often means that the financially excluded turn to high cost doorstep lenders and even illegal loan sharks, which can result in their spiralling debt problems.

Industry lobbying and sponsored research have created the mind-set that exclusion and branch closures are a natural and inevitable (if unfortunate) consequence of liberalised markets. However, Mick challenges this view, claiming that where there is no realistic expectation that markets can deliver, intervention is paramount. The FSA needs to require lenders to treat customers fairly on arrears, repossessions, interest rate relief, and redress for consumers, by implementing a Community Reinvestment Act<sup>17</sup> (CRA) style

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<sup>17</sup> The Community Reinvestment Act (CRA), enacted in the United States by Congress in 1977, is intended to prevent banks and thrifts targeting only wealthier neighbourhoods

obligation in the UK. This would not only remove the lack of transparency and accountability the financial services industry currently enjoys, but would simultaneously encroach the expanding sub-prime market<sup>18</sup>. Mick argued that sale and rent-back schemes also need to be urgently regulated.

Furthermore, an injection of additional funds is greatly needed to expand the Department for Work and Pensions (DWP) growth fund<sup>19</sup>, so as to address the impending sub-prime market crisis. The creation of a loan shark rescue fund is also necessary, in order to buy people out of loan shark loans and provide them with more sustainable funding and credit options.

Capacity building - such as financial management skills - and an increase in funding for third sector advice agencies are also required to protect vulnerable groups, especially in the field of home equity release. The establishment of the National Financial Advice Network, has been encouraging. This initiative has provided a way to break the vicious circle excluded consumers face, where less exposure to and experience of financial services results in less confidence and awareness. However, Mick also argued that more financial literacy campaigns are required at grassroots level.

Mick's vision is that sustainable solutions can be developed by bringing together the capital and talent of the financial services industry with the passion and ethics of the not-for-profit sector. The Financial Inclusion Centre, for instance, is working on the development of a Social Investment Fund, canvassing the financial markets to take their ethical responsibilities seriously

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with their services, and encourage them to help meet the credit needs of the entire community in which they operate, including low- and moderate-income neighbourhoods. It requires federal financial institution regulators to assess the record of each bank and thrift in helping to fulfil their obligations to the community. The purpose of the CRA is to provide credit to underserved populations and commercial loans to small businesses.

<sup>18</sup> A sub-prime lender is one who lends to borrowers who do not qualify for loans from mainstream lenders. Some are independent, but increasingly they are affiliates of mainstream lenders operating under different names.

<sup>19</sup> The government set up a Growth Fund of £36 million in 2004 to increase the availability of affordable personal loans via third sector (not-for-profit) lenders such as credit unions and community development finance institutions. Administered by DWP, third sector lenders are invited to bid to deliver the Growth Fund (affordable lending) service within deprived areas throughout England, Scotland and Wales.

and to sign up to a new institutional funding mechanism to subsidise the third sector. Mick said that even 1/100th of 1 per cent of UK pension fund assets would amount to a fund of £100m.

### 3. Debate

#### *Grand Central Savings*

Panellist **John Moorhouse** is a trustee of the Big Issue Foundation; the Convenor of the twice-yearly Gordon Cook Conversations and through his own company 2025, he organises seminars to stimulate futures thinking. John introduced the afternoon debate by presenting a case history of Grand Central Savings Bank in Glasgow. This bank has delivered an innovative service model to cater to the unbanked in Glasgow.

Grand Central Savings began six years ago as an initiative of the Big Issue. Big Issue vendors were operating their own businesses selling the magazines but as they did not have a home to go to at night – for example, some of them sleeping rough on the street, or on the floor of friends' houses - the security of the cash they had earned was becoming an issue. The vendors were tending to spend the money as soon as they got it, rather than thinking about budgeting for future needs.

After approaching the Bank of Scotland on the issue of vendors not having the accepted forms of identification required to open an account, the Bank agreed to accept a vender's Big Issue badge as proof of identity and the Big Issue office as 'home' address in order to allow vendors to open a savings account. However, the environment of the Bank's branches proved to be an unforeseen barrier for vendors, who felt uncomfortable entering them. The Big Issue therefore, decided to set up its own bank in its Glasgow office, supported by the

Bank of Scotland. The model was a simple one, but greatly needed, and not just by the homeless:

“Suddenly a new market of the unbanked became apparent to us, and we began to open our doors to anyone in that unbanked category, who didn’t have the identification necessary. And so Grand Central Savings began.”

Grand Central Savings was described as an old fashioned savings bank, as perfected by Doctor Henry Duncan<sup>20</sup> 150 years ago. Basically money is paid into the bank, and money can be drawn from the bank by turning up in person at the branch and asking for it. The bank does not provide loans, credit cards, hole-in-the-wall access, direct debits or standing orders. Many of its customers withdraw money in a very regular, sometimes daily basis.

The Bank, now a stand-alone company, serves 1,200 customers – the maximum number the branch can currently accommodate - with the majority of its customers living locally. It is currently waiting for charitable status, which is crucial to its business model and business planning. The trustees of the Big Issue Foundation consider the potential for further branches across Scotland, and then the rest of the UK, to be enormous. They feel that the sheer customer traffic in the trial branch demonstrates a clear need for a very simple financial service.

## ***Debate***

Following the introduction to the work of Grand Central Savings bank, Keith opened up the session to debate asking delegates for any comments or questions regarding this Grand Central Savings’ model. Two key cautionary notes were raised when considering this method of providing financial services to be a solution to tackling financial exclusion.

The first considered the issue of sustainability. In his response, John Moorhouse admitted the Big Issue foundation shared the delegate’s concern:

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<sup>20</sup> Reverend Henry Duncan (1774-1846) was the minister of Ruthwell parish church in Dumfriesshire, Scotland. In 1810 he founded the world’s first commercial savings bank.

“No interests are paid, nor indeed charges made so how do I follow Henry Duncan’s leadership, making this savings bank commercially viable? His bank was run by volunteers from his parish. We have to charge money for this service, for when we have all got fed up volunteering, the bank will carry on. So that’s the conundrum I’m in at the moment. How we actually make money from it. My hope is that as the bank gets more branches we may well develop into other areas of banking.”

**George West** from Moray Council Trading Standards believes there is scope for new financial institutions such as Scotcash and Grand Central Savings, to provide suitable accounts in conjunction with the established financial institutions. However, for him, the primary initiative has to lie with the third sector:

“Professor Dowla said you can make money out of the poor people, and I think you can in the long term. The problem with the British banking industry at the moment is that they don’t have long term views, especially with the current crisis. I am, believe it or not, a stakeholder, and I don’t see the banks coming up with a national solution. There will be bits and pieces here and there. But I think the national solution has got to come from the third sector.”

The second key issue, revisited throughout the debate, arose from Grand Central Saving’s proactive approach to encouraging its customers to retain self-discipline in managing their finances. Driving the issue, Keith raised the question as to whether this ‘paternalistic’, ‘hand-holding’ manner of service delivery would be received as welcome assistance by the service users, or conversely, as demeaning and condescending advice.

One delegate warned that if someone is made to feel as if they are being regarded as lacking in self-discipline, this could have a counterproductive reaction, which may lead them not to use the service. On the contrary, **John Moorhouse** regarded ‘paternalism’ as a valuable characteristic within the banking services, encouraging more sensible money management.

“We are very old fashioned. If a customer comes in and tries to withdraw all their money, our cashier will say: ‘Are you sure you need all that? Should you not be taking out a little less and saving some money?’ When I first had a bank account when I was 18 or 19, that’s how my bank manager treated me. He wouldn’t let me draw out all my money, he wouldn’t let me borrow more than 2.5 times my salary for a mortgage; and it’s that sort of paternalistic style of personal guidance, which is why I think my generation manage their money a little bit better. So we can, and do, discourage people from taking everything out, encourage thrift. It is certainly one of the tenets by which we run the organisation.”

**Morag Gillespie**, from the Scottish Poverty Information Unit (SPIU), was cautionary about adopting a paternalistic approach and was uncertain about how well a 'paternalist' approach would work for a range of un-banked groups. Reflecting on the importance of advice services she said that everyone needs guidance with managing their finances; advice workers are just simply the poor man's lawyers and accountants.

"It is really important that advice workers are proactive, not just to answer the question that someone brings to them. You have to assume that people don't know their rights. People in general don't know their rights very well. They don't know what might be available to them. People with money and businesses use lawyers and accountants to help them deal with their financial issues and to maximise their income, to minimise their outgoings and to get the best deal they can. The way I see it is advisers do the same thing for poor people, they just do it for free."

Reflecting on the role of the bank manager today, the chair asked whether the modern bank manager is really interested in giving people this one-to-one paternalistic advice, or is he interested in maximising shareholder value only?

**Andrew Rudge** replied:

"...[Banks] have to act in a lot of people's interests, and that's a difficult line to follow. I can't speak for the entire banking industry, but there is a move towards a more personal approach. Another thing I think there is an acknowledgement of, is that everyone stands to benefit from helping people to become more financially capable. And that's something we look to support."

Moving the discussion on to incorporate other alternatives to Big Banking that are already in operation, Keith asked: 'Could credit unions become something bigger?' **Mick McAteer** acknowledged that they are not the answer to everything. Mick also noted that in their current position, their capacity is very limited. But he reiterated what he had said in his presentation - any sustainable solution would have to incorporate partnerships with the mainstream financial industry.

**Joe McCormack**, of West Dunbartonshire Citizens Advice Bureau, believes that for credit unions to have any impact in tackling financial exclusion, the FSA needs to adopt a more individualistic approach to credit unions:

"Those of us who were involved in community credit union development in Scotland 20 years ago would have seen a lot of similarities with the Grameen Bank; and I felt a lot of empathy with their values and aspirations. My point is about the FSA regime, which Colin said was extremely flexible. I don't think that's the experience of many frontline credit union volunteers. I think they have a one-size-fits-all approach to credit unions. They vary enormously in size, and I think a problem the policy makers have created is that they've seen credit

unions as a poor man's bank, and credit unions have suffered as a result of that. It is important that we look at the grassroots of credit union development rather than the seats of some local authority or some other charity imposing what they think is a good model onto communities."

**John Moorhouse** suggested that credit unions in the UK are constrained by a perception of these institutions being merely for the poorer members of society:

"If you go further afield and look at Canada, credit unions are a mainstream banking facility, which effectively operate as a counter-account. They've got hole-in the wall machines throughout Canada, and are not constrained to a local physical geographical area. Canada seems to have cracked it. There is a status of credit unions, whereas in this country, by and large, we tend to restrict it to poorer areas. It is the breadth that Canada has."

The role of financial literacy as a policy response and area of concern was raised in the course of the debate. Panellist **Paul Brown** of the Legal Services Agency in Glasgow argued this cannot solely come from the financial advice and education sectors. The taboo in society of speaking openly about personal financial difficulty has to be broken:

"There is a need for an attack on this incredible idea of privacy that we have in Scotland about money. Talking about your own money, your own circumstances, is not really done. People need that. They need mentoring. When we had children, for instance, the first thing you deal with is lack of money, and you need to save; but nobody told us that. I think there is a need for less secrecy, because at the moment people don't talk about it until there is a really big problem."

**Frances McGrane**, Financial Education Development Officer for Learning and Teaching Scotland (LTS), works with local authorities in developing direct support for head-teachers and schools. LTS is the main organisation for the development and support of the Scottish curriculum. Frances currently is concentrating on the recently published draft numeracy outcomes for Curriculum for Excellence and on their place in teaching children to look after their finances, so as to prepare them to avoid the pitfalls and worries of overspending and debt in later life. She argues that whilst the government is showing a commitment to improving financial capability, the drawback is that not enough education authorities are taking advantage of financial education initiatives.

"How things stand at the moment at LTS is, we are actually looking at our young children in pre-school, and trying to make a start there. We have to look to our young to make sure they're not debt-ridden adults....Now the government has made a commitment to financial education, and it is now part and parcel of what we are doing, I think it will make a difference. I think it's about changing minds and behaviours."

One delegate also highlighted that it is very easy for people with more money to think that education is the key issue. Yet, whilst education and developing skills are important issues, the point is: if you are poor, you have to be better than really, really good at managing your money if things aren't going to go really badly. **Morag Gillespie**, (SPIU) agreed, adding:

“If someone's poor and they don't have enough money, they will have difficulty managing their money. If you give them more money they manage better. That's Primary One logic that people forget all too easily. The income maximisation bit of financial inclusion is absolutely crucial. Government determines income policy, income for the poorest. And until some of that improves, their problems are nothing to do with recklessness, or even lack of knowledge or ability. The best manager in the world cannot manage without enough money.”

## Conclusion and next steps

This conference focused on access to banking services and financial exclusion. Financial exclusion is a complex issue. Like social exclusion and poverty, it involves multiple factors that include financial illiteracy, psychological barriers to banking and an understanding of low income money management patterns.

What has come out of this debate is the need to continue to work with the banks to improve access to the basic bank account. Mistrust of the banks is a current and growing issue as a result of the knock-on effects of the American 'credit crunch'. Banks could still do more to improve openness to all customers, regardless of income level or other inequalities such as learning disabilities. Enhancing the transparency, simplicity and moreover, availability of product information would be an important step. Lack of uniform branding and marketing of the basic bank account, should also be addressed.

People who do not have access to banking services are not able to undertake a wide range of everyday financial transactions. As technology progresses and financial transactions change we are increasingly encouraged to make electronic payments. As a result cash-only transactions are becoming more costly and challenging. Individuals' continued preference for cash-based money management suggests that further work on adapting the basic bank account is

required. Grand Central Savings provided evidence of the way a service can be successfully delivered to meet this need.

Under the voluntary banking code the major banks have little incentive to promote uptake of accounts or to invest in innovative solutions. Changes to regulations and the introduction of guidelines such as The Banking Code<sup>21</sup>, Corporate Social Responsibility (CSR) Policy<sup>22</sup> and Treating Customers Fairly<sup>23</sup>, have led banks to develop a range of resources and policies that should meet the needs of excluded groups including individuals with learning difficulties. However, problems remain with the implementation and delivery of these to customers.

Some financial institutions are playing a positive role in addressing financial exclusion. The Royal Bank of Scotland set out a number of good examples of where its commitment to tackling financial exclusion has been effective. For example RBS has invested in a number of projects in partnership with the Government and third sector. These projects are important and valuable however, such initiatives tend to provide partial solutions for some groups of people in some localities. A solution still needs to be found for those who are unbanked or have accounts which don't meet their needs.

Progress has been made in improving the situation of the under-banked with investment in financial capability. We heard of the work currently under way by Learning Teaching Scotland which is working with schools to deliver financial capability. We heard about the work the FSA has been doing in this area too. Education is only part of the solution. The government has also made significant investment in advice and advocacy which will have an ongoing and

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<sup>21</sup> *The Banking Code: Setting standards for banks, building societies and other banking service providers*, The British Bankers Association, March 2005. Available at: <http://www.bankingcode.org.uk/pdfdocs/BANKING%20CODE.pdf>

<sup>22</sup> Further information and access to a range of documents relating to corporate responsibility policy and legislation are available at: <http://www.csr.gov.uk/index.shtml>

<sup>23</sup> *Responsibilities of providers and distributors for the fair treatment of customers*, Financial Services Authority, July 2007. Available at: [http://www.fsa.gov.uk/pubs/policy/ps07\\_11.pdf](http://www.fsa.gov.uk/pubs/policy/ps07_11.pdf)

critical role as long as there is a gap between people's needs and the services available to them.

Revising the existing voluntary banking agreement may be one way to ensure universal provision of banking, arguably now an essential service. What is clear is that the Government needs to provide better guarantees for the most vulnerable or should consider administering benefits through a different mechanism. What is required in Scotland and the UK, are services and products that reflect the needs identified by those who are financially excluded and that are not exploitative. Speakers at this conference suggested the answer may lie, leading by example, with the third sector.

The Grameen bank met with a range of challenges in establishing and delivering its services, however it has successfully developed services and products driven by the needs of its service users. Grand Central Savings delivers a service specifically designed to meet the needs of the most vulnerable and excluded. Public and third sector bodies should reflect on what has been achieved so far and draw on existing global models to test solutions that are based on the needs of those who remain vulnerable and excluded.

## About the Scottish Poverty Information Unit

The Scottish Poverty Information Unit is a research and policy analysis unit based at Glasgow Caledonian University (GCU). We carry out a number of activities to inform measures to enhance on social inclusion. These include monitoring and analysing poverty in Scotland; carrying out specific research in areas of poverty and anti-poverty policy; developing training and teaching material for postgraduate courses and CPD. We work closely with government and non-governmental agencies, and with social and economic development agencies at national and local level to enable the widest possible access to research and the policy making process. To find out more about our work, please visit [www.povertyinformation.org](http://www.povertyinformation.org) or telephone 0141 331 8221.