Community Finance Solutions

20 years of financial inclusion research

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University of Salford MANCHESTER

Community Finance Solutions

Community Finance Solutions (CFS) is an award-winning independent research unit specialising in financial and social inclusion, and community asset ownership. Located within the University of Salford, CFS offers independent research and advisory services to social landlords, local authorities, national government, charities and other organisations and agencies. Founded in 1999 by Professor Karl Dayson and Dr Bob Paterson, CFS was established to help empower communities to solve local problems relating to land and financial inclusion. Between them they developed solutions for securing community ownership of land and also models for the provision of loans to low income households who found themselves excluded from mainstream lending. These solutions have gradually extended over time and now CFS remains at the forefront of pioneering social research.

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Preface

When Bob Paterson and I set up Community Finance Solutions (CFS) in 1999, we wanted to do research to help solve real-world problems of access to financial services. The University of Salford was the natural home for CFS with its commitment to applied research working in partnership with industry. As the head of Portsmouth Housing Association, Bob had seen that many of his tenants were paying through the nose to access basic services, such as cheque cashing, loans and transaction services, that most of us would take for granted.

Young and less established households moving into housing association properties were resorting to expensive and exploitative forms of credit to buy essential furniture and white goods. Many of them found themselves unable to pay their rent as a result, causing problems for the housing provider as well as the household. His tenants were often also unable to access small loan amounts to start up their own income generating activities.

At the time, ethical and affordable alternatives were few and far between. Credit unions required a savings track-record and other community-based lenders, such as Community Development Finance Institutions (CDFIs), only lent to businesses. Based on research into how community-based financial institutions could contribute to the regeneration of poorer communities in the UK, we developed an alternative model to make affordable loans to financially excluded households and small businesses called Community Reinvestment Trust together with partners. We helped establish 13 organisations that use this model, which have lent millions of pounds to thousands of excluded households.

Although the context and nature of research conducted by CFS has changed, two dimensions have continued to characterise its work. Firstly, CFS conducts applied research to develop practical interventions to address exclusion rather than developing policies or strategy documents. Secondly, it is committed to developing solutions in partnership with local organisations, rather than interventions based on abstract principles thought up by remote policy-makers and experts. Working locally crucially means that our work is based on an understanding of the lived experiences and preferences of excluded households.

It is fitting, then, that we use this 20th anniversary report for CFS to provide a voice to the thousands of excluded households have talked to. In our experience, their voice is vital in creating sustainable and effective financial inclusion interventions.

I hope you enjoy reading this report.

Professor Karl Dayson FRSA
Chair and cofounder of Community Finance Solutions
University of Salford

1. Introduction

Being able to access and use financial services is essential to manage your money. Most of us have few if any problems with accessing and using financial services: we can access credit at low or no cost; we are able to save in safe ways protected by guarantees; and can easily use banking services to pay for and access services. However, a significant minority of the population find themselves excluded from or on the margins of the financial system with potentially detrimental effects for the household:

- On average low-income households pay around £500 annually more for essential goods and services because they lack access to or do not use financial services;[1]
- 3.1m use high cost forms of credit and 1.1m use it to cover day-to-day living expenses;[2]
- 13m have no buffer in the form of savings for unexpected events or drops in income;
- Nearly a million adults in Britain live in households with no bank account;

This phenomenon is often referred to as financial exclusion. The experience of Gary, a resident from Salford, illustrates the potential cost of not having to mainstream banking services:

> *"I'm long term sick (an accident at work). I got a £10,000 pay out but, because I have no bank account, I had to pay 10% - a thousand pounds – to get my cheque cashed… I have to use postal orders to pay bills – which costs – or, if they have one of those slips, I can pay at the Post Office" (Gary, low-income resident, Salford)*

Community Finance Solutions (CFS) is dedicated to developing and researching local solutions to help people like Gary based on rigorous, independent research into the behaviour, issues and preferences of excluded households. In the last 20 years, CFS has conducted over 60 research projects involving thousands of excluded households and frontline workers. We have conducted research in nearly 30 locations covering all of the UK apart from Northern Ireland.

In this report, we take stock of what we have learnt about the preferences and needs of excluded households and what this means for policy and practice. The overriding lesson is that interventions work best when they are based on what local households and communities (rather than policy-makers or expert) want, their lived experiences and how they use services. Top-down approaches often have low take-up and limited success.

The report is organised into three sections:

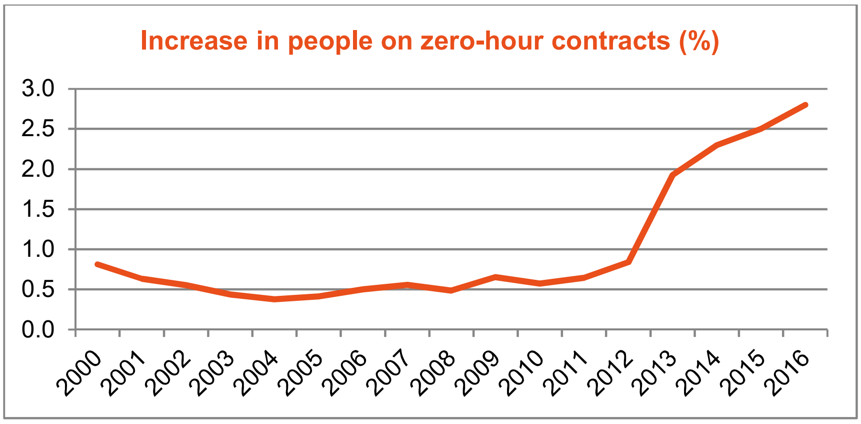
- The changing context for financial exclusion provides an overview of national context of financial exclusion.
- CFS research into financial exclusion draws on our research to examine the access to and use of financial services in deprived communities in the UK and discuss the effectiveness of different interventions to help these communities.
- Looking to the future discusses the implications of these findings and sets out a future agenda for research and policy.

[1] Davies, S., Finney, A. and Hartfree, Y. (2016) *Paying to be poor: uncovering the scale and nature of the poverty premium.* Report produced by the Personal Finance Research Centre, University of Bristol
[2] Financial Conduct Authority (2019) *Alternatives to High Cost Credit* Report

2. The changing context of financial exclusion

There have been many national policy initiatives to tackle financial exclusion since the late 1990s (see timeline in Appendix). From the late 1990s to around 2010, there were many government-funded financial inclusion policy initiatives. Between 2010 and 2017, there was a hiatus of government activity but, more recently, the Government has launched several new initiatives. Alongside this, there have been wider events and developments affecting the access to finance, namely:

- Welfare reform: Since 2010, several changes have been made to the welfare system, most notably the introduction of Universal Credit, the bedroom tax and a cap on benefit payments, increasing the financial hardship among low-income households by making their incomes lower and more variable.
- Public austerity: The Government programme of public austerity and the closure of centrally funded welfare schemes has reduced the ability of local authorities to support households in financial difficulties. Since 2010-11, central government funding for local authorities has been cut by nearly 50%.[3]
- Labour market reform: Changes in the labour market, including the growth of precarious forms of employment such as zero-hour contracts, has combined with cuts in in-work benefits contributed to a sharp increase in in-work poverty. According to the Joseph Rowntree Foundation, the number of working age adults in in-work poverty increased by more than half a million to nearly 4m from 2012/13 to 2016/17.



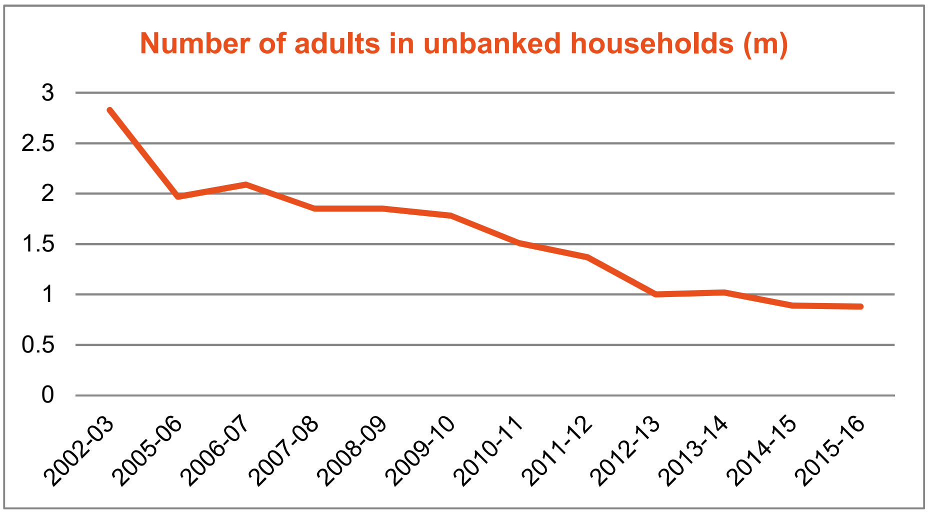
- Financial and economic crisis: The financial and economic crisis of 2008-09 unquestionably negatively affected the access to credit, employment and earnings. Additionally, the financial and economic crisis of 2007-09 created a window of opportunity for new providers and models for delivering and accessing financial services, such as crowdfunding and salary-linked finance.

Despite the many government initiatives, financial exclusion has proven to be an intractable problem.

[3] National Audit Office (2018). *Financial sustainability of local authorities 2018*

Increase bank account ownership but not use

- The access to and ownership of bank accounts has improved considerably with a near 2m fall in adults in unbanked households in the UK. This has been due to the introduction of basic bank accounts, the move to paying benefits directly into bank accounts, and the development of shared goals by Government and banks to halving the number of unbanked households.



- However, many do not use their bank account and therefore do not benefit from discounts associated with paying by direct debit;
- For example, around 15% and 12% pay for gas and electricity, respectively, using prepayment meters, which is significantly more expensive than other forms. This is partly because they value the perceived control associated with paying in advance (Vik et al, 2018),

Many continue to use high cost credit, in absence viable affordable alternatives

- The commercial high cost credit sector has contracted significantly following the introduction of stricter regulation and as lenders seek to move online. Provident Financial, the leading UK provider of doorstep loans, has shed more than 1m customers since its peak in 2008 and online lenders, like Wonga and QuickQuid, have left the market.

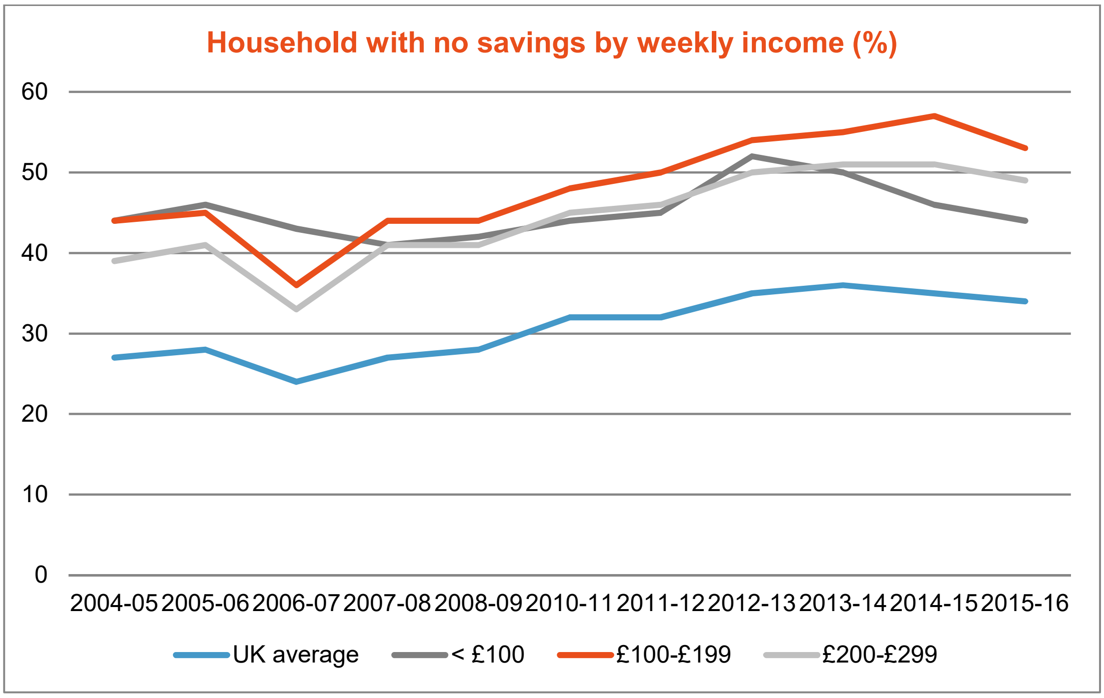
Customers using high cost credit in the UK by type

	2012	2013	2014	2015	2016
Catalogue credit	2.8m	2.7m	2.0m	1.8m	1.9m
Retail finance	1.8m	1.8m	1.9m	2.1m	2.3m
Store credit	0.5m	0.5m	0.4m	0.4m	0.4m
HCSTC		1.7m	1.2m	0.7m	0.8m
Home credit	0.9m	0.8m	0.7m	0.6m	0.7m
Rent-to-Own		0.2m	0.2m	0.2m	0.2m

- Yet, around 3m still use high cost credit. Research has found that users of commercial high cost credit are more likely to experience customer detriment, such as unsustainable debt.
- Provision of affordable and ethical alternatives to such credit is small and patchy.

Falling propensity to save

- The proportion of households with no savings has increased steadily over the past 10 years, especially among lower income groups. This is partly explained by a squeeze on wages and benefit cuts as well as poor money management skills.



- This leaves households vulnerable to unexpected drops in income or hikes in expenses.

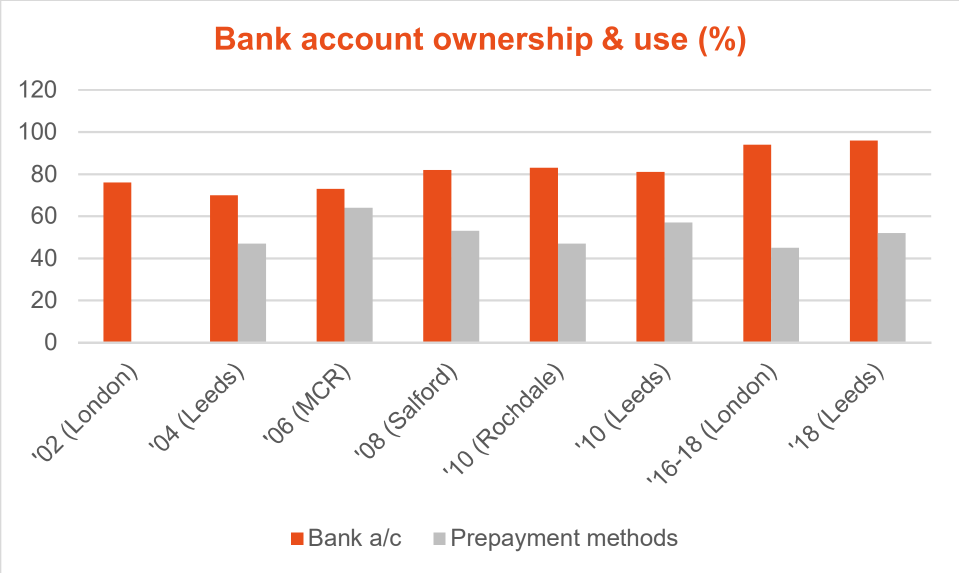
3. CFS research into financial exclusion

In the last 20 years, we have conducted extensive research of the lived experiences of excluded households, which may help understand the intractability of financial exclusion. We draw on quantitative and qualitative evidence from this research to examine the access to and use of financial services in deprived communities in the UK and discuss the effectiveness of different interventions to help these communities.

The data tells us the experience of financial exclusion among households in deprived communities and indicates how this has changed over time. However, it is not necessarily representative for the overall UK population, or for national trends in financial exclusion, as we are looking at different samples and locations across time.

3.1. Access to financial services

Households we have spoken to are increasingly likely to own a bank account. In the early 21st century, typically 70-75% of the household we surveyed did not have bank account compared with 80-95% from 2008 onwards.



Sample sizes range from 300 to 600

Commonly mentioned reasons for not having a bank account include having no or little money to put into an account, fear of getting overdrawn and a preference for using use post office accounts, often seen as easier to manage:

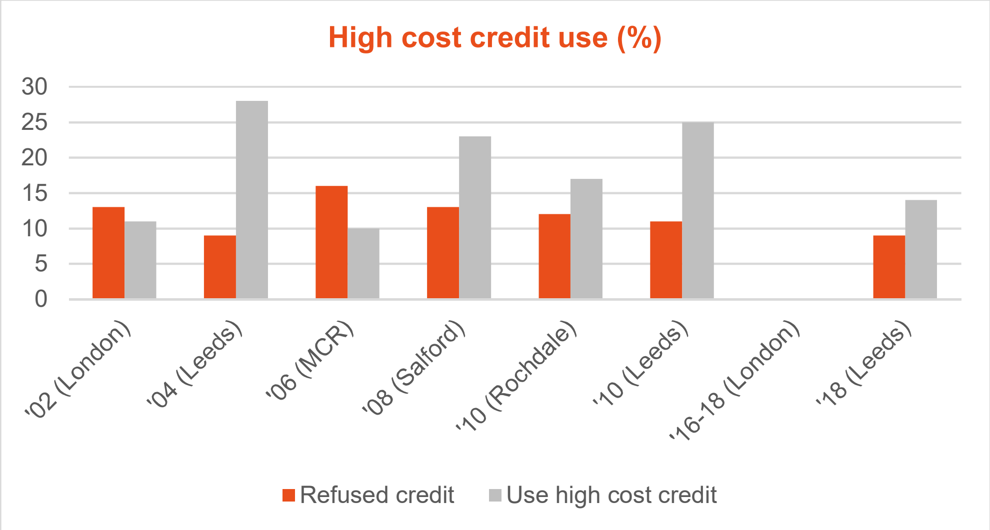
> *"I use the Post Office. When I get (my benefits) paid on Monday I have a card for the phone, the gas and the electric. I know what I pay on each and I have divided the (annual) bills into 12 so I know what to pay each month" (Bill, unemployed, Salford)*

The active use of bank accounts to pay bills and for services has remained low despite the increase in ownership of accounts. For example, using a prepayment meter to pay utility bills instead of direct debits or online banking is still common amongst those on low incomes. This is, in part, down to a perceived lack of control of finances when opting for direct debits, despite the higher cost:

> *I don't do it [direct debit]. In the past, when I was working, when I was younger, before I had my son, I was getting bills taken out you know for like contract phones and they took my full wages once. So after that, I cancelled it and cancelled all direct debits. I wouldn't do it again." (Sarah, lone parent, Leeds)*

> *"Personally, I don't care (if the meters are more expensive). I can't pay a monthly bill so I need to know what I'm using. If I pay this card I know what I am paying" (Priya, lone parent, London)*

Our research suggests that high cost credit use has varied between 10 and nearly 30%. Especially vulnerable groups, such as loan parents, social housing tenants and unemployed, resort to high cost credit because they cannot access loans from banks or building societies.



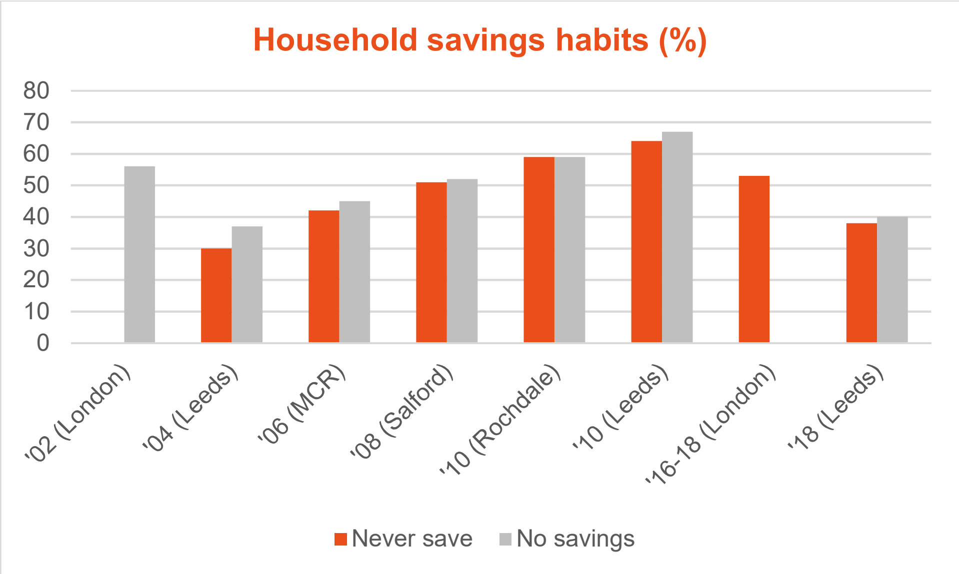
Sample sizes range from 300 to 600

Some we have spoken to value aspects of high cost credit, such as flexibility in missing payments, speed and ease of access, but many have highlighted the high costs noting that they often have no other alternative:

> *"I lived with my boyfriend in his house but moved out. I had to find £400 plus £400 in advance for rent from a private landlord. I had to go to the Provy (Provident). They were the only ones who would give me the money quick enough in advance. They came to the house every week and I paid back £1500 in all - that's nearly double" (Victoria, lone parent, Salford)*

Indeed, our research shows that around 10-15% of households surveyed have experienced been rejected credit.

Out of the people we have surveyed, between 30 and 60% say they never save and 40-70% report having no savings whatsoever, making them vulnerable to unexpected costs and events. People in private or social rented accommodation, young people, lone parents and workless households are among the groups that find it harder to save.



Sample sizes range from 300 to 600

Because of low, fluctuating incomes and unpredictable expenses linked to having children, these households often tell us there is simply nothing left to save after household bills and essentials are paid for:

> *"Usually, by the time I have budgeted for everything, there is not much left in the pot." (Kashaf, social housing tenant, Leeds)*

> *"You can't save. There is always something needed – something that needs replacing" (Joanna, unemployed, Rochdale)*

3.2. Solutions to financial exclusion

As a result of our 20 years spent listening to and working with the financially excluded, we have researched three broad types of solutions and interventions that try to help low-income households access mainstream services or create ethical and affordable alternatives.

Affordable credit	Financial education	Money advice
• Community-based organisations offering affordable loans • Often includes budgeting support, banking services & savings accounts	• Community organisations providing money management training • Includes financial literacy courses, mentoring & support to adults & children	• Agencies providing free-to-client advice to people with debt problems • Includes debt write-off, payment plans, budgeting support & insolvency

In our surveys, we have consistently found an interest in local loans and savings facilities. There is also a strong business case for government and stakeholders to invest in financial inclusion. Our research has shown that housing associations can significantly reduce the costs associated with rent arrears and evictions by proactively providing access to affordable credit, money advice and other support to their tenants (Randall et al, 2006). Investing in supporting excluded households also has positive effects on local economies. In Leeds, we estimated that every £1 invested in financial inclusion initiatives generated £8.40 for the regional economy (Dayson et al, 2009).

However, the uptake and impact of such interventions vary. Based on our research, we would highlight the following lessons for organisations delivering financial inclusion interventions:

1. Interventions must be developed based on the needs and wants of excluded consumers. Otherwise, they are not taken up by or generate positive outcomes for the user. Consumers we have spoken with value convenience, speed and flexibility to fit with fluctuating incomes and limited ability to cope with external shocks. They are less focused on the interest rate and more concerned that the amounts of any regular payments are affordable in absolute terms.
2. Culture and perceptions are important barriers to access and use of services. We have found excluded consumers to be sensitive to services coming across as a second class offer, such as the poor man's bank stigma sometimes associated with borrowing from credit unions (Dayson et al, 1999; 2009). Hence, the appearance and demenour of staff and office is important, as they want a service look and feel professional.
3. Interventions need to be sustainable to ensure continuity in access for their users. Excluded consumer need to know they can turn to the service in the future. Our research also suggests that generating positive outcomes require engagement over time. Our evaluation of a financial education project aimed at women in the criminal justice system in Greater Manchester suggest that one-off sessions were not enough to help them make significant changes but that they needed more sustained support (Vik et al, 2018). Given that grant funding for projects is often unpredictable and short-term, financial inclusion interventions need to have plan for the longevity of the project. To this end, we have found that affordable credit providers need to charge interest rates reflecting delivery costs, have an efficient delivery model and operate at a certain scale to be sustainable (Dayson et al, 2008; Dayson et al, forthcoming).
4. Organisations can better serve the needs of excluded consumers by working in partnership. Excluded consumers need multiple services to manage their money, including savings, payment services, budgeting support, advice and credit. Most organisations delivering financial inclusion interventions do not have the capacity, resources and expertise to deliver all these, but can deliver them in partnership with others. For example, the affordable credit provider, Moneyline, acts as a trusted intermediary for a mainstream bank, enabling it to open savings accounts for its customers. Partnerships can also increase the effectiveness of interventions. In our evaluation of a financial education programme aimed at older people in London, we concluded that working with trusted partners made the recruitment more effective (Vik and Curtis, 2018).

Our research also highlights important lessons for funders and supporters:

1. Delivery organisations need developmental funding rather than just operating grants or loan capital. These organisations lack the resources to invest in the management capacity and R&D needed to scale up and become sustainable. In a study of innovation in the financial inclusion sector, we found that the lack of capacity meant that organisations were unable to develop processes and services tailored for excluded consumers (Vik et al, 2017). Instead, innovation was constrained to using off-the-shelf products or piloting products for private sector partners intended for a mainstream market (i.e. soft launch). Hence, funders should consider providing grant or patient capital (e.g. equity) to enable organisations to invest.
2. Target funding at organisations with the greatest capacity to scale up. Our studies have often found that providers differ in terms of performance (Dayson et al, 2008; forthcoming). Some are significantly more efficient and effective compared with others. Given the scarcity of funding, it is

important to reserve funding for those organisations that make best use of money in terms of scale and outcomes.

3. Many potential funders can also play an important role as creditors. Funders, such as local government, utility companies, banks and housing providers, can prevent or mitigate exclusion as creditors. Leading local authorities in the area of financial inclusion, such as Leeds City Council, have developed corporate debt policies that are more sensitive to the circumstances of excluded residents by, for example, signposting to and working in partnership with debt advisors.

4. Future of financial inclusion work

The extensive research we have conducted in the past 20 years has provided rich insights into the evolving nature of financial exclusion. In this period, bank account ownership has increased but many still do not use their bank account in managing their money because they like the sense of control of using cash and prepayment. We have observed a high proportion of households – close to 50% – do not have any savings and do not save. This means they are unprepared for unexpected drops in income or increases in outgoings. Consistently, at least one in ten also use expensive forms of credit, often because of the lack of an alternative.

Financial exclusion carries a cost to society, in the form of cost of evictions and lower spending in local economy, so there is a business case for local government, housing providers and other stakeholders to invest in financial inclusion activities. We therefore welcome the recent resurgence in government interest and investment in the sector. However, throughout our work we have identified a need for an integrated vision for financial with the household at the heart of it. Ultimately, interventions and policies need to be developed based on the goals and needs of excluded households themselves. Based on such an understanding and vision, Government and other actors need to work in partnership to help excluded households achieve these goals.

List of select CFS publications

- Dayson, K., Vik, P., Paterson, B. and Salt, A. (2008). *Measuring Sustainability – UK CDFIs.*
- Randall, B., Paterson, B. and Dayson, K. (2006). *Community Access to Money: Social Housing Landlords reaping the Benefit.*
- Dayson, K., Vik, P. and Ward, A. (2009). *Developing models for delivering insurance through CDFIs – opportunities and risks.*
- Vik, P., McEachern, M. and Kane, K. (2017). *Innovation in Financial Inclusion – The Role of Universities.*
- Vik, P., Dayson, K. and Curtis, J. (2018). *Financial Exclusion and Poverty – Historic Trends in Leeds.*
- Dayson, K., Conaty, P., Dawson, J., Marchant, B., Salt, A. and Vik, P. (2009). *Financial Inclusion Initiatives – Economic impact and regeneration on city economies: The case of Leeds*
- Vik, P. and Curtis, J. (2018). *Senior Money Mentors – End of Project Report.*
- Vik, P., Curtis, J. and Lockwood, K. (2019). *Money Management & Debt Advice Project – External evaluation*
- Dayson, K., Paterson, B. and Powell, J. (1999). *Investing in People and Places.*
- Dayson, K., Vik. P. and Curtis, J. (forthcoming). *Scaling up the UK personal lending CDFI sector: From £20m to £200m in lending by 2027.*

1999: PAT 14 (personal finance) set up by SEU

2000: SIT publishes recommendations for financial inclusion

2001: ABI & Housing Corporation launches guidance on insurance with rent schemes

2002: 1st Savings Gateway pilot Launched

2003: Social security benefits & state pension paid into accounts rather than girocheques & payment books.

BBA – no-frills bank a/c not requiring credit scoring – introduced

POCA launched

2004: IMLT piloted in Glasgow & Birmingham.

NCC lodges super-complaint against home credit industry with OFT. OFT response points to lack of competition.

Govt & major banks agree shared goal halving number adults in households without bank account

Treasury Committee announces inquiry into cash machine charges

2005: CTF launched – long-term, tax-free savings account for children born on or after September 1st, 2002.

2nd Savings Gateway pilot launched.

FIT set up with members from industry, third sector, consumer groups, local govt & academia.

FIF (£120m, 2005-08) launched

Treasury Committee publishes report on inquiry into cash machine charges

KEY

SIT – Social Investment Taskforce	CTF – Child Trust Fund
PAT – Policy Action Team	FIF – Financial Inclusion Fund
ABI – Association of British Insurers	IWG – Insurance Working Group
IMLT – Illegal Money Lending Team	NHF – National Housing Federation
NCC - National Consumer Council	CMA – Competition and Markets Authority
OFT – Office of Fair trading	FIPF – Financial Inclusion Policy Forum
BBA – Basic Bank Account	SEU – Social Exclusion Unit
POCA – Post Office Card Account	

2006: IWG established under FIT.

My Home contents insurance launched by NHF

Competition Commission Home Credit Investigation report launched

2007: Falling US house prices & rising mortgage defaults trigger massive losses subprime mortgages & securities leading to freeze in interbank lending

Roll-out IMLTs across Great Britain

Govt strategy “Financial inclusion: the way forward” launched.

Experian publish “Mapping the demand for, and supply of, third sector affordable credit”

2008: Collapse Northern Rock & bankruptcy Lehman Brothers trigger major global financial & economic crisis.

FIF2 (£135m, 2008-11) launched

2010: CTF closed down

2011: FIT disbanded as originally envisaged

2013: £38m Credit Union Expansion Project announced

2014: FCA assumes responsibility consumer credit regulation & introduces new regulatory measures of high cost credit industry in response public criticism lending practices & high lending charges

2015: CMA launches final report in Payday lending market investigation

2017: Govt appoints Parliamentary Under Secretary for Pensions & Financial inclusion in DWP

2018: Govt announces £55m dormant bank account funding for financial inclusion initiatives

FIPF set up to increase collaboration across govt & with regulators, industry & civil society

2019: Fair4All Finance established to allocate dormant assets money to financial inclusion initiatives