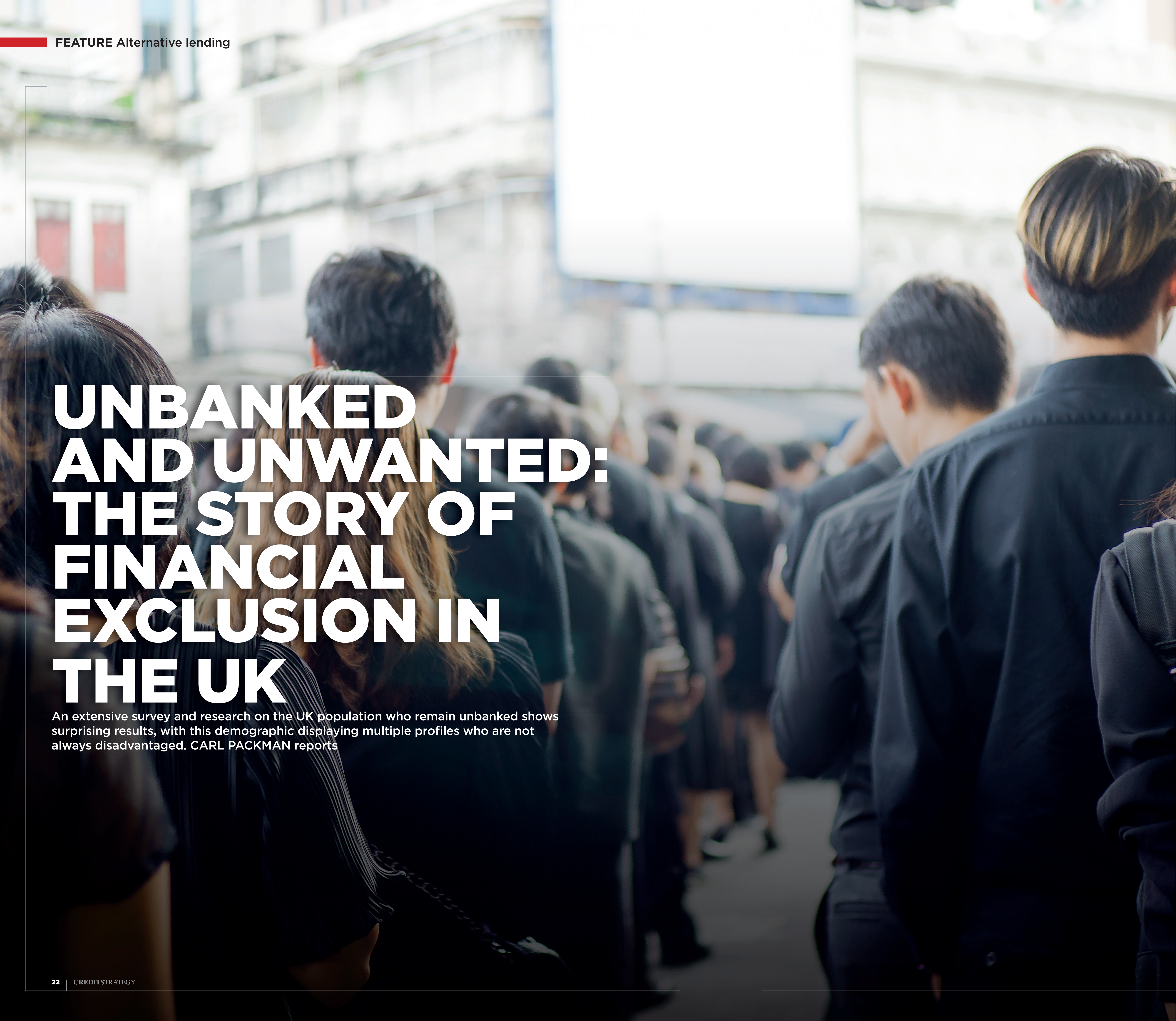
FEATURE Alternative lending



UNBANKED AND UNWANTED: THE STORY OF FINANCIAL EXCLUSION IN THE UK

An extensive survey and research on the UK population who remain unbanked shows surprising results, with this demographic displaying multiple profiles who are not always disadvantaged. CARL PACKMAN reports

Despite the attention it has received during the past 20 years in the UK, from government to the third sector, the banking industry and beyond, we still know surprisingly little about what it means to be financially excluded today.

By financial exclusion we use the classic definition: A lack of access to, and use of, a range of financial services.

To use a definition created by Transact (now the Financial Health Exchange, a research and training body which sits within Toynbee Hall), financial exclusion is a situation in which someone is denied access to appropriate, desired financial products and services that help them to manage their money effectively.

While we are perfectly up to speed on the working definition, there has been less emphasis trying to understand what the 'lived experience' of financial exclusion actually is - the impact it has on other aspects of somebody's life, financially and socially, what digital skills that person may or may not have, and how it impresses upon a person's financial capability and resilience.

Part of the reason for this is the way in which data is recorded about people without bank accounts.

Previous research looking for an estimate number look to data from the Office of National Statistics (ONS), specifically the Family Resources Survey, which only tells us the number of people not recorded as having access to a mainstream financial product (which is currently 1.71 million, 2.6 percent of the population). This is in turn deduced from the number of people recorded as having at least one mainstream financial product (e.g. a current account and/or savings account). It is an imperfect measure.

This is very different from the US. To assess the inclusiveness of the banking system, and as a response to a statutory mandate, the US Federal Deposit Insurance Corporation (FDIC) conducts a biannual survey of unbanked and under-banked households and has done since 2009.

Their survey estimates the proportion of households without an account at an insured financial services institution, and the proportion that do hold an account but have primarily used non-bank alternative financial services in the past 12 months (which the FDIC classes under-banked).

Filling the gap

This year the Financial Health Exchange sought to correct this blind spot in the UK and conducted some research as part of work for this year's Consumer Digital Index, published annually by Lloyds Bank in association with the digital think tank Doteveryone.

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> Nationwide Building Society

The research was carried out knowing two main things about people without a bank account: They are a relatively small number of people and for that reason often very difficult to reach for researchers and other interested parties. To reach our survey participants, we worked with a number of other organisations to disseminate a survey and worked with providers of other services, such as the Post Office and the Post Office Card Account (POCA) service, and credit unions, to identify the people we were looking for.

Our survey findings

We found three main reasons for not having a bank account: A general preference not to use banks (32 percent), incorrect identification for an account which discounts someone from obtaining an account (29 percent), and a previous negative experience (15 percent).

Some 94 percent of people without a bank account have a personal income of below £17,500 per annum, and 91 percent live in households where the total income is £17,500 per annum. This is compared to the general population, based on official ONS data, for which there is 32 percent in households with this income level.

A total 56 percent of respondents said that they were in receipt of benefits such as Jobseeker's Allowance (JSA) compared to the general population which, according to the Department for Work and Pensions (DWP), is 5.86 percent.

Some 31 percent are between the ages of 20 and 29, and 26 percent are aged 40 to 49. 55 percent are in council housing and 24 percent are in the private rental sector. 70 percent are recorded as having nothing in savings, while 20.5 percent have between £1 and £100.

Some 42 percent are recorded as saying they get to the end of every month without any money while 35.5 percent are doing so fairly regularly. One thing which will be of serious interest to other charities is that 42 percent currently use, or have previously used, debt advice services.

So much of our financial and consumer lives today take place online, so if we were only to understand the lives of people without bank accounts in relation only to their financial product usage this would give us a partial insight. That's why we looked at internet usage as well, to understand the digital financial lives.

We found that internet usage, among those people without a bank account, is relatively similar to those people with an account with a mainstream financial service provider. 88 percent of respondents to our survey describe themselves as either "sometimes" or "always" being on the internet compared with 91 percent of the general population, according to official ONS data and data compiled by Lloyds Bank.

Access to digital services is key to truly understanding an individual's financial life, but so too is understanding their digital capability. We found that nearly 67 percent of respondents are either "very confident" or "fairly confident" using an online search engine for good deals on comparison websites, and 53 percent are either "very confident" or "fairly confident" using email and social media websites, and leaving feedback on shopping websites.

Knowing the digital make-up of this group, as well as for low income households more broadly (Lloyds found in this year's Consumer Digital Index that digitally capable low-income people among its own customer base were saving twice as much money per month as the year before), gives banks, utilities companies, pension providers and the digital collections industry vital information they need to design suitable products that meet customer need.

One of the most interesting aspects of this research, particularly when compared with Lloyds' own customers, who are also included in the Consumer Digital Index, is that we find things are not as black and white as might be assumed.

In other words the situation among people without a bank account isn't completely negative in the round, and similarly, for those people with a bank account, financial worries are still a prominent issue in their lives.

Reading the results, Sarah Poretta, head of financial inclusion and education at Lloyds Bank, pointed out: "The 2017 Consumer Digital Index highlighted some harsh realities about financial resilience; the index finds that 30 percent (14.8 million) of people could not manage financially for more than a month without their regular income and those who are offline are more likely to struggle immediately.

"Despite acknowledging the hardships they may face, many people are unable to, or are failing to take action to ensure they have a financial safety net in place. With our Helping Britain Prosper Plan, Lloyds Banking Group is committed to using our research with Toynbee Hall to drive plans to help our most vulnerable customers and the financially excluded to get online and access the advice, tools and resources they need."

Drawing on more of our research, this time on the informal savings behaviour of low income households sponsored by JP Morgan, which also included people without a bank account and was produced earlier this year, we show that official data on levels of household saving doesn't always tell the whole picture.

Money in jam jars, letting current accounts mount up, and careful shopping and budgeting are all useful savings techniques to build a financial buffer, resist debt, and increase overall financial resilience for those who choose to carry out, or have now gotten used to carrying out, every day financial transactions without the aid of a standard financial product (e.g. a savings account).

One man we spoke to for the research – Bill, 64, told us how he saves:

"We go to the market and to the cheaper supermarkets and shop around before buying. That usually leaves us with a few bob left over. We have a tin on the front table for 5ps and 2ps and occasionally we take them down to the supermarket's coins machine, print out a receipt and get a few notes which we then put away as savings. One year we got £40."

For many of the people we spoke to during both pieces of research there was the lingering worry that some more typical banking products were not suitable for people like them and their ways of controlling money. There is also the worry that taking on a mainstream financial product would lead to other temptations: credit and debt.

While having an informal savings buffer helped prepare them for relatively small financial shocks there was a much greater

Source: TaxRebate.org.uk

concern that having access to a credit product would disrupt the way they have always managed their money.

But at the same time there is a lot of digital savviness among this group. 44 percent of people without a bank account own a smartphone, for example, and use it regularly.

While there is discernible unease about some aspects of mainstream finance, we did also find a positive attitude towards controlling money digitally, using tools that resemble digital services they have grown used to in their social lives like Facebook – which can also change the dynamics of providers communicating with customers.

There is an opportunity here for fintech providers. Today, new providers are taking a fresh approach to financial services using a mixture of online and traditional methods of reaching customers; digital when that's what people want, person-to-person when that's what people need.

Virraj Jatania, founder and chief executive of Pockit, a fintech start-up with a mission to serve consumers outside of the traditional banking system, finds that there is a noticeable demographic difference among the so-called "excluded", but using simple interaction can often act as a bridge between this consumer and provider:

"With something like digital exclusion we have seen issues with older customers where it can be a bit of a challenge, and whose digital comfort levels are different to a younger demographic. So what we do is use our customer service facility as a way to overcome that.

"For example, through customer service, we can assist in setting up a new customer's email account to get them started with us. Pockit is now also working with over 28,000 shops and convenience stores across the UK where customers can deposit cash with us, so the face-face interaction takes place somewhere they know well in their community and that they are comfortable with."

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Other new providers see an opportunity to take a stand against 'business as usual' by bringing more transparency to their product. Freddy Kelly, co-founder of Credit Kudos, a credit scoring platform, part of whose mission is to build financially excluded people's scores with alternative data, sees the difference between what he's offering and other mainstream providers:

"A big problem is transparency. People fully understand that from time to time they are going to be told 'no'. That's no different when they approach financial providers. But for them to understand why they are being told 'no' is a good first step to helping them and not neglecting them.

"If you increase transparency and communicate with your customer then you can build up trust and that underpins all the work we do, particularly for people who are low income, that are thin-filed or have no file, or who only have very few options for the financial products they can access.

"It's true to say that you may not be perfect customer, but people want to know why that's the case rather than just hearing 'no'."

When we spoke to Chris Ball, Nationwide's head of collections and recoveries, he recognised the challenge for financial service providers to support customers in their preferred way:

"The advent of basic bank accounts last year has helped ensure better access for people without a bank account. As a mutual we wanted to create a fair product in FlexBasic in addition to that which can be used across both online and mobile platforms, but also in branch and on the phone.

"Anything we can do to help our customers avoid falling into debt and keep on top of their money is a good thing. Particularly when times are tough."

Our research uncovers the money management methods of people whose financial lives are not the same as that of prime or near-prime banking customers. But when we dig deeper we find that many people without bank accounts or who save informally have similar digital needs as other groups. The difference is in being able to access those digital services.

To ensure this group has its digital financial needs met, we need more collaborative working.

New fintechs should be working with charities to finesse their insight into financial exclusion while mainstream banks need to work with both, to design appropriate services for consumers – consumers not typically among their traditional customer base. CS