UNITED KINGDOM

Study on financial services provision and prevention of financial exclusion

COUNTRY REPORT STAGE I: QUESTIONNAIRE

Please, answer directly in the questionnaire

PRELIMINARY QUESTIONS

Q.1. Existence of financial exclusion problem, public debate and data

Q.1.1.1.: Is there a problem of financial exclusion in your country (in broad terms, for details see Q.2.)?

To answer to this question, please refer to point 1 of the overview paper (OP) concepts and definitions

No ☐
Yes ☒

Q.1.1.2.: If yes, please describe below whether this arises because financial services providers do not meet the needs of certain groups of people or whether there are some groups of people who choose not to use financial services (eg: because they think they would be inappropriate to their needs or they would be refused access) :

Early on in the debate, it was realised that (with the exception of credit) outright refusal by commercial financial service providers was not the main driver of financial exclusion. Equally, few people have a deep seated objection to the use of financial products that would mean that they would automatically self-exclude. Instead it arises through a mismatch between potential consumers' needs and the products on offer, with some people choosing not to use financial products because they see them as inappropriate to someone in their circumstances. Some are deterred by price considerations, others by the terms and conditions attached to products. For example, the high default charges attached to transaction banking (which is otherwise generally free) are a major deterrent to anyone on a low income; the high premiums and high minimum sums insured deter low-income households from taking out home contents insurance. However, even where these problems have been addressed (basic bank accounts and affordable home contents insurance) there is still a deep-seated suspicion of using financial products that is much harder to tackle. People do not use savings accounts because they believe that they are inappropriate for someone with little to save in them and their business would not be welcomed by the bank. The fact that few mainstream financial products are marketed to people on low incomes reinforces this mistrust, with a widespread belief that commercial providers are not interested in the needs of those on low incomes.

The exception to this is consumer credit, where refusal rates are very high. But even here there is a mismatch between the needs of people on low incomes (small fixed term loans for short periods of time) and the products of prime lenders (who will not lend small sums for short periods as fixed term credit – only through overdrafts and credit cards, which people on low incomes fear will lead to loss of financial control).

Finally, as in other countries, regulations to combat money laundering have acted as a barrier to access to both transaction banking and savings accounts, as not everyone has the documents needed to provide proof of identity and place of residence. (Note in the UK, we have no national identity card or number.)

Q.1.2.: Is there currently a public debate on financial exclusion in your country?

Yes ☒
No ☐
Debate limited to specific issues or involving only few parts ☐

Q.1.2.1.: If yes, please give brief details of what this covers:

Financial exclusion has been part of the Labour Government's policy agenda since its election in 1997, and public debate has largely been shaped by the government's priorities in this area. The first review of the problems of financial exclusion was commissioned by Government in the late 1990s (HM Treasury, 1999). Following mixed progress in the areas highlighted by this review, in 2004 the Government identified three key policy areas where action was required: (i) access to banking; (ii) the provision of affordable credit; and (iii) the availability of face-to-face debt advice, reflecting the government's increasing concern about over-indebtedness and its links to financial exclusion (HM Treasury, 2004). Government funding to support work in these areas is provided by a Financial Inclusion Fund. In 2005, the Government set up an independent Financial Inclusion Taskforce to monitor progress in relation to these key areas and to make recommendations on what more needed to be done. The remit of the Taskforce has recently been expanded to include savings and insurance. (See sections 15 and 16 for more detail)

As banking is seen as the entry point to financial inclusion, it has been central to the debates. In particular, Government and the banks have a shared goal to halve the number of unbanked people. More recently considereation is being given to ensuring that people new to banking make effective use their accounts. In relation to credit, the debate has mainly focused on the role that not-for-profit organisations (such as credit unions) can play in widening access to more affordable credit. Policy debate around debt advice has centred on making advice more accessible to financially excluded people and increasing the availability of free-to-user advice. The focus of debate around savings is the link between saving and asset-building, and the role of government initiatives such as the Saving Gateway and the Child Trust Fund in encouraging saving among low-income households. Finally, the role of financial capability in promiting financial inclusion is becoming an increasingly prominent aspect of the debate, with work in this area led by the financial services regulator.

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Q.1.2.2.: If yes, who are the players involved in that debate in your country?

National government ☒
Regional government ☒
Municipalities ☒
Commercial financial service providers and their associations ☒
Not-for profit financial service providers ☒
Consumers' associations ☒
Academics ☒
Non governmental agencies ☒
Others (describe): Housing associations (social housing providers), independent think tanks e.g. Institute for Public Policy Research (IPPR)

Q.1.3.: What are the sources of data available related to the levels of financial exclusion (or to financial inclusion) in your country?

Please, send an electronic or paper version of all relevant the data/report(s) to RFA if not yet listed in the bibliography available on fincl.eu

- Eurobarometer survey (Nov-Dec 2003) includes around 1,300 adults in the UK
- The Family Resources Survey (FRS) is a national survey run by government that covers England, Wales, Scotland and Northern Ireland (although Northern Ireland has only been included since 2002-03). It is an annual face-to-face survey that collects information from all adults living in a representative sample of around 28,000 private households. An annual report is published by government, the most recent being 2005/06. The FRS provides data on 23 different financial products including bank accounts, savings and investments, pensions, mortgages and insurance. It does not, however, include questions on credit products. It is the main source used to monitor financial and banking exclusion
- A one-off bespoke survey of 15,880 households in the UK in 2000 (Devlin, 2005).

Q.1.3.1.: Sources of data available related to overall levels of financial exclusion:

Official European data ☒ details on periodicity: Eurobarometer produced every two months, but not always with questions on financial services
Official national data ☒ details on periodicity : FRS (see above)
Official regional data ☒ details on periodicity : Scottish Household Survey - annual
Academic reports☒ details on periodicity : Devlin (2005) one-off survey
Financial sector reports ☐ details on periodicity :
Non governmental organization reports ☐ details on periodicity :
Others (describe) :

Specify how the exclusion is measured/estimated :

- Eurobarometer can be used to measure access to transaction bank services, savings and revolving credit (credit cards and overdraft).

- The FRS has been used to measure the number of households without any financial products at all (Kempson and Whyley, 1999, using 1995/96 FRS data). This study also looked at degrees of exclusion, i.e. from having no financial products, to a low level (1 to 2 products), average (5 products) to a high number of products (8 or more products). As noted above, the FRS does not include information about credit products.
- In 2000, a one-off bespoke face-to-face interview survey was carried out covering a broadly representative sample of UK households (Devlin, 2005). This looked at whether or not a household had a current account, savings account, home contents insurance, life assurance or private pension. Hence, it did not look at credit holding.

Q.1.3.2.: Sources of data available related to levels of banking (i.e. transactions) exclusion:

- Eurobarometer includes questions on access to transactional banking
- The Family Resources Survey (FRS) provides data about the number of people who have a bank or building society current account or other bank/building society accounts. Following the introduction of basic bank accounts and Post Office Card Accounts, from 2003/04 the FRS asked about a 'basic bank account including an introductory/starter and Post Office Card Account (POCA)'. In 2005/06, basic bank accounts and POCAs were separated out, so the survey now collects information on the proportion of people with a current account; a basic bank account; a POCA; and any other bank/building society account. It is being used by the Financial Inclusion Taskforce to measure progress towards the goal of halving the number of people living in households without a bank account.
- In 2005, the Financial Inclusion Task Force commissioned BMRB (a market research company) to conduct a one-off bespoke face-to-face survey of around 2,000 adults across Great Britain. It was a representative sample with a booster sample of people who were either unbanked (without any form of transaction banking) or under-banked (had a bank account, but did not use it regularly).
- APACS (UK trade association for payments) conducted a survey of 6,600 adults in 1996.
- One-off modules of questions about bank account holding have been placed on omnibus surveys. These include modules on the ONS Omnibus Survey (representative sample of 1,600 adults in Britain interviewed each month); and the Beaufort Welsh Omnibus Survey (representative sample of 1,000 adults in Wales interviewed each quarter).
- Analysis of the number of bank and building society branches and branch closures in the UK 1995-2006 (Leyshon et al, 2006)

Official European data ☒ details on periodicity: Eurobarometer produced every two months, but not always with questions on financial services
Official national data ☒ details on periodicity: FRS is annual, also ONS Omnibus survey has occasional one-off modules of questions on banking

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Official regional data ☒ details on periodicity : Scottish Household Survey , annual
Academic reports☒ details on periodicity : Leyshon et al (2006) used official data sources (e.g. the annual abstract of banking statistics) to develop a database of bank and building society branches for analysis.
Financial sector reports ☒ details on periodicity : APACS was a one-off survey
Non governmental organization reports ☐ details on periodicity :
Others (describe): BMRB was a one-off survey; one-off module of questions on Beaufort Welsh Omnibus Survey.

Specify how the exclusion is measured/estimated :

- Banking exclusion has been measured in a number of ways. Individual studies have looked at the proportion of individuals and/or households without a transaction account or without any type of bank account at all. More recently the proportion of households that are 'under- or marginally banked' has also been measured.
- Eurobarometer can be used to measure the levels of current and deposit account holding among adults in the UK. Meadows (2000) used the ONS Omnibus Survey to find out the proportion of *individuals* in Britain without a current account or any type of bank account. This study also asked if anyone else in the household or amongst friends and family outside the household had any type of bank account. Prior to this, the Office of Fair Trading (the UK's consumer and competition authority) used the ONS Omnibus Survey to measure the percentage of *households* with no current account at all (Office of Fair Trading, 1999). Kempson and Whyley (1998) examined levels of banking exclusion among adults using the FRS, the APACS survey and questions placed on the ONS Omnibus survey. Kearton (2005) used the Beaufort Welsh Omnibus Survey to examine the proportion of *adults* in Wales without a current or basic bank account.
- The FRS has been used by the government finance ministry (HM Treasury, 2004, 2007) and the Financial Inclusion Taskforce (2006a, 2006b) to estimate the percentage of UK households and the percentage *of adults in households* without a transaction account and without any bank accounts at all.
- One-off bespoke survey commissioned by the Financial Inclusion Taskforce (BMRB, 2006) examined not only the proportion of adults in Britain that are unbanked, but also the proportion that are under-banked. The results were presented at the household and individual level.
- Leyshon et al (2006) looked at the number of bank and building society branches by geographical location between 1995 and 2003.

Q.1.3.3.: Sources of data available related to levels of credit exclusion:

- Eurobarometer
- Wealth and Assets Survey – this is a new longitudinal survey, with questions on credit use being asked each year. The first results are not yet available.
- British Household Panel Survey (BHPS) is a annual survey of adults (aged 16 and over) in a nationally representative sample of British households (i.e. excluding

Northern Ireland)

- Datamonitor is a commercial company that produces annual information on the estimated size of the UK non-standard and sub-prime lending market, based on a range of official statistics. There is a charge for its reports.
- Mintel is another commercial company that produces annual information on the estimated size of the UK sub-prime lending market, based on a range of official statistics. There is a charge for its reports.
- Office of Fair Trading (1999a, 1999b) placed a one-off module of questions on the two waves of the ONS Omnibus Survey (over 3,700 adults aged 16 and over in Britain in total, representative sample).
- One-off bespoke surveys:
    - Survey of 1,070 consumers in the lowest quintile of UK household incomes carried out in 2003 by Policis (see Collard and Kempson 2005)
    - Survey of 1,647 households across Britain carried out by MORI for the Department of Trade and Industry (see Kempson 2002)
    - Survey of 1,732 households in Britain and 480 in Northern Ireland (Berthoud & Kempson 1992)

Official European data ☒ details on periodicity: Eurobarometer produced every two months, but not always with questions on financial services
Official national data ☒ details on periodicity : Wealth and Assets Survey, annual; Family and Children's Survey, annual; BHPS annual; One-off question module on two waves of the ONS Omnibus Survey (OFT 1999a, 1999b)
Official regional data ☐ details on periodicity :
Academic reports☒ details on periodicity: One-off surveys (Policis, see Collard and Kempson 2005; Berthoud and Kempson 1992)
Financial sector reports ☒ details on periodicity : Datamonitor and Mintel produce annual reports based on official statistics, for which there is a charge
Non governmental organization reports ☐ details on periodicity :
Others (describe) :

Specify how the exclusion is measured/estimated :

The available data provides information in two main areas: (i) the proportion of people that have or do not have credit and (ii) the proportion of people that have been refused credit.

- **Credit holding**: Eurobarometer can be used to measure the proportion of individuals in the UK that do not have unsecured credit in the form of credit cards, overdrafts or loans. Kempson (2002) measured the proportion of UK households that did not have any mainstream credit facilities. The OFT (1999b) measured the proportion of individuals who had no commercial credit, including those who chose not to borrow as well as those who were refused credit.
- **Credit refusal**: The Policis survey measured the percentage of people in the lowest quintile of UK household incomes that had been refused mainstream credit (reported in Collard and Kempson, 2005). Berthoud and Kempson (1992) measured the

percentage of householders who had had applications for credit turned down in the preceding year. The OFT (1999a) measured the proportion of individuals who said they could not access any form of commercial credit. Datamonitor produces annual figures on the estimated size of the sub-prime market, based on a range of official statistics. This includes people who are refused mainstream mortgages, and also assumes that all self-employed people have to borrow in the sub-prime market. It is therefore likely to over-state the size of the sub-prime credit market. Mintel also produces estimates of the size of the sub-prime market, including sub-prime mortgage lending.

Q.1.3.4.: Sources of data available related to levels of savings exclusion:

- Eurobarometer
- FRS is annual and asks about holdings of savings, investments, private pensions.
- British Household Panel Survey (BHPS) is a annual survey of adults (aged 16 and over) in a nationally representative sample of British households (i.e. excluding Northern Ireland)
- Wealth and Assets Survey – this is a new longitudinal survey, with questions on savings and asset-holding being asked every second year. The first results are not yet available.
- One-off bespoke national survey in 2005 of parents and children in the UK (Kempson, Atkinson & Collard 2006).
- Questions about savings were included in a one-off module of questions placed on the ONS Omnibus Survey (Office for Fair Trading, 1999b - see also Q1.3.3)

Official European data ☒ details on periodicity: Eurobarometer, produced every two months, but not always with questions on financial services
Official national data ☒ details on periodicity : FRS is annual, WAS is every two years, BHPS is annual, one-off module of questions on ONS Omnibus survey
Official regional data ☐ details on periodicity :
Academic reports☒ details on periodicity : One-off bespoke national survey (Kempson, Atkinson & Collard 2006)
Financial sector reports ☐ details on periodicity :
Non governmental organization reports ☐ details on periodicity :
Others (describe) :

Specify how the exclusion is measured/estimated:

- Eurobarometer can be used to ask about proportion of people in the UK with saving accounts

- FRS has been used to measure the proportion of households without any savings at all (Kempson, 1998; Rowlingson et al 1999). The FRS does not include data about general endowment savings products and life insurance, which are often used by people on lower incomes to save.

- McKay and Kempson (2003) used the BHPS for the period 1991-2000 to examine whether or not individuals were saving, if so how much and the reason for saving.
- A one-off bespoke national UK survey was carried out in 2005 to measure the percentage of parents who had savings and investments, the percentage of parents who were saving for their children, and the percentage of children that had savings and investments in their own names (Kempson, Atkinson and Collard (2006).
- Office for Fair Trading (1999b) used the ONS Omnibus Survey measured the percentage of households without any savings.
- When the data is available the Wealth and Assets Survey will be the main source of data on savings.

Q.1.3.5.: Sources of data/statistics available related to use of financial services other than mentioned above:

Official European data ☐ details on periodicity:
Official national data ☒ details on periodicity : Expenditure and Food Survey (EFS) is an annual survey of the UK population and is used by the insurance trade body to identify households without home contents insurance; FRS is annual; occasional modules on the ONS Omnibus to measure access to home contents insurance and to oall main forms of insurance
Official regional data ☐ details on periodicity :
Academic reports☐ details on periodicity :
Financial sector reports ☐ details on periodicity :
Non governmental organization reports ☐ details on periodicity :
Others (describe) :

EFS and FRS are used to measure the proportion of households without home contents insurance. This is monitored on an annual basis (Palmer et al 2006).

ONS Omnibus questions were used to assess the number of households without home contents insurance (Whyley et al, 1998). More recently the ONS Omnibus was used by the Association of British Insurers to estimate numbers without access to a range of different products. The results are not yet in the public domain.

NATIONAL CONTEXT OF FINANCIAL SERVICES

Q.2. Banking transactions

Q.2.1.: Is there a problem of financial exclusion regarding transaction banking services in your country?

Refer to point 1.1.1. of OP

yes ☒
no ☐

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Q.2.1.1.: Is the distinction between unbanked/marginally banked people relevant to your country?

*(**Unbanked** people are the people with no banking relationships at all*
***Marginally banked** people are people with a deposit account that has no electronic payment facilities, no payment card or cheque book and no means of remitting money, **OR** people who do have these facilities but make little or no use of them.)*

Yes ☒
no ☐

If that distinction is not relevant in your country, explain: N/A

Q.2.1.2.: Are they people in your country that are

- Unbanked yes ☒ no ☐
- Marginally banked yes ☒ no ☐
- Informally served (*that for some services rely on alternative financial providers which charge high costs, offer little information and poor terms with reference to the consumer rights*)?

yes ☒ no ☐

Q 2.1.3.: Which types of banking service are there particular difficulties accessing (tick relevant boxes)?

PLEASE NOTE:
In the UK, the key issue is being able to open a transaction bank account, which is made difficult by the moneylaundering regulations. Once someone has access to an account, access to these banking services is not particularly problematic, although many people may choose not to use accounts for these purposes.

- Receive regular electronic payment of funds such as wages, pensions or social assistance ☐
- Convert cheques or vouchers into cash ☐
- Store money safely until it needs to be withdrawn ☐
- Pay for goods and services other than in cash ☐
- Pay bills electronically (via self-banking or desk officer) ☐
- Make remittances ☐
- Receive regular bank account statements ☐

Q 2.1.4.: Which types of banking service are there particular difficulties to use (tick relevant boxes)?

PLEASE NOTE:
In the UK, once someone has access to a transaction bank account, using these banking services is not particularly problematic, although many people may choose not to use

accounts for these purposes.

- Receive regular electronic payment of funds such as wages, pensions or social assistance ☐
- Convert cheques or vouchers into cash ☐
- Store money safely until it needs to be withdrawn ☐
- Pay for goods and services other than in cash ☐
- Pay bills electronically (via self-banking or desk officer) ☐
- Make remittances ☐
- Receive regular bank account statements ☐

Q.2.2.: Where do people go to access to those services if they are refused by/ have difficulties accessing/choose not to use mainstream providers?

Mainstream providers *are all institutions legally recognized as banks: savings banks and postal banks and public owned banks may , in that respect, be considered as mainstream providers*

Describe briefly:

- The kind of alternative providers existing in your country (not for profit and/or commercial providers) and (if possible) some indications of the number of customers and/or number of service outlets they have
- The kind of services they provide (cheque cashing, bill-payment, remittances services…)
- How their costs and terms and conditions differ from those in mainstream market commercial banks

Please give full details of data source(s) for our bibliography and briefly describe the findings:

- **Transactional banking** Some credit unions now offer transactional bank accounts, through a pilot initiative between ABCUL (the main credit union trade body) and the Co-operative Bank. The account offers an ATM card for cash withdrawals, a debit card and access to direct debits and standing orders to make payments.
- **Cheque cashing** There are an estimated 2,000 commercial cheque cashing outlets in Britain, operated by around 350 companies including specialist cheque cashers, pawnbrokers and home credit companies (Dominy and Kempson, 2003). Charges were typically around 7 per cent of the cheques value, plus a handling charge of £2, although this varies company to company.
- **Bill payment** Some household bills can be paid at the Post Office but some companies make a charge for this. People can buy savings stamps for some household bills such as TV licences, utility bills. PayPoint is a national network of 16,000 payment collection terminals based in convenience stores, supermarkets, garages and newsagents where a range of household bills can be paid in cash, usually without charge. Some credit unions offer bill payment services, where a lump sum is

paid monthly into the credit unions for the payment of designated household bills. There is no charge for this service (Collard, Kempson and Dominy 2003). People on low incomes often pay for fuel using pre-payment meters. They can make these pre-payments at either a post office or a PayPoint outlet.

- **Remittance services** are available through a wide range of commercial providers in the UK, typically money transfer organisations such as Western Union or Travelex. Western Union typically charges about £14 for every £100 remitted, although charges vary in proportion to the amount remitted (the larger the sum, the lower the proportionate charge). There are also informal remittance services that are unregulated and therefore more risky. These include local foreign exchange agents and finding someone who is prepared to travel with the cash and deliver it personally (Atkinson 2006).

Q.2.3. How important is the role of savings banks and/or postal banks in meeting the needs of people to access to those services?

Describe briefly:

- The savings banks/postal banks/public owned banks existing in your country
- The kind of services they provide (cheque cashing, bill-payment, remittances services…) and (if possible) some indications of the number of customers and/or number of service outlets they have
- How their costs and terms and conditions differ from the rest of the mainstream market commercial banks

Please give full details of data source(s) for our bibliography and briefly describe the findings:

- There are currently 14,300 post office branches around the UK, around 8,000 in rural and 6,500 in urban areas. The post office branch network has declined significantly over time, and this trend is likely to continue.
- Since 2003, current accounts and basic bank accounts can be used without charge (but not opened) through the Post Office network in the UK.
- The Post Office Card Account was set up in 2003 to enable the electronic payments of social welfare benefits and pensions to people who do not have or do not want to use a current account or a basic bank account. Social welfare payments are credited to the POCA, and the claimant can then withdraw some or all of the money at a Post Office counter using a plastic card, without charge. Over 4 million POCAs have been opened. The POCA contract with the Post Office will, however, be terminated from 2010 and discussions are underway about what should replace it.
- As noted, many household bills can be paid at the Post Office although some companies make a charge for this.

Q.3. Credit

Q.3.1.1.: Is there a problem of some people not having access to credit/choosing not to use credit in the prime credit market in your country?

Prime credit market: *low cost credit with good terms and conditions available to people with medium and high incomes*

Refer to point 1.1.3. of OP

yes ☒
no ☐

If yes, what are the main barriers :

See Q.3.1.2 below

Q.3.1.2.: Is there a problem of some people choosing deliberately to subscribe a credit in the sub-prime credit market in your country?

Sub- prime credit market: *credit with high risk, high interests and poor conditions*

Refer to point 1.1.3. of OP

yes ☒
no ☐

If yes, what are the reasons for them to do so?

- People who have low or insecure incomes, poor credit records or a history of bad debt find it difficult to access credit in the mainstream or prime credit market, mainly due to the credit scoring techniques used by mainstream lenders (Collard and Kempson, 2005).
- In addition, the credit products offered by sub-prime lenders, particularly home credit companies that operate at the lower end of the market, may better meet the needs of people on low and unstable incomes. They offer quick and easy access to small cash loans, with weekly repayments, often collected from the home. The total cost of credit usually allows for a certain level of missed payments (Collard and Kempson, 2005; Kempson et al, 2000; Kempson and Whyley, 1999)
- Despite the high cost of borrowing from a home credit company, people may continue to borrow in this way because of familiarity and because they have a good relationship with their home credit agent (Collard and Kempson, 2005; Kempson et al, 1994; Rowlingson, 1994; Whyley and Brooker, 2004).

Please give full details of data source(s) for our bibliography and briefly describe the findings :

- See above

Q.3.2.: Where do people go to access to credit if they are refused by or choose not to use the prime credit market?

Describe briefly :

- The kind of alternative credit providers existing in your country (not for profit and/or commercial organizations , sub-prime lenders, …) and (if possible) some indications of the number of customers and/or number of service outlets they have
- The services they provide
- How their costs and terms and conditions differ from those in the prime credit market

Commercial lenders

- There is a well-developed sub-prime credit market in the UK. At the upper end this comprises commercial companies that offer secured and unsecured loans to people with a history of bad debts or poor credit records. These companies largely resemble lenders in the prime credit market except that their charges are significantly higher to reflect the higher-risk borrowers they serve. Their terms and conditions in relation may also be more punitive than lenders in the prime market (Kempson and Whyley, 1999b). Mintel (2002) estimate that the overall number of sub-prime consumers in the UK in 2001 was 3.2 million, and forecast this figure to increase to 3.65 million by 2005. This includes sub-prime mortgage lending as well as unsecured lending.
- At the lower end of the sub-prime market there are commercial home credit companies (also known as licensed money lenders, doorstep lenders or weekly collected credit companies) that are largely used by people on low or insecure incomes to access unsecured cash loans. In terms of market share, the UK home credit market is dominated by four companies, of which Provident Financial is the largest (Datamonitor 2004). Loans are typically for £500 or less, repayable over six to 12 months. Compared to the prime market costs are high, with APRs ranging from 100 to 400 per cent or more. There are, however, no extra charges if a borrower misses a payment or needs the loan rescheduled (Collard and Kempson, 2005; Jones, 2002; Rowlingson 1994). The Consumer Credit Association (the trade body for home credit companies) estimates around 3 million people have loans with their members. A recent survey found five per cent of consumers in Britain (approximately 2.3 million people) had taken out a home credit loan in the past 12 months (Whyley and Brooker 2004). Survey data from Policis confirms this (around 2 to 2.5 million people) (see Collard and Kempson, 2005).
- Pawnbrokers also operate at the lower end of the sub-prime market. They offer small cash loans secured on property or jewellery. There are two national companies in the UK with about 50 stores each, as well as many small local companies. The APR on a £100 loan works out between 70 to 200 per cent APR (Collard and Kempson 2003). A recent survey estimated that around 0.1 per cent of the population use pawnbrokers (Kempson 2002), but this is likely to be an underestimate. Extrapolating from information from the main UK trade association and research in the US produces an estimate of around three quarters of a million users in the UK (Collard and Kempson 2003).
- Companies such as Cash Converters and Cash Generator offer ‘sale and buy back’.

Although not strictly a credit product, sale and buy back involves customers selling goods to the store for cash. The customer retains the right to buy the goods back within an agreed amount of time. As sale and buy back is not covered by the consumer credit legislation, companies do not have to advertise their APRs and there are large differences between the amounts paid by companies to purchase goods (Collard and Kempson 2005).

- There are a growing number of companies that offer pay day loans, including specialist pay day lenders as well as pawnbrokers and cheque cashers, with an estimated 1,500 outlets. Customers write a cheque that is not cashed for up to 30 days, for which they receive the cash (less the fee). Charging structures vary widely across the industry – some charge only a percentage fee (typically between six and 12 per cent per £100), others combine percentage charges and fixed fees (typically between six and 12 per cent, with a fixed charge ranging from £1 to £2.50 per £100 cheque) (Dominy and Kempson, 2003).
- As well as cash loans, there are commercial companies that offer credit tied to the purchase of goods. An estimated 14 million people in the UK use agency mail order catalogues (Competition Commission, 2004), but numbers have declined sharply over recent years. The market is dominated by a small number of large firms. The price of goods is significantly higher than on the high street. While goods are technically interest-free, if payments extend over 40 weeks or more, the APR is usually 28.8 per cent or more (Jones 2002). There are also rental purchase companies such as Brighthouse, which provide household goods and furniture on credit without the need for credit checks. The goods are relatively costly and, while the average APR is around 29 per cent, additional costs such as insurance and default charges may increase the overall cost considerably (Jones 2002).

Non-commercial lenders

- The largest non-commercial provider of cash loans to people on low incomes is the government-run Social Fund Budgeting Loan Scheme, available to people on certain welfare benefits. Loans are interest-free and repayments are deducted directly from benefits. In 2003/04 1,250,000 loans were awarded. The average advanced was £384. Demand far outstrips supply, so in 2003/04 around a quarter of applications were turned down (Collard and Kempson 2005).
- There are currently around 560 registered credit unions in Britain, with half a million members. Not all members are on low incomes. Credit union interest rates are fixed by law to two per cent a month on a reducing balance (equivalent to 25.4 per cent APR). The average loan size in 2002 was £470 (Collard and Kempson 2005).
- There are a small number of savings and loan schemes run by social housing providers, but these tend to be very small-scale.
- There are a growing number of community-based lenders (often called Moneylines) that offer personal and business loans at competitive rates in disadvantaged communities with no need to save beforehand. The APRs typically range between 24 and 31 per cent depending on the loan term, and whether or not it is a new or repeat customer (Collard and Kempson 2005).
- There are also informal savings and loan schemes in many ethnic minority communities, typically based on a group of friends, relatives or work associates (Herbert and Kempson 1996).

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Q.3.3.: As far as you are aware of, is there a problem of illegal lending in your country? Yes ☒ No ☐ Limited to specific cases/areas ☐ If yes, please describe what you known about illegal lending and give full details of data source(s) for our bibliography (if existing) Recent research (Policis/PFRC 2006) estimated that around 165,000 households in the UK use illegal lenders, although this is almost certainly an under-estimate. This represents 0.44 per cent of the UK population or 3 per cent of low-income households. Around half of these households live in the most deprived areas of the UK. It is estimated that illegal moneylenders in the UK lend in total around £40 million per year, with repayments to these lenders totaling £120 million per year. The level of illegal lending is, however, estimated to be lower than in Germany or France (Policis, 2004). The average loan from an illegal lender is around £250, but can be as low as £30 to £50 to be paid within one week. The total cost of credit averages around £185 for every £100 borrowed, although the level and duration of repayments can be arbitrary. Intimidation and violence are frequently used to ensure repayments are prioritised and to protect lenders from being reported.
Q.3.4.: Is there a usury rate ceiling in your country? Yes ☐ No ☒ Q.3.4.1.: If yes, please give details of the product(s) concerned, and the ceiling that applies to it/them? Q.3.4.2.: Is there a concern of rate ceiling as a cause of credit exclusion in your country or other criticism? Yes ☐ No ☐ Specify:
Q.3.5.: Credit referencing and files registering (regarding the dishonoured cheques or other payment instruments) in your country Q.3.5.1. Is there a positive credit database (listing all outstanding credits) implemented ➢ At national level? Yes ☒ no ☐

If yes, is it Publicly run ☐ or privately run ☒
Voluntary ☒ or mandatory ☐

- At banking sector level? Yes ☐ no ☒
  If yes, is it Publicly run ☐ or privately run ☐
  Voluntary ☐ or mandatory ☐

- Individually within each credit provider? Yes ☐ no ☒
  If yes, is it Publicly run ☐ or privately run ☐
  Voluntary ☐ or mandatory ☐

- At another level (explain) :

Q.3.5.2.: Is there a negative credit database (listing details of bankruptcies/court judgments which are normally publicly available information as well as details of all credit commitments that are in default) implemented

- At national level? Yes ☒ no ☐
  If yes, is it Publicly run ☐ or privately run ☒
  Voluntary ☒ or mandatory ☐

- At banking sector level? Yes ☐ no ☒
  If yes, is it Publicly run ☐ or privately run ☐
  Voluntary ☐ or mandatory ☐

- Individually within each credit provider? Yes ☐ no ☒
  If yes, is it Publicly run ☐ or privately run ☐
  Voluntary ☐ or mandatory ☐

- At another level (explain) :

NOTE although registering data is voluntary, there are strong pressures for lenders to do so. It is a requirement in the two main Codes of Practice (Banking Code and Finance and Leasing Code).

We also have three credit reference agencies: Experian, Equifax and Call Credit .

Q.3.5.3.: Are there rules limiting the time span of the negative database memory in order to avoid the risk of lifelong exclusion?

Yes ☒
No ☐
Specify:

Credit accounts opened before 1994 are not shared by lenders with credit reference agencies, although this is under review by the government. Closed or inactive accounts, depending on the manner in which they were paid, stay on a report for up to six years from the date of their last activity. Bankruptcies and County Court Judgements over six years ago are not included, nor are charged off or debts replaced for collection that are more than six years old are not included.

Q. 3.5.4.: Are positive and negative information contained in the same database(s)?

Yes ☒
No ☐

Q. 3.5.5.: Do the mentioned registers/files cover all the financial institutions and all the credit transactions or are they limited to some categories? - Specify:

Electoral role information, credit account information from lenders (accounts are classified as settled, active, defaulted or delinquent and a payment history in included), Country Court Judgments or Decrees, shared financial commitments, current account (overdraft information is only given), information on whether you have voluntarily given up your home or had it repossessed. All the mainstream lenders are covered and most of the sub-prime. The home credit industry, which provides small loans to people on low incomes, has not traditionally registered information, although it is being required to do so as one of the remedies imposed following and inquiry by the Competition Commission.

It should be noted that any creditor can gain access to public information (the electoral roll and register of County Court Judgments or Decrees), but beyond that, lenders can only gain access to data if they, themselves have provided similar data to the register. So those that only share default (negative) information, cannot gain access to positive data registered by other creditors.

Q.3.6.1.: How is responsible lending ensured in your country?

It is ensured by a law yes ☒ no ☐
It is ensured by a code of conduct within the banking sector yes ☒ no☐
It is implemented individually within some prime credit lenders yes ☒ no☐
It is implemented individually within some alternative credit providers yes ☒ no☐
It is not at all organized in my country yes ☐ no☒

Q.3.6.2.: Describe briefly the principles of the existing measures regarding responsible lending

The Consumer Credit Act 2006 introduced a new unfair relationships test, to enable consumers to challenge unfair treatment by lenders in court. It also gave consumers access to a free and independent dispute resolution scheme, provided by the Financial Ombudsman Service. From April 2008, lenders will be obliged to give customers clearer and more regular information on the state of their credit accounts. In addition, the Act gives power to the Office for Fair Trading (OFT) to take into account evidence of irresponsible lending by a company when deciding the fitness of licensees. The OFT has the power to impose requirements on licensees and to fine licensees if they breach these requirements (up to a maximum of £50,000).

The Banking Code is a voluntary code of practice that covers current accounts, personal loans, savings and credit cards and covers most of the prime lenders. It sets out standards of good practice, which are to be followed as a minimum by banks, building societies and other financial services providers that subscribe to it. It contains sections on responsible lending and dealing with people in financial difficulties. Compliance with the code is monitored continuously by the independent Banking Code Standards Board.

A very similar code – the Finance and Leasing Code – covers lenders in both the prime and sub-prime markets. There is no compliance monitoring but there is an independent complaints board.

Trade bodies covering the home credit industry , pawnbrokers and pay day lenders all have their own codes of practice but these are not as extensive as the Banking Code and Finance and Leasing Code.

In addition, banks and other financial services providers have their own responsible lending policies. For example Barclays is piloting a programme in 2006 to identify and help customers who may be approaching financial difficulties (see www.barclays.co.uk). HBOS give examples of their responsible lending strategy such as not allowing people under the age of 25 to have a credit card (see www.hbosplc.com).

Q.3.6.3.: Are the above mentioned registers/file part of a responsible lending strategy or do they meet mostly other needs? - Specify:

Credit reference files are used by lenders as an integral part of credit scoring. As such, they enable lenders to ascertain an individual's ability to repay their credit commitments. Both the Banking Code and the Finance and Leasing Code refer specifically to use of credit reference data in their requirement s for responsible lending.

Q.4. Savings

Q.4.1.: Is there a problem of some people not being able to open/choosing not to open a savings account with a bank or similar provider in your country?

Refer to point 1.1.2. of OP

yes ☒
no ☐

If yes, what are the main barriers:

Money laundering requirements can act as a barrier to getting a savings account. But other than that, there is little evidence of direct exclusion from savings products

(Kempson et al, 2000), rather people tend to self-exclude. The main reason for this is affordability – people on low incomes cannot afford to save and so see no reason to open an account (McKay 1992; Rowlingson et al 1999). In addition, some people may be deterred by the fairly high minimum amounts needed to open certain savings accounts and the belief that minimum deposits are always required (Kempson 1998; Rowlingson et al 1999). Other reasons for self-exclusion include lack of knowledge about savings products available (Rowlingson et al 1999; Vass 1997); and a lack of confidence among some consumers in financial services providers (Personal Investment Authority 1997).

In some areas, bank and building society branch closures has made it difficult for some people to access savings accounts (Vass 1997; Leyshon et al 2006), which increases psychological barriers and mistrust (Kempson and Whyley 1999a). The low rate of return on some savings products may also be a deterrent (National Consumer Council 1995), although other research has suggested that those with small amounts to save are less interested in the rate of interest than the security of their savings (Kempson and Whyley 1999a).

Q.4.2.: Is there a problem of some people choosing not to make their savings deposits in a bank or similar provider in your country?

Refer to point 1.1.2. of OP

yes ☒
no ☐

If yes, what are the main reasons:

As mentioned in Q4.1 above, affordability is the main reason for people not to save into a formal account even if they have (McKay 1992; Rowlingson et al 1999).

Q.4.3.: Where do people go to make savings deposits when they unable to or choose not to open a savings account with a bank or similar provider?

- Describe briefly the kind of alternative savings providers (non profit or commercial organization, informal savings groups) existing in your country and the services they provide.

- Describe briefly the other ways people use to make savings when they don't save through a formal or informal provider

Please give full details of data source(s) for our bibliography

- Most people who lack a savings account but do, never-the-less save do so informally, for example saving up money at home in a jar or piggy bank or giving money to a friend or relative to look after (Kempson, 1998; Kempson et al 2000; Whyley and Kempson, 2000).
- The main alternative providers of savings accounts are credit unions. These are non-

profit financial co-operatives owned and controlled by their members that provide savings accounts and loans linked to savings. They are either workplace-based, association-based (e.g. church or trade union) or based on a certain geographical area. A dividend on savings may be paid at the end of each year to all members, which can be as much as 8 per cent but is usually two to three per cent (www.abcul.org). For low-income savers, credit unions offer the advantages of being local and encouraging small scale saving. (Collard et al 2001).

- Some housing associations offer savings products alongside the collection of rent (Treasury Select Committee 2006a).
- The Saving Gateway is a pilot scheme set up by the UK government to encourage among those on low incomes by offering matched funding for the amounts that people are able to save. The first pilot scheme was set up in 2002, was targeted specifically at people on low incomes and offered pound-for-pound match funding (Kempson et al 2005). A second larger pilot has since been carried out, which was expanded to include people on higher incomes and tested out different match rates (Harvey et al 2007). A decision on whether or not the scheme will be rolled out nationally, and the form it will take, is to be taken in the near future.
- Informal savings associations such as rotating savings and credit schemes are common among some black and minority ethnic groups in the UK. These are normally based around a group of friends, relatives or work colleagues who save collectively and take turns to have access to the money saved (Whyley et al, 2000; Kempson, 1998; Srinivasan 1995; Sterling 1995).
- There is also a plethora of Christmas savings clubs, some run by retailers; others by companies specializing in this market (Pomeroy, 2007)

SOCIAL EXCLUSION AND POVERTY

Q.5. people exposed to social exclusion

For this section, please refer to ***EU-SILC*** *(European Union – Statistics on Income and Living Conditions) results regarding your country for* ***year 2005***

Q.5.1.: What percentage of the population is at risk of poverty (below 60% of the national median income) in your country?

18 % of the population is at risk of poverty

Q.5.2.1.: What is the risk of poverty rate by age in your country? (% below at risk of poverty threshold-ARPT)

16-24 19 % below ARPT
24-49 13 % below ARPT
50-64 16 % below ARPT
65+ 26 % below ARPT

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Q.5.2.2.: What is the risk of poverty rate by gender in your country?

Females 19 % below ARPT
Males 18 % below ARPT

Q.5.2.3.: What is the risk of poverty rate by most frequent economic activity?

At work 8 % below ARPT
Unemployed 50% below ARPT
Total inactive % below ARPT

Q.6. Links between financial exclusion and over indebtedness
Do read and refer to point 4.3. of O.P.

Q.6.1.: Have any research/studies carried out in your country explored the relationships between over-indebtedness and financial exclusion?

No ☐
Yes ☒

Q.6.2.: If yes, please give full details of the data source for our bibliography, briefly describe the findings and compare it to statements made in point 4.3. of the O.P.

- The risks of being financially excluded and of having arrears on household bills or credit commitments are both increased among people who live on low incomes (Kempson, 2002; Kempson and Whyley, 1999a).
- Collard and McKay (2006) used the Poverty and Social Exclusion Survey (PSE) to further examine the overlaps between financial exclusion, indebtedness and poverty. They explored a range of different dimensions that may be taken to characterise financial exclusion and indebtedness (including access to bank accounts, use of money lenders, financial difficulties). Each of these dimensions was more common among those in poverty, often by a very large margin.
- Other studies have looked at how problem debt can lead to exclusion. People with a history of bad debt may experience difficulties opening a bank account (Kempson at al 2004; Kempson 2006) or accessing credit from mainstream prime lenders. (Kempson et al 2000).
- Financial exclusion may also lead to debt problems. For those excluded from the mainstream credit market, the only option may be to borrow in the higher-cost sub-prime market or, at worst, to borrow from illegal lenders. The costs of repaying what they owe may lead some borrowers into financial difficulties (Rossiter 2005; Randall 2005).
- Financial exclusion may also exacerbate existing debt problems. For example, the additional costs of operating a cash budget, such as bill payment or cheque cashing, can make a bad financial situation worse (Kearton 2005).

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Q.7. Links between financial exclusion and social exclusion *Do read and refer to point 4.2.of O.P.*
Q.7.1.: Have any research/studies carried out in your country explored the causal link between financial exclusion and the broader phenomenon of social exclusion? No ☐ Yes ☒
Q.7.2.: If yes, please give full details of data source(s) for our bibliography, briefly describe the findings and compare them to statements made in point 4.2. of the O.P. (are the conclusion similar, different,…) Several studies in the UK have looked at the relationship between financial and social exclusion, and these are discussed in the Overview Paper (Kempson et al 2000; Kempson and Whyley 1999a; McKay and Collard 2006).
FINANCIAL EXCLUSION (F.E.)
Q.8.Levels of financial exclusion *Do read and refer to point 2 of O.P.*
Q.8.1.1.: Are there any national survey(s) data regarding the extent and causes of transaction banking exclusion in your country? No ☐ Yes ☒ Q.8.1.2.: If yes, please give full details of data source(s) for our bibliography, briefly describe the findings (extent, who is affected, causes and consequences) and compare them to statements made in the Euro barometer data analysis for your country (*Table 2 levels of financial exclusion in individual EU 15 Countries in O.P.* ***new tables about EU 27 coming soon*** *)* *For Ireland, Spain and UK please comment points 2.2.1.,2.2.2.,2.2.3. or 2.2.4. of O.P. regarding national surveys and name and describe other existing surveys.* For full details on data sources, please see Q.1.3.2 Eurobarometer indicates that 15 per cent of individuals in the UK had no transaction bank account in 2003. Similarly, the FRS for the period 2002/03 found that 14 per cent of individuals did not have a current account. Since that time, the number of people without a transaction bank account in the UK has fallen steadily, as initiatives to promote banking inclusion have got underway, in particular the development and promotion of basic bank accounts. From the FRS data for 2005/06 we estimate that eight per cent of adults (five per cent of households) do not have a transaction bank account (defined as either a current account or a basic bank

account). The BMRB (2006) survey of Britain in 2005/06 found that seven per cent of households were either unbanked or under-banked (that is neither they or a partner had a bank account or they or a partner never used a bank account, even though they had one). Kearton (2005) using the Beaufort Welsh Omnibus Survey found that 14 per cent of adults in Wales did not have either a current or a basic back account. Previous research presents a fairly consistent picture of the types of people most likely to be affected by banking exclusion in the UK: people on low incomes (Kempson and Whyley 1999a; HM Treasury, 2004); people not in paid work (Kempson and Whyley 1999a; HM Treasury, 2004; BMRB, 2006); lone parents (Kempson and Whyley 1999a; HM Treasury 2004); social tenants (Kempson and Whyley 1999a; HM Treasury 2004; BMRB, 2006); certain black and minority ethnic groups (Kempson and Whyley 1999a); the young and the old (Kempson and Whyley 1999a); and those living in deprived communities (Kempson and Whyley 1999a). Comparisons cannot be made with the Eurobarometer data as it is not disaggregated by country. For data on the causes and consequences of banking exclusion in the UK see section 10.2.
Q.8.2.1.: Are there any national survey(s) data regarding the extent and causes of credit exclusion in your country? No ☐ Yes ☒ Q.8.2.2.: If yes, please give full details of data source(s) for our bibliography, briefly describe the findings (extent, who is affected, causes and consequences) and compare them to statements made in the Euro barometer data analysis for your country (*Table 2 levels of financial exclusion in individual EU 15 Countries in O.P.* **new tables about EU 27 coming soon** *)* For full details on data sources, please see Q.1.3.3 The Overview Paper discusses levels of credit exclusion in the UK as measured by Eurobarometer and national survey data. In addition to the data sources cited in the Overview Paper, Mintel estimated the overall number of sub-prime lending consumers in the UK in 2001to be 3.2 million, with the figure forecast to increase to 3.65 million by 2005. These figures, however, include sub-prime mortgage lending as well as unsecured lending (Mintel 2002). Figures published by Datamonitor indicate that, in 2005, 9.1 million people in the UK arfe at risk of being refused credit by mainstream lenders. However, this again includes

those refused mainstream mortgages. Datmonitor figures also assume that all self-employed people will have to borrow in the sub-prime rather than the prime credit market. In terms of those most likely to be credit excluded, the Office of Fair Trading (1999b) found that people on low or very low incomes; renting from a local authority of housing associations; pensioners, particularly single pensioners; with no qualifications; people who were unemployed, caring from family or sick/disabled were the most likely to have no credit. Again, comparisons cannot be made with the Eurobarometer data as it is not disaggregated by country. For data on the causes and consequences of credit exclusion in the UK see section 10.2.
Q.8.3.1.: Are there any national survey(s) regarding the extent and causes of people who lack savings and/or cannot open a savings account with a bank or a similar organization in your country? No ☐ Yes ☒ Q.8.3.2.: If yes, please give full details of data source(s) for our bibliography, briefly describe the findings (extent, who is affected, causes and consequences) and compare them to statements made in the Euro barometer data analysis for your country (*Table 2 levels of financial exclusion in individual EU 15 Countries in O.P.* **new tables about EU 27 coming soon** *)* For full details on data sources, please see Q.1.3.4 Eurobarometer data for 2003 found that 22 per cent of individuals in the UK did not have a savings account. There is no recent analysis of UK survey data that provides directly comparable information. Data from the FRS for the period 2002/03 indicates that 28 per cent of households did not have any savings (rather than a savings account); Rowlingson et al, 1999 estimated that 37 per cent of individuals in the UK lacked any savings. A study by the Office of Fair Trading (1999b) found that 24 per cent of individuals in Britain (rather than the UK) had no savings products at all. The FRS consistently indicates that the households most likely not to have any savings are single parent households; households with one or more unemployed adults under pension age; households with one or more sick or disabled adults; and households with low incomes. Similarly, the Office for Fair Trading (1999b) found that the individuals least likely to have a savings account were those on low incomes and single parents. Local authority tenants, people with low or no qualifications, and non-white people were also over-represented among those with no savings products. Again, comparisons cannot be made with the Eurobarometer data as it is not

disaggregated by country. For data on the causes and consequences of saving exclusion in the UK see section 10.2.
Q.8.4.1.: Do you have any other specific comments regarding the Eurobarometer data analysis for your country (*Table 2 levels of financial exclusion in individual EU 15 Countries in O.P.* **new tables about EU 27 coming soon** *)* No ☒ Yes ☐ Q.8.4.2.: If yes, what are your comments?
Q.9. People most likely to be financially excluded *Do read and refer to point 3 of O.P.*
Q.9.1.1.: Is there any research describing the types of people most likely to be financially excluded (overall financial exclusion) in your country? No ☐ Yes ☒ Q.9.1.2.: If yes, please give full details of data source(s) for our bibliography, briefly describe the findings and compare them to statements made in the general Euro barometer data analysis? (*Table 3 in O.P " Types of people likely to be financially excluded in the EU 15* **new tables about EU 27 coming soon** *)* For full details on data sources, please see Q.1.3 Kempson and Whyley (1999) using the FRS for 1995/1996 found that the types of households most likely to be financially excluded were: households where the head of household was single (single parents; pensioners; single people without children); living in socially rented housing; living in the most deprived areas; having a low household income; and where householders were retired, unemployed or sick. Unfortunately, comparisons cannot be made with the Eurobarometer data as it is not disaggregated by country.
Q.9.2.1.: Is there any research describing the types of people most likely to be excluded from banking transactions in your country? No ☐ Yes ☒ Q.9.2.2.: If yes, please give full details of data source(s) for our bibliography, briefly describe the findings and compare them to statements made in the general Euro

barometer data analysis ? (*Table 3 in O.P " Types of people likely to be financially excluded in the EU 15* **new tables about EU 27 coming soon** *)* See Q.8.1.1
Q.9.3.1.: Is there any research describing the types of people most likely to be excluded from credit in your country? No ☐ Yes ☒ Q.9.3.2.: If yes, please give full details of data source(s) for our bibliography, briefly describe the findings and compare them to statements made in the general Euro barometer data analysis ? (*Table 3 in O.P " Types of people likely to be financially excluded in the EU 15* **new tables about EU 27 coming soon** *)* See Q.8.2.1
Q.9.4.1.: Is there any research describing the types of people most likely to be excluded from savings in your country? No ☐ Yes ☒ Q.9.4.2.: If yes, please give full details of data source(s) for our bibliography, briefly describe the findings and compare them to statements made in the general Euro barometer data analysis ? (*Table 3 in O.P " Types of people likely to be financially excluded in the EU 15* **new tables about EU 27 coming soon** *)* See Q.8.3.1
CAUSES AND CONSEQUENCES OF FINANCIAL EXCLUSION *Please, read and refer to point 4 of O.P.*
Q.10. Factors affecting difficulty of access or use of financial services in your country
Q.10.1.:Comment on all factors affecting difficulty of access or use in your country *Use table 6 of O.P.: Factors affecting difficulty of access or use*. ***(ANNEX 1)*** Add in that document other causes of exclusion that exist in your country and comment ALL causes relevant to your country. In the UK we recognise all the factors presented in Table 6 and have provided a commentary below. **Societal factors**

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Liberalisation of markets
We have one of the most competitive financial service market places in Europe, with three consequences. First there is fierce competition for the most profitable customers so that the needs of the least profitable (generally those on low incomes) go unmet. Secondly, many suppliers of financial services (and credit and insurance in particular) are moving towards full risk- and cost-effective pricing. While this has widened access, albeit at a high cost, it has done so at the expense of some people being priced completely out of the market. Thirdly, there has been a sustained period of mergers and takeovers, along with de-mutualisation of some companies (ie a conversion of not-for-profit companies into ones quoted on the stock exchange). Consequently we have lost many of the savings and banking organizations that would have been sympathetic to achieving full financial inclusion.

Labour market changes
The UK labour market was liberalized earlier and to a greater extent than any other European country. This has meant that more people are in work (and wages are almost always paid into a bank account) although the extension of flexible jobs means that many in such jobs have relatively unstable incomes. A minimum wage was introduced in 1999. This has had a complex effect on financial inclusion. The changes have meant that some people have greater access to financial services than would otherwise have been the case. But those in the flexible labour market have not always benefited in this way.

Money laundering rules
While these have always excluded some people, real progress was being made in addressing the problem until the US terrorist attacks on 9/11 2001. The situation was then rapidly reversed. Since then there has been sustained pressure to consider the impact of regulation in this area on financial inclusion – with some success. The one area of continuing difficulty is in relation to small remittance companies – used extensively by the UK ethnic minority communities. The fact that such companies were believed to have been used to supply small levels of funding to the Madrid bombers has made this a difficult area to tackle as one is being asked to weigh financial inclusion against national security.

Fiscal policy
The UK has no duties or taxes on banking services.

Tax relief has been a tool to encourage saving generally, but is widely recognized as not benefiting those who pay little or no tax. Consequently we have experimented with a matched saving scheme (the Saving Gateway).

Social assistance
Until 2003 social assistance was not normally paid into a bank account, and this was a major factor in explaining financial exclusion (Kempson and Whyley, 1999). Government policy and practice changed from that date, and this has led to a considerable fall in the numbers of people without a bank account.

People out of work and in receipt of social assistance (Income Support or income-based Jobseekers Allowance) qualify to apply for interest-free loans from the government-run Social Fund – which makes well over 1 million loans a year.

Government policy to encourage and help people who receive social assistance to look for work, has led to more lone parents and disabled people re-entering the labour market. This has been controversial because they also face a reduction in the money they receive if they fail to do so, but it has reduced levels of poverty in the UK and also assisted financial inclusion.

Finally, the matched savings scheme (Saving Gateway) is likely to be rolled out nationally, and be focused on people who either receive social assistance or are in low-waged employment and receiving tax credits.

Demographic changes
There are clear generational differences in engagement with financial services. While there is a significant number of people aged over 75 who have never used a bank account in their life, the same is not true of those who are younger. The fact that wages and social assistance are now normally paid into a bank account means that few young people will lack a bank account. Likewise the widening of access to credit in the UK, means that younger people have greater access than previous generation when they were young.

Demographic change is also having an indirect effect. The declining birth rate means that the UK has a shortfall of people working age. The Government has adopted two policies to maintain economic growth that have an impact on financial inclusion. First, as we note above they are encouraging greater labour market participation by lone parents and disabled people. Secondly, the UK was one of only three countries to open its labour markets to A8 countries. This has led to a very large influx of migrant workers, many of whom are finding it difficult to open a bank account.

Income inequalities
The UK has one of the highest levels of income inequality in the EU 15 countries and this has undoubtedly affected levels of financial inclusion. Since 1997 the UK Government has been committed to addressing this problem.

Supply factors
Geographical access
This has been seen as a problem in relation to banking and saving. Increased competition has lead to large numbers of bank branch closures and a growing emphasis on ATMs and phone and internet banking. This has had the greatest effect on older people who remain resistant to anything other than over-the-counter banking services.

Risk assessment
As this has become more sophisticated, larger numbers of people have gained access to credit but the move to risk-reflective pricing has meant that some are priced out of the market, or pay very high charges. Hence the debate in the UK is not about credit

exclusion but about getting access to affordable credit.

In the area of insurance more sophisticated risk assessment has meant smaller risk pools and large increases in the prices paid by those at greatest risk.

Price
Routine transaction banking is generally free in the UK (the exception is Northern Ireland, where account charges are the norm). However, default charges for banking services are very high (i.e. charges for going overdrawn without permission) and are undoubtedly a major deterrent to account use by people on low incomes. This situation might change quite soon as the levels of default charges are being challenged in the courts by growing numbers of people on middle to high incomes. The signs are that ‘free’ transaction banking will end. The losers will be people on low incomes – who tend to make many small transactions but are disproportionately less likely to incur default charges currently.

Risk- and cost-reflective pricing in the credit market means that people on low incomes or with a poor credit history pay a great deal more to borrow money (see above) and for insurance.

Product design
This has been a large problem but one that has been tackled with some success in the areas of banking (basic bank accounts), credit (affordable fixed term credit for small sums of money over short periods) and insurance (policies with lower minimum sums insured, cheaper policies for second-hand replacement and weekly payment of premiums). The high-cost moneylenders, ironically, have products that are better designed to meet the needs of people on low incomes than any other source of credit!

Service delivery
See geographical access above. This is not yet such a problem as it is in, say Sweden, as use of internet banking, while growing, is by no means the norm.
Complexity of choice
This is a huge problem for the UK population as a whole and not one restricted to those on low incomes or who are financially excluded (whose choices are more limited anyway).

Marketing
Research in 1999 by the Office of Fair Trading showed that there are segments of the population who receive no marketing material at all. This reinforces self-exclusion. Our experiences are that even when the supply side problems are tackled, there are still unresolved problems on the demand side. The Financial Inclusion Task Force has asked for extra money to help tackle this issue.

Demand
All the factors identified play an important role in the UK. Indeed, there is now a major Government initiative to overcome the barriers to demand (see below). There are two

particular points of note.

First, the UK has several sizeable low-income Muslim communities (Pakistani, Bangladeshi and Somali), for whom the lack of Islam-compliant products is a real problem. Even not-for-profit providers have not addressed their needs. One of the largest retail banks (Lloyds TSB) has recently introduced a range of Shariah approved financial products, but these are targeted at the mainstream market rather than people on lower incomes.

Secondly the provision of high cost credit through licensed moneylenders is particular importance in the UK. This sector is well-established and the same company may have been used for several generations in a family. Although the costs are very high, the product they offer is ideal for the needs of people on low incomes and the arrears management practices are very understanding (unlike other creditors). Consequently people are very resistant to switching to cheaper (and generally less suitable) sources of credit.

Q.10.2.: Give full details of the data source for our bibliography, briefly describe the findings and compare it to statements made in point 4 of the O.P.

- For a general overview see Kempson at al (2000).
- Geographical exclusion and bank and building society branch closures are examined by Thrift and Leyshon (1997), Leyshon et al (2006), Kempson and Jones (2000), Collard et al (2001).
- Risk assessment in relation to banking services and the limited facilities that may be offered to lower income, higher risk customers is covered by Kempson (1994), Kempson and Whyley (1998), HM Treasury (1999), Office of Fair Trading (1999a) and Speak and Graham (2000). The role of problem debt in banking exclusion is discussed by Kempson (1994) and Kempson and Whyley (1998).
- The need for appropriate banking services, that enable people on low incomes to retain financial control and avoid getting in difficulties because of default charges is examined by Kempson and Whyley (1999a), Kempson and Whyley (1998), Kempson (1994), (Collard et al 2001).
- Other products are also inappropriately designed for the needs of people on low incomes. In terms of credit, people on low incomes tend to want to borrow small amounts over a short period of time, which are generally only offered by higher cost commercial lenders operating at the lower end of the sub-prime credit market.(Kempson et al 1994; Rowlingson 1994; Kempson and Whyley 1999a). People on low incomes may be deterred from opening savings accounts because a minimum deposit is required (Vass 1997; Kempson 1998). Some mainstream financial products are not appropriate for certain ethnic minority groups (Burton 1996; Kempson 1998).
- People on low incomes or with a poor credit history have difficulty accessing mainstream consumer because of lenders' risk assessment processes (see Q.3). Many more do not apply for mainstream credit in the belief that they will be turned down (Kempson et al 1994; Rowlingson 1994; Kempson 1996; Speak and Graham 2000; Ford & Rowlingson 1996; Collard and Kempson 2005).

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- Due to advances in technology, financial providers can now target their marketing literature more closely to their chosen market, hence bypassing people on the margins of financial services (Kemspon and Whyley 1999a).
- Poor people pay more on average for the use of financial services, such as consumer credit (high charges) and home contents insurance (high premiums) (Collard & Kempson 2005; Rowlingson 1994; Kempson et al 1998; Whyley et al 1998; Speak and Graham 2000; Vass 1997).
- A lack of financial literacy or financial capability can be a cause of financial exclusion if consumers are not able to make informed decisions about the purchase of financial products (Kempson 1998; Kempson and Whyley 1999a; Atkinson et al 2006).
- Psychological barriers such as mistrust of financial providers can act as a significant barrier to product usage (Kempson and Whyley 1999a; Collard et al 2001). There may be language and cultural barriers for some black and minority ethnic groups, especially first generation migrants with poor levels of literacy in English and little experience of financial services (Kempson and Whyley 1999a, 1999b).
- Government policy and regulations may be a cause of financial exclusion. In particular money laundering regulations have created significant problems in terms of access to banking services and credit (Kempson and Whyley 1999a; Collard et al 2001).

Q.11. Causes and consequences of financial exclusion

Q.11.1.1.: Do you have any comments regarding the specific causes and consequences of financial exclusion related to your country?

To answer refer and compare with the contend of point 4 of O.P

No ☒
Yes ☐

Q.11.1.2.: If yes, describe briefly what are those comments?

Q.11.2.1.: Do you have any data sources regarding the specific causes and consequences of financial exclusion related to your country?

No ☐
Yes ☒

Q.11.2.2.: If yes, please give full details of the data source for our bibliography, briefly describe the findings and compare it to statements made in point 4 of the O.P.

The causes have been dealt with above. We have, therefore, concentrated on the consequences of financial exclusion in the UK.

Banking
The first point is that, as there is decrease in the proportion of people without a bank

account, savings or access to credit, the consequences for those who do not have these basic financial services become more serious.

Briefly, in relation to transaction banking exclusion, the main issues are cost and inconvenience as the outlets for paying in cash have all but disappeared. Payment of bills without a bank account is time consuming and more expensive as many utility companies offer discounts to people who pay by direct debit, which are not available to people who pay in other ways (BMRB 2006). Kempson and Whyley (1998) found that (ten years ago) paying gas bills in cash cost up to €65 a year more than those paying by direct debt; pre-payment meter customers also paid higher tariffs so that their annual gas bills cost up to €120 more a year. Calculations made by the NGO Save the Children in 2007 showed that operating a cash budget can cost as much as €1,500 a year (Save the Children/Family Welfare Association, 2007). Other problems faced by the unbanked include:

- the problem of cashing third party cheques and the cost of having to use alternative cash checking companies (Kempson & Whyley 1998; 1999a).
- accepting a job can be more difficult as most employers insist on paying wages electronically into an account (Kempson & Whyley 1999a) (Treasury Select Committee 2006b).
- getting access to other financial products (insurance, credit) may depend on being able to pay by direct debit and not having a bank account also reduces credit scores (Kempson and Whyley 1998; 1999a)
- inability to make cash savings by buying products and services on the Internet (Leyshon et al 1998).

Credit

Compared with other EU countries the level of total credit exclusion in the UK is low, but for the people affected the only option in times of need is illegal lenders (Ellison A, Collard S & Forster R 2006). Such lenders do not issue credit agreements and apply default charges that can be extortionate and arbitrary. Consequently many borrowers can never settle their loan in full. In the worst cases, failure to pay can mean customers being forced to deal drugs or into prostitution on behalf of the lender.

A much wider problem, however, relates to people who use the sub-prime credit market, where terms and conditions are inferior to those in the prime market and costs are higher (Collard and Kempson, 2005) (Treasury Select Committee 2006a) (Kempson et al 2000).

Savings

Self-evidently people who lack savings have no way to deal with income shocks or emergencies other than borrowing (Kempson and Whyley 1999a) (Kempson et al 2000).

Secondly, people who save informally (that is not in a bank account) do not benefit from the interest rates and tax advantages that people with savings accounts enjoy (Kempson et al, 2005).

Finally savings kept in cash at home are vulnerable to theft (Kempson 1998; Whyley et al 1998).

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ANNEX 2 - Q.12.,13.,14.: MARKET RESPONSE FOR FINANCIAL INCLUSION

Q12 Provision of services by alternative providers

Country	Year of first introduction	Name	Main provisions	Other notes and criticism
UK	N/A	Growth of sub-prime market (commercial)	This would include loans and credit cards offered at higher cost to people who are high risk or credit impaired – often from subsidiaries of the banks themselves.	These are only available to people with a bank account and whose income means that they can pay reliably by direct debit. At worst, arrears management and recovery practices may be more punitive
UK	N/A	Other sub-prime lenders (commercial)	It also includes niche players that offer: • rental purchase credit and • sale and buy back.	rental purchase looks relatively low-cost but there are a lot of hidden charges and arrears management practices are very tough. Sale and buy back is not, strictly, a form of credit and therefore not covered by credit legislation. There is a very large difference between the sum of money given for the goods and the amount that has to be paid to buy them back
UK	N/A	Christmas savings (hamper) clubs (commercial)	These are not strictly deposit takers (at least not in law). People pay money in each week throughout the year and just before Christmas receive either shopping vouchers or a hamper (basket) of food.	No interest is paid on money 'saved' . And until May 2007 there was no protection of the money deposited. The largest company went bankrupt just before Christmas 2006 and customers lost all their money. This resulted in a Government inquiry and an agreement that all deposits would be held in a separate account.
UK	2006	Christmas savings clubs (not-for-profit)	In response to the above, credit unions now offer savings clubs that work in the same way as the hamper clubs except that people get interest on their savings and get the money in cash just before Christmas	
UK	2006	Basic bank accounts (not-for-profit)	A small number of credit unions now offer a basic bank account that is linked to the bank clearing system.	
UK	DK	Bill-payment services (not-for-profit)	A small number of credit unions offer bill-payment services.	This is potentially more useful where the credit union also offers a basic bank account

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UK	DK	Credit union instant access loans (not-for-profit)	We have about 560 registered credit unions in the UK, running linked savings and loans schemes. A small, but growing, number of these have adopted the PEARLS system of financial management, making it possible for them to offer people loans at low cost without the need for a prior history of saving. An even smaller number have experimented with 'debt buy-out' – offering loans to allow people facing financial difficulties to settle high cost credit early	The instant access loans are proving popular but has not, to date, attracted the most financially excluded – and certainly not those who use illegal lenders. A large injection of Government funding (see below) may be changing this. These were small-scale experiments and we may see the practice adopted as part of the developments just described
UK	Late 1990s	Not-for-profit community development finance institutions (not-for-profit)	Like credit unions, CDFIs offer lower cost loans to people who find it difficult to access the prime credit market. They have not linked savings to credit and interest rates have tended to be higher than those charged by credit unions.	Like credit unions these have not attracted the most financially excluded. Again Government funding is changing this
UK	Late 1990s	Housing association savings and loans schemes (not-for-profit)	A small number of housing associations (not-for-profit providers of rented housing for people on low incomes) have experimented with savings and loans schemes. Typically an arrangement is made between the housing association and a building society with the housing association putting a large sum on deposit. Tenants' savings are then treated as if they are added to this sum – so they get a higher rate of interest. The money on deposit also acts as a guarantee for very low cost loans (base rate plus 1%)	Such schemes are undertaken as part of corporate social responsibility and are not sustainable financially. Take-up has also been surprisingly low.
UK	In addition there are many local initiatives to tackle financial exclusion run by not-for-profit organizations (often with financial support from or in partnership with commercial banks). These are too numerous to list, but a good example would be SAFE (Services Against Financial Exclusion) run by Toynbee Hall in London. In addition, many local governments are involved in local initiative. Financial Inclusion Newcastle Ltd - run by the City Council is a good example.			

Q13 **Development of new products and services by mainstream providers**

Country	**Year of first introduction**	**Name**	**Main provisions**	**Other notes and criticism**
UK	2002	Basic bank accounts	Some banks had begun to develop a simple bank account that could not be overdrawn and had without Government intervention. The Government then issued an ultimatum and all major banks had to offer a basic bank account from October 2002	All banks have complied but few offer the ideal package of features: accounts that cannot be overdrawn, offer a debit card where transactions are checked before they are processed and where there is a small 'buffer zone' (about €15) that allows someone to withdraw money from an ATM without incurring a charge if the minimum amount that can be withdrawn is greater than the amount they have in their account. We have also yet to get the banks to agree to set up a bill-payment facility that is more appropriate than direct debits (that lead to default charges if there is insufficient in the account)
UK	2006	Christmas savings clubs	In response to the recent bankruptcy of the largest of these companies, as noted above, some building societies (mutual savings and home loans banks) also now offer savings clubs that work in the same way as the hamper clubs except that people get interest on their savings and get the money in cash just before Christmas.	
UK		Bank finance for not-for-profit lenders	Some banks have given considerable financial support to credit unions and CDFIs to allow them to extend their services. Building societies have set up partnerships with housing associations offering savings and loans clubs as described above. Barclays Bank has sponsored the introduction of PEARLS into credit unions. Co-operative Bank has supported the development of basic bank accounts for credit unions and	A working party comprising bankers and members of the Government's Financial Inclusion Taskforce was set up in May 2007 to explore how banks can assist third sector lenders though cash and expertise. It has to report to Parliament in October 2006

			provides the banking infrastructure for them.	
UK		Bill-payment services	Two banks (Bank of Scotland and Woolwich) experimented with bill-payment services designed for people on low incomes. These involved regular payments into a bill-payment account, from which bills were managed by the bank.	Neither scheme still exists but they did allow people to make weekly payments into the account, while bills were paid monthly by standing order. A small fee was charged but this was much less than the cash savings for paying bills by direct debit. Of the two the Bank of Scotland scheme was best suited to people's needs. It did not survive a bank merger
UK		Saving Gateway	Halifax Bank ran all the accounts of two pilot schemes of the Saving Gateway – a matched savings scheme for people on low incomes. It was not paid for doing this even though it involved manual systems, as the account was only available through a very small number of branches.	
UK	In addition banks often work in partnership with, or provide finance to local not-for-profit bodies to tackle financial exclusion. Good examples would be the Bank of Scotland Wester Hailes Community Banking Partnership and the Community Banking Partnership pilots being set up in England.			

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Q14 Voluntary charters and codes of practice

Country	Year of first introduction	Name	Main provisions	Other notes and criticism
UK	2001 and subsequent editions in 2003 and 2005	Banking Code (and related monitoring initiatives)	The 2005 edition of the Code states that: Paragraph 3.1. "*We will assess whether your needs are suited to a basic bank account (if we offer one) and if they are we will offer you this product*"; also, "*We will offer you a basic bank account if you specifically ask, and meet the qualifying conditions for one*". Paragraph, 3.2. "*Where we offer basic bank accounts, we will tell you if they can be used at post office*". Furthermore, a clear definition of a basic bank account is provided in the Glossary: *"A basic bank account will normally have the following features:* - *Employers can pay income directly into the account.* - *The Government can pay pensions, tax credits and benefits directly into the account.* - *Cheques and cash can be paid into the account.* - *Bills can be paid by direct debit, by transferring money to another account or by payment to a linked account.* - *Cash can be withdrawn at cash machines.* - *There is no overdraft facility.* - *The last penny in the account can be withdrawn".* It should be noted that the guidance for subscribers to the Banking Code specifies that, if the customer has a history of fraud or unpaid debt, a subscriber is not bound to open an account, and also that "*if the customer already holds a suitable account with the bank, a subscriber is not bound to open a basic bank account*".	Note that banking practice is not fully regulated by the Financial Services Authority but is derogated to the Banking Code. Compliance with the Code is monitored by an independent body – the Banking Code Standards Board (BCSB). The BCSB has carried out four mystery shopping exercises to see whether banks are complying with the requirement to make a basic bank account available to anyone who needs one. These have shown a steady improvement, with all banks now having adequate systems in place. Any failures of compliance are attributed to individuals in branches not to systemic failures. We expect the current provisions to be tightened still further following the independent review of the Banking Code that is currently underway. This is likely to focus on the availability of basic bank accounts for people facing financial difficulty

UK		Finance and Leasing Code	This Code covers many sub-prime lenders and includes detailed sections on responsible lending and dealing with customers in financial difficulty	Unlike the Banking Code this does not have an independent body that routinely monitors compliance. It does however, have an independent committee that considers complaints
UK			There are a number of other Codes of Practice covering doorstep money lenders, pawnbroking and payday lending, but these are not as extensive as the two above.	

ANNEX 3 - Q.15.,16.,17.: GOVERNMENT RESPONSE FOR FINANCIAL INCLUSION

Q15 Government policy

Country	Name of the Initiative	Main provisions	Other notes
UK	Policy Action Team (PAT) 14	Almost as soon as it came into office in 1997, the New Labour Government was committed to tackling financial exclusion as a part of its wider policy to tackle social exclusion and inequality. This lead to the establishment of a series of independent Policy Action Teams, one of which specifically addressed the issue of access to financial services and was led by HM Treasury. This reported in 1999 and, among other things recommended the introduction of a basic bank account across the banking sector. It also made recommendations on the provision of home contents insurance and the development of credit unions.	This provided a blue-print for the basic bank account and was very important in encouraging banks to develop the product.
UK	Financial Inclusion Strategy	Following PAT14, the Government set out its strategy to tackle financial exclusion in 'Promoting financial inclusion', published alongside the 2004 Pre-Budget Report. The report sets out a range of measures – in three priority areas – access to banking, access to affordable credit, and access to free face-to-face money advice for people who are financially excluded. A Financial Inclusion Task Force was set up to monitor developments (see below) and a Financial Inclusion Fund of £120 million (€170 million) established to support the development of affordable credit and debt advice for people who are financially excluded (see below under Government as facilitator). This was later widened, at the request of the Taskforce, to include tackling the lack of demand for fiancial services among the excluded. Statements on financial inclusion are included in the Chancellor's annual Pre-Budget Report to Parliament. In March 2007, the Government published *Financial Inclusion: The Way Forward*, re-stated the Government's commitment to promoting financial inclusion and set out its plans for the period from 2008 to 2011. This included extending the life of the Taskforce and a commitment to allocate at least as much again to the Financial Inclusion Fund to allow it to be extended to 2011. It widened the priority areas from the original three to include savings and insurance and incorporated tackling demand as a core objective. It also widened the remit on banking – originally to halve the number of people without a bank account to include enabling people to make effective use of their bank accounts and ensuring accessibility to banking services. It included an announcement that a pilot scheme to tackle illegal lending would be rolled out to every region of the country.	

		Finally, it included an announcement that a ministerial working group would be set up' to evaluate the policy options in the light of emerging evidence from new and ongoing initiatives.' This will be chaired by a Treasury minister and include ministers from the Department for Work and Pensions, Department of Trade and Industry and the Ministry of Justice. Subsequently, it was announced that a new working group would be established of bankers and members of the Financial Inclusion Taskforce to explore ways that banks could provide greater support to stimulate development of third sector lenders. This working party was established in May 2007 and must report to Government in October 2007.	
UK – England and Wales	Financial Inclusion Taskforce	The Financial Inclusion Taskforce was formally set up in February 2005 to monitor progress on the objectives the Government has set out and will make recommendations on what more needs to be done. Originally set up for just two years, as noted above it has been announced that the taskforce will continue its work until 2011. It had an initial budget of £3 million, much of which it has spent on research to improve knowledge of financial exclusion issues, including engagement with banking; problems of access to credit; a baseline survey of debt advice and barriers to the use of financial services . This will be increased in line with the life of the taskforce. The Taskforce is serviced by a small team of civil servants in the Treasury.	Note there is no comparable body for either Scotland or Northern Ireland
UK - Scotland	Financial Inclusion Action Plan	The Scottish Executive (the devolved government in Scotland) produced a Financial Inclusion Action Plan in 2005 as part of their approach to tackling poverty. On the whole this mirrors the objectives of the UK financial inclusion strategy. A Scottish Financial Inclusion Forum assists with the delivery of this action plan and meets annually. There is a separate financial inclusion fund for Scotland (£10 million - €14 million) (see below under Government as facilitator). Financial inclusion work is undertaken by a small team of civil servants in the Social Inclusion Division of the Scottish Executive.	

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Government intervention (as facilitator) IN CHRONOLOGICAL ORDER

Country	**Name of the Initiative**	**Main provisions**	Other notes
UK	Promotion of basic bank accounts	This was followed by an ultimatum delivered by the Chancellor (finance minister) that all the major banks should have a basic bank account by October 2002.	All met the ultimatum. There were no sanctions for failing to comply, although banks understood clearly that this was a requirement if banking was not to be fully regulated
UK	Universal Banking Services	At the same time the Universal Bank was established by the joint action of three partners: the Treasury, the Post Office and the banks. The Universal Bank has a number of components. First, all holders of a basic bank account with a major bank can use local post offices, (which are often seen as more welcoming than banks by people who are excluded) for routine bank transactions such as withdrawals and cheque cashing, at no additional cost. Secondly, the Post Office itself developed the Post Office Card Account – a stored value card into which social security benefits and pensions can be paid by the State and withdrawn by beneficiaries, but offers no other banking functionality. It, therefore offers nothing that can't be obtained by opening a basic bank account –and does little to promote financial inclusion. Banks were required to meet the cost of setting up the POCA. The current POCA contract comes to an end in 2010 and discussions are currently taking place on its successor. The third element is the arrangement between a small number of banks and the Post Office that all their current account-holders can use local post offices for transaction banking.	The motives behind this were muddled. They included providing easy physical access to banking for the unbanked; and protecting the income of Post Offices who would lose income when benefits and pensions were paid directly into an account. The POCA has been taken up by large numbers of pensioners most of who have bank accounts that they use for other purposes. Its role in tackling financial exclusion is, therefore, in doubt.
UK	Payment of benefits and pensions into bank accounts	An important spur to account ownership amongst the unbanked was the Government 's decision to pay all social security, benefits and state pensions in Britain direct to beneficiaries' accounts since the Spring of 2003. A parallel decision was made in Northern Ireland	This always had two motives: achieving financial inclusion and cost-saving for the Government. NOTE The effects of the three initiatives listed here are being monitored by the Taskforce. Together they reduced the number of people living in a household without a bank

			account by 50% between 2002/3 and 2005/6.
UK	'Now lets talk money' campaign	This is a campaign – initiated by the Financial Inclusion Taskforce and funded from the Financial Inclusion Fund – to promote the use of financial services by people who are excluded altogether or make little use of financial services. It is operated in partnership with intermediary organisations that work with people who are likely to be financially excluded with the aim of encouraging the take-up and effective use of bank accounts and increase awareness of sources of affordable credit.	
UK– England and Wales	Financial Inclusion Fund	The Financial Inclusion Fund of £120 million (€170 million) over three years was announced in the 2004 Pre-Budget Report in December 2004. The Fund is supporting support initiatives to tackle financial exclusion: • £45million (€63 million) is allocated to support an increase in provision of face-to-face money advice for people who are financially excluded and is being administered by the Department of Trade and Industry. Funding commenced in April 2006 and more than 500 new money advisers have been recruited and trained. • £6 million (€8.5 million) was allocated to the Legal Services Commission to pilot mechanisms of **money advice outreach** aimed at those who do not normally present themselves to debt advisers • £36 million (€50 million) is allocated to a Growth Fund to enhance the coverage, capacity and sustainability of third sector lenders. This fund is being administered by the Department of Work and Pensions. In addition money has also been allocated to • a scheme to enable third sector lenders to apply for repayment by deduction from benefit where normal repayment arrangements have broken down. • a promotion campaign, run in conjunction with local organisations to raise levels of demand for appropriate financial services • raise skills levels in third sector lenders.	Note: This covers England and Wales only. See below for Scotland. There is no comparable fund in Northern Ireland, although it should be noted that credit unions are far more widely available there. All three major initiatives (2 debt advice and third sector lenders) are being monitored closely and evaluated. It is too early for any findings.
UK - Scotland	Financial inclusion funding	A total of £10 million (€14 million) was allocated to support the implementation of the Scottish financial inclusion action plan over the two financial years 2006/7 and 2007/8. This is in addition to existing funding from the Scottish Executive for money advice (£6 million - €8.5 million – per annum) and for credit unions (£1.1 million - €1.5 million).	
UK	Saving Gateway	This is a matched savings scheme targeted on people with low incomes – with the Government matching the savings made by participants. Two pilots have been conducted and an announcement made in May 2007 that the scheme will be rolled out	Both pilots have been fully evaluated (Kempson et al, 2005; Harvey et al, 2007)

		nationally. From the initial announcement it seems likely that the design of the national scheme will be modeled on the first pilot – although the matching is likely to be 50 cents for every €1 saved. Details will be announced in the 2007 Pre-Budget Report, following a period of consultation. Accounts were managed by a commercial bank – Halifax Bank of Scotland and the scheme promoted by local community organisations, who also offered financial advice on request.	
UK	Social Fund	The Social Fund offers interest free loans to people claiming social assistance (Income Support , income-based Jobseekers Allowance or pensioners receiving the minimum income). It is operated by the Department for Work and Pensions, which administers social assistance payments. There are no restrictions on how the money is spent by individuals, although there are controls on how much money an individual can borrow. Repayments are deducted from benefits before they are paid. Over 1 million loans are made each year.	This has had a controversial history, and the scheme has been revised following criticisms. The effect of the changes have been evaluated and the scheme seems to be working far better. There has been a major injection of funds but demand still exceeds the funds available.
UK	Child Trust Fund	This is an initiative to tackle wealth inequality and encourage saving by parents and children. From September 2002, every child born in the UK receives vouchers for£250 (€350) which can only be paid into a special Child Trust Fund. A further £250 will be paid when the child is aged seven. Children in low income families receive double these amounts. Parents and others can add money to their child's account, but no money can be withdrawn until the child is 18. There is no tax on any interest or capital gain.	The initial impact has been evaluated and a baseline survey of saving for and by children undertaken against which the impact of the CTF can be assessed (Kempson, et al 2006)
UK	Illegal lending	A pilot scheme was run in two parts of the UK (Glasgow and Birmingham) with finance from central Government to mount an initiative to identify and prosecute illegal lenders. An evaluation showed that this was an effective use of resources (Ellison et al, 2007) and it was announced in *Financial Inclusion: the way forward* in May 2007 that funding will be made available to roll the initiative out to all regions of the UK.	Again this has been evaluated (Ellison et al, 2007)

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Government intervention (as legislator)

Country	References	Main provisions	Further details	Further provisions Elements to be analysed in order to identifying the Costs and Benefits
UK	Note, that on the whole, the UK Government has decided to work in partnership with commercial financial service providers not to legislate.			
UK	Consumer Credit Act 2005	Major revision to consumer credit legislation. The two key provisions from a financial inclusion perspective are: 1. the widening of the definition of 'extortionate credit' to include terms and conditions not just price. 2. bringing credit transactions under the remit of the Financial Ombudsman Service, rather than relying only on the courts to consider unfair agreements.		
UK	Financial Services and Markets Act 2000	This brought credit unions under full regulation by the Financial Services Authority (the main regulator) from 2002 and also means that deposits in credit unions are now also protected by the Financial Services Compensation Scheme		
UK	Regulatory Reform (Credit Unions) Order 2003	The key provision (among others) was to give greater flexibility on common bond requirements.	This order is made under the Credit Unions Act 1979	
UK	Credit Unions (maximum Interest Rate on Loans) Order 2006	This increased the maximum interest that can be charged for a credit union loan from 1% per month to 2% on a reducing balance.	This order is made under the Credit Unions Act 1979	

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