

# Understanding financial inclusion

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# What is financial exclusion?

A dynamic process whereby people encounter difficulties:

- accessing and/or using
- financial services and products
- in the mainstream market
- that are appropriate to their needs and
- enable them to lead a normal social life in the society to which they belong

Generally considered to cover four key areas:

- Transaction banking
- Credit
- Savings
- Insurance – and home contents/buildings insurance in particular

Does it matter?



# The consequences for people affected

- **Banking**

- Paying bills costs more
- Difficulty cashing cheques
- May be unable to take a job
- Can't make phone or internet purchases

- **Credit**

- Higher-cost alternative market
- Go without > social exclusion
- Default on bills
- Use illegal (unlicensed) lenders

## The consequences ctd

- **Savings**
  - No means of dealing with financial shocks
  - Cash at home, vulnerable to theft
- **Insurance**
  - No cover if burgled, fire or flood
  - Often have to use high cost credit, go without etc

# How many people are affected in Ireland?

- 23% of *households* no transaction bank account (1999  
(2004/2005 Irish Household Budget Survey))
- 28% of *individuals*  
(2003 market research for Irish Bankers Federation)
- 10-11% of *individuals* no bank account of any kind  
(2003 Financial Regulator Consumer Survey and 2006 survey  
for IPSO)

# How does Ireland compare with rest of Europe?

	<b>Financially excluded</b>	<b>Transaction banking</b>	<b>Revolving credit</b>	<b>Savings</b>
	%	%	%	%
<i>EU15</i>	7	18	40	30
Netherlands	1	2	21	28
UK	6	15	30	22
<b>Ireland</b>	<b>12</b>	<b>41</b>	<b>51</b>	<b>21</b>
Greece	28	78	76	41

## Who is affected?

- Strong link with low income
  - unemployed people
  - lone parents
  - people unable to work through disability
  - low-waged / insecure work
- Links with age
  - youngest, and oldest
- Migrants, ethnic minorities
- Not just who you are but where you live

# What influences the level of financial exclusion?

- Societal factors
- Supply factors and
- Demand factors

## Societal factors

- Liberalisation of financial markets (*access*)
- Money laundering rules/Identity checks (*access*)
- Prosperity & income inequalities (*access; use*)
- Labour market changes (*access*)
- How wages and benefits are paid (*access; use*)
- Demographic changes (*access; use*)

# Supply factors

- Geographical access (*access*)
- Risk assessment (*access*)
- Price (*access; use*)
- Product design & terms and conditions (*access; use*)
- Service delivery (eg internet) (*access; use*)
- Complexity of choice (*access*)
- Marketing (*access*)

## Demand factors

- Belief that financial services are not for poor (*access*)
- Fear of loss of financial control (*access*)
- Mistrust of providers (*access*)
- Concern about costs (*access; use*)
- Preference for alternative providers & cultural factors (*access*)
- Religion (*access*)
- Opposition to use (*access*)

# How has financial inclusion been promoted? Banking

- Need simple, low-cost transaction accounts
- With linked method of bill-payment
- Developed by commercial (plc) banks, and
- Savings banks, co-operative banks, credit unions
- Underpinned by legislation in some countries
- Self-regulation in others
- Compliance monitoring is key

# How has financial inclusion been promoted?

## Credit

- Easy access, low-cost credit
- Small sums for short durations
- Partnerships
- Need to move towards sustainability
- So tackle illegal lending
- Special schemes for vulnerable people

# How has financial inclusion been promoted? Savings and Insurance

- Savings
  - Matched savings schemes
- Insurance
  - Insurance-with rent schemes
- Partnerships important

## Also need to tackle demand-side factors

- UK
  - *Now let's talk money* campaign
  - Save for Christmas
  - Proposed local champions

## But takes more than isolated developments

### Two models for promoting financial inclusion

- Obligation placed on network of providers with a social mission (eg German savings banks, French Post Office)
- Government-led financial inclusion policy, based on partnerships (eg UK, Netherlands)

# Financial inclusion in the UK: Policy development

- 1999: Policy Action Team report *Access to financial services* published
- 2004: *Promoting financial inclusion*
  - 2005: Financial Inclusion Taskforce set up
  - £120 million for 2005-8 (banking credit, debt advice)
- 2007: *Financial inclusion: the way forward*
  - £130 million for 2008-11 (savings and insurance added in 2008)

## Access to banking

- ‘Shared goal’ between government and banks to promote banking inclusion
- Basic bank accounts
  - Banking Code commitment & monitoring
- Universal banking through Post Office
- Direct payment of benefits
- Credit union transaction bank accounts
  
- Taskforce focus now on use

## Affordable credit

- Growth Fund for third sector lenders
- Taskforce research to identify areas of high need
- Credit working party
  - Banks invited to support widening access
- Tackling illegal lenders
  - promoting links with third sector lenders and debt advice

## Money advice

- Significant injection of government funding for face-to-face debt advice
- Pilot programme to test outreach delivery models

## Stimulating demand

- *Now let's talk money* campaign (£1m)
- Planned consumer champions (£12m)

# Key features of UK financial inclusion policy

- Well-established aspect of policy
- Broad-based
- Partnership approach (private and NfP sectors)
- Led and co-ordinated by central government
- Monitored and advised by independent Taskforce