School of Social Policy
Birmingham Business School

CHASM
Centre on Household Assets and Savings Management

Annual Report July 2014

UNIVERSITY OF BIRMINGHAM

Foreword

Sir Brian Pomeroy, Chair of CHASM Advisory Board

No one reading this year's Annual Report could doubt that CHASM is addressing some of the most pressing and relevant questions facing policy makers today in the field of personal finance. Whether it is the topical and worrying growth of payday lending; the way in which we want to see organisational culture and ethical behaviour develop on our financial institutions; or the continued pursuit of financial inclusion, CHASM continues to explore important issues that ultimately have a direct bearing on people's well-being - and particularly on that of vulnerable and disadvantaged groups.

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Introduction

CHASM was launched in 2010 as the first university-based, interdisciplinary research centre to focus on: financial security; financial capability; financial inclusion; and wealth taxation. We aim to:

- Carry out cutting edge, rigorous, relevant, innovative and timely research projects and PhD research
- Engage stakeholders from different sectors
- Create an international research and policy network
- Contribute to teaching specialist modules

Karen Rowlingson, Director of CHASM

This year, we have seen the publication of two major reports. Our Policy Commission on the Distribution of Wealth launched its final report, *Sharing our good fortune: understanding and responding to wealth inequality,* in October 2013 at a public meeting in Westminster. We also published our first *Annual monitoring report on financial inclusion*, funded by the Friends Provident Foundation. Our international links have also grown this year, with INRAP (the International Network for Research on Asset Policies) launched this year and a major event held in Brussels in November 2013 on asset-based welfare in Europe, including a meeting with the Director General of Social Protection in the European Commission. We also hosted an international workshop on financial education in May 2013, attended by participants from Germany, Finland, Switzerland and the US as well as representations from the OECD, Money Advice Service, Personal Finance Education Group and OFSTED.

We have undergone a number of staff changes this year, with the appointment of two Research Fellows, Jodi Gardner and Jessie Sim, as maternity cover for Lindsey Appleyard. We have also appointed our first cohort of paid undergraduate interns.

There are many people to thank for their contributions to CHASM's work but I would particularly like to thank Andrew Fisher for his continued financial support of CHASM which has helped fund much staff time and many activities, including our international work.

This report provides further details of all our work this year.

Policy Commission on the Distribution of Wealth

Bishop of Birmingham, David Urquhart

Our Policy Commission on the Distribution of Wealth, chaired by the Bishop of Birmingham (pictured) had three main aims: to review existing knowledge on wealth inequality; to question the extent to which wealth inequality is a problem; and to consider appropriate policy responses to wealth inequality. A broader aim of the Commission was to promote debate around the issue of wealth inequality. It launched its final report, Sharing our good fortune: understanding and responding to wealth inequality, in October 2013 at a public meeting in Westminster. This article summarises the key findings from the report.

> ***The broad aim of the Commission was to promote debate around the issue of wealth inequality***

The extent of wealth inequality and gaps in knowledge

The distribution of personal wealth is highly unequal with the overall share of the top tenth of the population in 2008/10 being more than 850 times the share of the bottom tenth. Wealth inequalities occur through a number of mechanisms. Some people have higher incomes than others and so have the opportunity to accumulate more wealth. Some people have similar amounts of income but choose to accumulate wealth rather than spend. Some people have wealthy parents and receive higher levels of inheritance/lifetime gifts. And some people have the wisdom or good luck to invest in housing and financial assets just before they increase substantially in value. We may wish to treat these different forms of wealth accumulation differently when designing policy instruments.

There are many gaps in our knowledge about wealth inequality. Some of these are empirical: for example we know very little about the 'super rich' as the Office for National Statistics no longer publishes data on this group using the estate multiplier method. And international, comparative data is still rather limited. But there are also gaps in our theorising around wealth: What is wealth? How might we distinguish between groups with different levels of wealth? And why does it matter?

Does wealth (inequality) matter?

Personal wealth has become increasingly important in recent years and will continue to do so as unemployment remains high and average incomes have stagnated, if not fallen, while prices have risen. Precautionary savings are therefore particularly important as a financial cushion to meet unexpected expenses and yet many people lack even a small cushion of this kind.

> ***Precautionary savings are particularly important … yet many people lack even a small cushion of this kind***

The Commission's review of the evidence found that wealth affects people in a number of ways including their health, their education and employment opportunities. The impact of wealth inequality on society and politics more generally is difficult to pin down as accurately as the impact on individuals. But it has been argued that the wealthy become insulated from the lives of others leading to social fractures. The ability of the wealthy to gain greater influence in the corridors of power is also a potential threat to democratic processes. Wealth and income inequality is sometimes defended as being important in relation to economic growth as the opportunity to accumulate high levels of income and wealth might provide incentives for entrepreneurship or high levels of effort and performance. But there is a lack of strong evidence for this.

The Commission's report concentrated on three groups: those with very little, no or negative wealth; those 'in the middle' with some assets; and those at 'the top'.

Those with very little, no or negative wealth

For those with very little, no or negative wealth, levels of problem debt have been increasing in recent years and look set to increase still further (see article on financial inclusion later in this report). Debt advice is crucial here but there has been a reduction in funding for some forms of debt advice (for example through Law Centres). Continued, and indeed increasing, support for debt advice is essential to support people, particularly through this continuing time of austerity.

> ***The government obliged the FCA to place a cap on the cost of payday lending***

As far as savings are concerned, people on low incomes receive much less support than those on middle and high incomes. For example, those who are below the income tax thresholds do not benefit from tax-free savings products like ISAs. And higher rate tax payers benefit more than standard rate tax payers. The Saving Gateway was a policy designed to provide incentives/rewards to those on low incomes who nevertheless managed to save by providing a match (50p for every pound saved up to a threshold). Further thought needs to be given to how such a scheme can be funded. Other ways of encouraging saving should also be considered including auto-enrolment into savings accounts when people start a new job and 'save the change' savings accounts linked to credit and debit cards. Means tests on savings for workers receiving Universal Credit should also be reviewed as a possible disincentive to save for such groups. Credit Unions are, potentially, an ideal vehicle for supporting people to save but need further support to do this.

The report also called for the introduction of an organisation which solely represents the interests of savers. This is something which could be established using the fees which savers currently pay to the financial services industry and which are currently used to fund trade bodies and regulators.

Those 'in the middle' of the wealth distribution

Those 'in the middle' of the wealth distribution tend to have some housing and pension wealth or the ability to accumulate some. But there are a number of issues facing these groups, not least the ability of younger people to get a foot on the housing ladder and the ability of older people to access some of their wealth to maintain or increase their living standards, particularly in retirement. The government's 'Help to Buy' Scheme does, more recently, appear to have helped here with mortgage lending increasing. However, there is concern that this scheme props up the relatively high house prices which are also part of the problem. Prices, ideally, need to come down, not least by increasing supply. But those with housing wealth will not be enthusiastic about such policies.

For those who have accumulated housing wealth, often as the centrepiece of their wealth portfolio, ways of helping them access their equity safely (without adding to unsustainable debts) and cost-effectively (especially in older age) should also be explored. There is much interest in equity release among consumers and the financial services industry but very few people actually take advantage of such mechanisms, possibly due to the costs and risks involved in such products (on both sides). Some ways to share the risks, perhaps involving government, might be helpful here.

Government support for mortgage lending props up the relatively high house prices which are also part of the problem

Pensions are vital to provide decent incomes in later life. In recent decades, government have encouraged private pension provision rather than reliance on state pensions but this strategy has not, so far, proved successful and inequalities in private pension provision are significant. The decline of Defined Benefit pension schemes in favour of Defined Contribution schemes is a particular concern here as savers have little idea of how much money they will receive in retirement. Development of Defined Ambition schemes, which share the risk between saver, employer (and potentially state) could help. Auto-enrolment into workplace pensions appears to be working well in terms of low opt out rates and this policy, alongside the single tier pension, has the potential to increase living standards in retirement as the population ages. But savers will need to save more than the default rate in order to reach the kind of income levels in retirement that most people aspire to.

Those at the top

This Commission focused on wealth but a key way in which wealth is accumulated, is through saving from earned income. Over the last 30 years income inequality has grown dramatically and those at the very top of the income distribution have seen huge increases in their incomes which have subsequently fed through into wealth inequalities. These increases have occurred when average earnings have decreased and those on high incomes are also much more likely to receive an inheritance and/or lifetime gift and much more likely to receive one of high value.

Over the last 30 years income inequality has grown dramatically

The 2013 Parliamentary Commission on Banking Standards has proposed 'a radical re-shaping of remuneration' in the finance sector and, more broadly, the UK is giving shareholders a binding say on pay policy and the powers to consider the differentials between the lowest and median paid workers but greater transparency and power for shareholders is vital to ensuring fairer rewards for work. Ensuring fair rewards for work, not just at 'the top' but also for those on lower wages will create a fair distribution of 'original income' thus reducing any need for redistribution. Differential taxation on bonuses beyond the banking sector could be worth further investigation.

There is often great disagreement about the overall level of income and wealth taxation but, whatever the level, there is then a question about the balance between these two types of taxation (and the balance between these and other forms of taxation). The Mirrlees Review called for a range of reforms of wealth taxation and these should be considered by the government.

Reform of wealth taxation should be considered by the government

The UK does not currently have an annual wealth tax but council tax plays part of a role here. This tax is over-ripe for reform either whole-sale or through incremental change (for example the introduction of new bands at the top). The scope for a mansion tax and a land tax also needs more public consideration.

If earned wealth is generally considered more worthy than unearned wealth then reform of inheritance tax should be seriously reviewed. Turning this into a capital receipts tax rather than an estate tax, and capturing lifetime gifts in a more comprehensive way would make this a fairer tax though the practical and political challenges should not be underestimated. Further study of Ireland's tax system in this regard could be very fruitful. Further reform of Capital Gains Tax (CGT) is also called for, potentially including a return to its application at marginal rates of income to reflect its nature as an alternative form of income that is available to those with assets to call on when needed. Alongside wealth taxation, the wealthy could be encouraged to make increased charitable donations. One way of achieving this could be through further tax incentives but this runs the risk of encouraging tax avoidance.

A copy of the full report can be found on the CHASM webpage: http://www.birmingham.ac.uk/research/impact/policy-commissions/wealth/index.aspx

Personal Financial Planning Advice: Barriers to Access

John Moss, CHASM Doctoral Researcher

With the move towards a society where more responsibility has been placed upon the individual to make financial provision for future events, comes the need for individuals to be able to interact with the financial services sector and make informed decisions regarding their financial choices. This was the subject of John Moss's PhD research which focused on the barriers that influence why and how consumers access advice from Regulated Financial Advisers (RFAs). RFAs are advisers regulated by the Financial Conduct Authority to provide advice regarding investments and pensions, which may also extend to life assurance, income protection, mortgages, equity release and long term care insurance. Advisers may be independent, where they offer products from the 'whole of market' or restricted, where the product provider choice is more limited. The research investigated the barriers to consumers accessing appropriate sources of regulated financial advice. It started as the Money Advice Service (MAS) was launched and whilst the research was being carried out, the Retail Distribution Review (RDR) was implemented. Both these policy initiatives were designed to help improve consumer engagement with financial services.

Individuals need to be able to make informed decisions regarding their financial choices

The research used a mixed methods approach, surveying 201 consumers and then interviewing, in depth, 21 of the consumers from the middle income quartiles to explore further the emergent themes from the survey. The research also involved interviews with 8 regulated financial advisers. The study identified three key factors that affect the consumer's ability to access regulated financial advice;

- Knowledge
- Trust
- Affordability and Cost

The first factor, knowledge, can be divided in to three sub-themes, with the first of these being 'knowledge of need'. This concerns consumers' understandings of the financial risks they face. The baseline survey (FSA, 2006) had highlighted low financial capability, particularly with respect to planning ahead and from this research it was clear that many interviewees had simply never considered how they would cope if these risks came to fruition.
The second knowledge sub-theme was 'knowledge of available services'. This concerns how much the consumers know about the services advisers offer and how these services may help them to identify and address needs and potential risks.
In part the current regulatory regime, where advice relating to different product areas is regulated under different layers of the advice regime, resulting in different advisers, on occasions, having different regulatory 'permissions', is confusing for the consumer. This in itself may sometimes lead to mis-trust when advice processes are interpreted as a 'sales agenda'. The third sub-theme was the consumer's ability to 'find an adviser'. Although, it appeared that often when consumers needed the services of an adviser they managed to find one, it was the way they did this that incorporated some inherent risks. Personal referral was the most common method.

Consumers are keen for advice to be regulated so they had some form of protection against an industry they did not generally trust

The second key factor identified by this research was trust. This highlighted the differences between the concepts of 'general trust' and 'individual trust', suggesting that consumers are keen for advice to be regulated so they had some form of protection against an industry they did not generally trust (general trust). However, individual trust in the advisers the interviewees had used was generally high, although this raised the question of how they made the decision to trust a particular adviser. It appears that often consumers establish trust based on whether they like the adviser rather than attempting to apply some form of critical trust to judge the adviser's skills. As it is common practice to find an adviser by referral, where there appears to be a 'transference of trust' from the introducer, it raises the question as to whether this trust heuristic is always a benefit to consumers.

Finally, affordability/cost was an important factor. Within this there are sub-themes that consider affordability, willingness to pay for advice (a significant factor given the changes resulting from the RDR) and the consumer's appreciation of the value of advice. This highlighted the point that the regulated sector may no longer be able to serve the mass-market and that a simplified service may be required to fill this gap.

This research has highlighted that advice is still considered by most as the route to a product rather than a means of identifying and addressing risks. If the latter were considered as the 'subjective norm' then use of advice may be more widespread. Part of the solution to this problem could be that a higher profile is required for the MAS which as both an independent signposting and generic advice service can complement the regulated advice sector whilst retaining its focus on having consumers' interests at heart. Unfortunately, to date, MAS has not managed via its 'financial health-check' to motivate consumers to address the higher level risks and needs associated with planning for the future.

Finally, this research asks the question as to whether the consumer is often overwhelmed by the extent of the provision they are required to make to shape their financial future. It therefore begs the question as to whether the degree to which the welfare state has already been rolled back has resulted in financial planning issues beyond the capabilities of most consumers.

John Moss successfully passed his Viva in April 2014 and was supervised by Karen Rowlingson and Andy Lymer.

FSA (2006) Levels of Financial Capability in UK: results of a baseline survey. Prepared for the FSA by the Personal Finance Research Centre. University of Bristol.

Monitoring Financial Inclusion

Stephen McKay, CHASM Associate Member

Financial inclusion first emerged on the policy scene under the New Labour government from 1997 onwards. In particular, the Financial Inclusion Taskforce (from 2005-2011) placed the issue of financial inclusion high on the public and policy agenda. But the success of policies to tackle financial exclusion is currently at great risk of being reversed as the current economic situation is placing huge pressures on household budgets. This project, funded by the Friends Provident Foundation, is monitoring the level of financial inclusion from 2013-2017.

Policies introduced to tackle financial exclusion is currently at great risk of being reversed

In our research we see financial inclusion as having three key components. The first is for people to have a secure income which meets a minimum standard. The second key component to financial inclusion, and the one given greatest attention in debates on this topic, including in our work, is the availability of appropriate and well-regulated financial services, particularly transactional bank accounts, savings accounts, affordable credit and insurance products. Finally, a financially inclusive society would be one with easy access to free and appropriate advice and education, particularly for those with debt problems.

Income levels and security

The recent recession has had a major impact on rates of unemployment. At the beginning of 2007, there were about 1.5 million people unemployed. In the space of just over a year later another million people had joined the ranks of the unemployed and unemployment has remained at about 2.5 million ever since. More than 3 million workers are now defined as 'underemployed' and around 1.4 million had 'zero hours contracts' in January 2014.

More than 3 million workers are now 'underemployed'

Means-tested benefits for single people out of work in 2014 gave them only 39 per cent of the income they would need to have an acceptable standard of living. A couple with two children had only 57 per cent of what they would need and a lone parent with one child only 57 per cent. The percentages for all groups had been declining from 2008 to 2011 but these benefits have, until now, been linked to inflation. The government's introduction of a benefit cap of 1 per cent on annual increases from 2013 will mean that even this basic protection no longer exists for those on the very lowest incomes.

In order to make ends meet, the majority of the population in 2014 (57 per cent) were cutting back on their spending and there has been a dramatic increase in the number of people turning to Trussell Trust food banks over the past few years – from 61,000 in 2010/11 to just under 1 million in 2013/14.

How are people feeling about their finances?

In 2011/12, 11 per cent of households were finding it either very or quite difficult to manage financially and a further 27 per cent were 'just about getting by' (a combined total of 38 per cent). These figures are substantially higher than in the early 2000s, when around 6 per cent of the population said they were finding it quite or very difficult to manage, financially and around 22 per cent were 'just about getting by' (a combined total of 28 per cent).

Many households find it difficult to manage financially

The key groups that were finding it difficult to manage were those on the lowest incomes. At least half of those in the bottom thirty per cent of the income distribution were finding it difficult to manage, financially, or were just about getting by in 2011/12.

Bank accounts

Overall, fewer people are without access to any kind of account in their household than ever before. In 2011/12 'only' 700,000 people lacked access, within their household, to any account. But if we focus solely on whether individual adults have accounts in their own names, then 1.87 million adults are, personally, unbanked.

Meeting one-off expenses

People have very little capacity to meet unexpected expenses, even relatively small ones. More than half of those in paid work in 2013 said they that did not have enough money put by for emergencies.

Savings

The Family Resources survey shows that just under half (45 per cent) of families had less than £1,500 in savings in 2010/11 and there has been very little change in these figures over the last 3 years. A further 28% had between £1,500 and £20,000 and one in five (20 per cent) had over £20,000.

Borrowing

The vast majority of total household borrowing/debt in 2008/10 (90 per cent) was property debt (ie mortgages), up 3.1 per cent on 2006/8. The median property debt, for those with any property debt was £75,000. About 10 per cent of all household borrowing is non-property debt, ie unsecured loans (up 10.3 per cent on 2006/8). The median amount, for those with any non-property debt, was £3,600 in 2010/12, up from £3,200 in 2008/10 and £2,900 in 2006/8. Non-property debt is a small proportion of total household debt in terms of the amount owed but it is actually more widespread than property debt, with 51 per cent of households having this form of debt compared with 37 per cent having property debt.

The most common sources of unsecured credit in 2008/9, according to YouGov, were credit cards (35 per cent of households), bank overdrafts (29 per cent) and personal loans (22 per cent). Non-mainstream sources (doorstep credit, payday loans and pawn-broking) were used by around 3 per cent of the sample.

There are some signs of increasing use of credit over the past 5-10 years or so but much of our data on this topic is inconsistent and so it is difficult to draw out key trends reliably.

Problem debt

Most people with unsecured loans find repayments manageable but nearly one in five, 18.0 per cent of individuals with this form of credit considered it a 'heavy burden' in 2008-10, up from 16.2% in 2006/8. Furthermore, about one in 12 of all households (8 per cent) were spending more than 30 per cent of their income on repayment of unsecured loans. Another type of 'problem debt' is falling behind with bills and almost one-tenth (9 per cent) of households were in 'structural' arrears (that is, more than three months behind with any payments) in 2008/9, according to a YouGov poll for the Business, Innovation and Skills department.

Once again, it is difficult to compare sources of data over time but there is some evidence of an increase between 2006 and 2008/9 in the proportion of households in 'structural arrears' (from 7 to 9 per cent of households) and in the proportion of households where repayments on unsecured borrowing are more than 25 per cent of income (from 3 to 8 per cent of households). In 2008/9, around 7 per cent of households had entered into one of the statutory or informal actions on debt (e.g. bankruptcy, IVA, DMP).

The number of mortgage (re-)possessions increased markedly from less than 10,000 in 2003 to a peak of just under 50,000 in 2009. But numbers have subsequently fallen to 34,000 in 2012. Evictions from rented properties (technically referred to as landlord possession) show a different trend with claims for possession reaching their lowest level around 2010, but having increased since then to around 10,000 in 2013. There has been a particular increase in evictions within the social housing sector, possibly due to the impact of the bedroom tax/under-occupancy penalty.

The full monitoring reports from 2013 and 2014, by Karen Rowlingson and Stephen McKay (pictured), can be found on the CHASM web pages: http://www.birmingham.ac.uk/research/activity/social-policy/CHASM/publications/index.aspx

Putting a cap on the cost of credit: lessons from Australia

Lindsey Appleyard and Jodi Gardner, CHASM Research Fellows

High-cost short-term credit (HCSTC) (defined by the Financial Conduct Authority (FCA) as loans of less than 12 months at an interest rate of over 100% APR) has received considerable media attention recently, particularly payday lending. In November 2013, the United Kingdom Government announced that the FCA will be legally required to implement a cap on the total cost of payday credit by early 2015. This came as a major surprise to many stakeholders in the field. Since that time, there have been a number of references, from government and non-government sources, to the system in Australia, not least its national interest rate cap, indicating that this could be a potential model for the FCA to follow. Unfortunately there has been no systematic investigation of this important issue. Our research, funded by the Arts and Humanities Research Council, aims to fill this gap by discussing what the UK can learn from Australia's new national cap on the cost of credit.

The UK's FCA will be legally required to implement a cap on the total cost of credit by early 2015

Australia's cost of credit cap

In July 2013, Australia implemented a national cap on the total amount of interest that can be charged by lenders. The new tiered cap introduced three different consumer credit definitions. Three key points are worth making here: loans with a length of 15 days or less are effectively banned under the new legislation; the tiered cap introduced an element of complexity to the market; and the APR can equate to (at least) 290% for small account credit contracts (SACCs).

Lessons from Australia

As yet there has been no systematic evaluation of the impact of the cap. Between November 2013 and January 2014, we carried out in-depth interviews with relevant stakeholders in Australia in order to provide some information about the early workings of the cap. These interviews included lenders, trade associations, consumer lawyers, consumer advocates, debt advisors and researchers. The interview process highlighted the mixed reactions to the tiered interest rate cap system. Whilst this type of research has limitations, until a detailed review of the interest rate regime is conducted, interviews are a highly useful way of gaining an insight into the market and the impact of these reforms, particularly on low income borrowers.

There has been no systematic evaluation of the impact of the cap in Australia

One feature of the new regime worth highlighting is that there is no requirement for lenders to disclose the APR or any other kind of comparison rate to borrowers (as there is in the UK). This is partly in response to the argument that APRs are not a useful mechanism for providing information on short term loans. While it is true that there are limitations with APRs, some other kind of price comparison would be helpful, such as the total cost of credit or pounds per hundred pounds lent.

Some interviewees, mainly from the debt advisor and researcher categories, believed that the cap is an effective way to price credit appropriately. There has however been criticism of the level of interest from both sides of the debate; with some consumer advocates/lawyers commenting it is still set too high and is therefore unaffordable for low-income borrowers, and some lenders/trade associations arguing it is too low for the time-consuming administrative burden for small amount lending, particularly in light of the new prescriptive responsible lending requirements. For example lenders are expected to check the last 90 days of bank statements of potential borrowers to ensure that loans are affordable. Trade associations report a significant decrease in the number of lenders providing this sort of credit though whether this is due to the cap itself or the responsible lending requirements (or a combination of the two) is unclear. This reduction in the availability of short-term loans is considered, by some, to be a desirable outcome and, in fact, is the aim of the legislation. It does however raise the potential issue of increased financial exclusion for consumers who cannot access mainstream credit – or a growth in illegal lending. The legal reforms have not been linked with an increased focus on the provision of alternative financial products, such as additional funding for Community Development Finance Institutions (CDFIs).

The new legal regime in Australia has also resulted in increased avoidance activity, as businesses attempt to find ways to lend above the statutory threshold. The government therefore has had to devote additional time and resources to stop lenders circumventing the cap. Avoidance activity is an unfortunate, but almost inevitable, consequence of a stricter legal framework and something that the UK should be prepared to tackle when it introduces its new cap.

When drawing lessons from Australia about the cap on the cost of credit it is important to bear in mind that Australia's regulation of this sector is rather different in many other important respects, including potential criminal prosecution for breaches of obligation. Australia also has a wide range of government and not-for-profit services that provide access to short-term loans or small grants. For example, Centrelink (the Australian social security provider) has a range of crisis payments and special benefits. People can also receive a lump sum advance of their benefits, which is then repaid by slightly reducing future benefit payments. In addition to this, Good Shepherd Microfinance has teamed up with the National Australia Bank to provide low income consumers in Australia with access to no- or low-interest loans. The program has provided loans to over 125,000 people who had previously been excluded from mainstream credit. This represents over 0.55% of the Australian population, which is a remarkable feat.

Australia provides a useful case study for the UK's approach to responsible lending and the regulation of high-interest, short-term loans

Australia provides a useful case study for the UK's approach to responsible lending and the regulation of high-interest, short-term loans. Despite the strong similarities in the two countries' legal regimes, the Australian approach to consumer credit and, in particular, the responsible lending obligations vary drastically from that of the UK. This paper has outlined what the UK can learn from Australia's treatment of these very important issues. It is clear that the Australian system has a lot to offer the UK, but it is important to be aware of the potential detrimental aspects of the regime and the impact of the different legal and social frameworks in which the laws are situated.

This research is part of a larger project on 'responsible lending and borrowing'. Interviews with stakeholders and borrowers have recently been completed by Lindsey Appleyard, Jodi Gardner (pictured) and Karen Rowlingson. These will be reported in more detail next year.

We have produced two briefing papers detailing the interest rate cap in Australia and the UK:

Gardner, J and Rowlingson, K (2014) Towards a 'cost of credit' cap in the UK: Lessons from Australia, CHASM briefing paper, http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/briefing-papers/2014/towards-a-cost-of-credit-cap-in-the-uk.pdf

Gardner, J. (2014) 'The challenges of regulating high-cost, short-term credit: A comparison of UK and Australian Approaches'. http://www.birmingham.ac.uk/schools/social-policy/departments/applied-social-studies/news-and-events/2014/04/challenges-of-regulating-high-cost-short-term-credit.aspx

Responsibilities, Ethics and the Financial Crisis

Tom Sorell and James Dempsey, CHASM Associate

As part of the AHRC funded FinCris project on responsibility, ethics and the financial crisis, Tom Sorell (pictured top left) has presented arguments in support of the claim that many senior leaders in financial institutions can - and should - be blamed for the financial crisis. The role that such institutions play in society means that their leaders hold semi-public roles, and corresponding obligations. Not only did they fail to fulfil these obligations, but in doing so they helped precipitate the crisis.

James Dempsey (pictured below left) has argued that many working for financial institutions, at all levels, may be held responsible. This is because a significant factor in the crisis was a culture that put bonuses and profit ahead of customers and good risk management - and this culture was only able to exist through the ongoing participation and support of financial sector employees.

In order to develop our detailed understanding of the crisis, and gain an inside perspective that may differ from published commentaries, we have also engaged a 'knowledge broker' who has helped arrange for us to talk to senior figures from across the financial sector. We began conducting the first of these interviews in February 2013.

Key publications are in process but further information on the project can be found here: http://fincris.net/.

You may also follow us on twitter at: https://twitter.com/FINCRIS1 and read the James' blog post: http://fincris.net/lloyds-bank-employees-victims-or-villains/

Balancing the Regulation and Taxation of Banking

Andy Mullineux and Sajid Chaudry, CHASM Associate Members

This study, part of the AHRC-funded project on 'responsibility, ethics and the financial crisis', gives an overview of bank taxation as an alternative to prudential regulations or non-revenue taxation. We have reviewed existing bank taxation with a view to eliminating distortions in the tax system which have incentivised banks to engage in risky activities in the past. We focus particularly on 'too big to be allowed to fail' banks, which have been enjoying a competitive advantage over their smaller counter- parts. We furthermore analyse taxation of financial instruments trading and taxation of banking products and services and their ability to finance resolution mechanisms for banks and to ensure their stability. In this respect, we put forward the following arguments: (1) that a financial transaction tax is economically inefficient and potentially costly for the economy and may not protect taxpayers; (2) that a bank levy is perhaps good for financial stability to finance resolution mechanisms, but that it poses the threat of double taxation, together with the proposed Basel III liquidity ratios; and (3) that we support the elimination of exemption from value added tax (VAT) for financial services in order to provide banks with a level playing field, whilst retaining exemption for basic payments services.

This is expected to improve efficiency because it might stop the wasteful use of financial services. To avoid distortions, VAT should be applied to all financial services, including complex ones such as derivatives. VAT might reduce bank lending because of higher costs for customers, but arguably there was over-borrowing prior to the financial crisis.

The detail of this project is explored further in the following paper:

Chaudhry, S, Mullineux , A and Agarwal, N (2014) 'Balancing Bank Regulation and Taxation', Social Science Research Network, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1141090

Inter-generational transfers of wealth

Ricky Joseph, CHASM Research Fellow

Inter-generational inequalities have received increasing attention among policy makers and academics in recent years. With populations aging, there are concerns about the resulting pressures on pension systems and other welfare resources. Albertini et al (2007, P. 319) argue that:

'The generational contract is the most important and also the most contentious dimension of contemporary welfare systems. It is at the very heart of the problems presented by population ageing: protecting the old and investing in the young while keeping a balance between financial sustainability and the principles of social justice and fairness'.

Much of the debate on how to reform the generational contract has focused on its public dimension in relation to pensions and health care. However, attention is starting to turn to private transfers of resources between families. David Willets, the Conservative MP, argues that the baby boomers have had access to unprecedented levels of housing and pension wealth, and should give some of this back to the next generation (Willets, 2010). Financial transfers can take place while the parent is alive (inter vivos), or as a bequest. Our research, funded by the Leverhulme Trust, focuses on inter vivos transfers, otherwise known as lifetime gifts.

Changes in the nature of family structures have an impact on inter-generational patterns of wealth

Our research draws on data from the 2004 Attitudes to Inheritance survey alongside preliminary analysis of qualitative findings from 12 three-generation, and 3 two-generation, families in Britain. Analysis of the 2004 survey found that only a minority of the population received substantial financial support for housing but this was far more common among middle class families. It enables members of such families to: become home owners by providing money for deposits; afford a larger mortgage than would otherwise be possible (without a struggle). It also enables younger people in these families greater choice about where they live, whether they wish to leave home and live independently (through supporting the costs of rent) or to stay at home, rent-free. It also enables people to reduce housing debts and therefore remain home-owners. Inter-generational support is instrumental in building housing wealth, improving the quality of housing that people can afford, reducing financial stress and providing greater choice in life. In some cases it also made the difference between a young person going to university or not, with all the potential ramifications in terms of job prospects and social mobility. It therefore makes a major difference to the life experiences and life chances of a lucky minority.

Our research also confirms that most financial support for housing flows down the generations due to a combination of relative need and relative resources. Younger generations are more in need and older generations have greater resources. In our qualitative sample, families said they supported each other because they feel it is 'the right thing to do' as loving family members. But, of course, our families were self-selecting and we may have interviewed particularly supportive families. There is, nevertheless, evidence of ambivalence if not conflict within some of the families we interviewed. People did not particularly like to ask for help and where they actively asked there are indications that support was more likely to be given as a loan than a gift. Generally, older generations offered to help and younger generations felt grateful for that help. There are also some indications that younger generations felt that they should support their parents in turn, where appropriate, though this may be more through 'wanting' to reciprocate than feeling obliged to do so. Support was therefore provided where people felt they could afford to provide it and where others were perceived as having a 'reasonable need' for it.

There was an interesting tension between wanting to support younger generations but also wanting them to be independent. In some cases, this was not seen as a tension but as a two-part process. Financial support was designed in such a way as to enable younger members to become 'independent' financially. But some older generations were concerned not to 'spoil' younger members of the family by supporting them too much.

The relative roles of the family versus the welfare state became a very lively issue when discussing how care for older people should be paid for. Most interviewees felt that the state should provide a decent level of care such that individuals and families would not have to subsidise it. But current levels of care were not always seen as sufficiently high leaving families to provide extra financial support. The balance between family and state in providing certain levels of welfare will be a major theme we will return to as we continue with the research.

This research is part of a three-year (2012-2015) research project, funded by the Leverhulme Trust, which investigates the role that housing wealth plays in relation to inter-generational justice and family welfare. The project is led by Beverley Searle at Dundee University and also involves researchers from Durham University and the University of Essex. CHASM leads a work-stream on the way that families support each other financially across the generations. Our qualitative work is now completed and we will be moving on, this year, to surveying the general public to measure and explore their attitudes to these issues. This new data will then be compared with the 2004 data to look at changes in attitudes and practices over the last 10 years.

For further information on the project, please visit: http://wealthgapblog.wordpress.com/

Taxation Research

Andy Lymer, CHASM Deputy Director

The taxation of wealth is a key issue for CHASM and featured heavily in our Policy Commission report (see earlier in this report). Alongside our work for the Commission we also hosted one of the world's leading capital taxation experts, Professor Chris Evans of the University of New South Wales, Australia (an Associate member of CHASM), in the autumn of 2013. Chris gave a seminar and participated in discussions about future research in this field. As a result of those discussions, we plan to produce an edited book and hold an event later in 2014. In preparation for, and leading into this book's production, we have also decided to undertake some public attitude work on the role of wealth taxation in the UK's tax mix. Professor Evans has agreed to help with this work, and we have also drawn in another CHASM associate member, Rajiv Prabhakar, to assist us given his expertise in public attitude work. The results will be made available as part of the wealth tax event, although preliminary results may be available in time for the CHASM conference in July.

We have also given some help to the Chartered Institute of Taxation (CIOT) on their new tax awareness website for students which was launched in Student Money week (Autumn 2013). Sam Thewlis (doctoral researcher) and Andy Lymer (pictured) provided preliminary help with scoping the project, analysed a survey of general levels of tax knowledge amongst University students and wrote up a piece for the CIOT members' newsletter to highlight why this was needed. Most recently, we hosted a session to allow the developers of the new site to interact with our students to provide feedback on the initial site. We have also been commissioned to review the statistics from initial access and use of this site after its launch.

Financial Education Research

Jessie Sim, CHASM Research Fellow

CHASM members continue their activity in relation to financial education through participation in a number of events both in the UK and overseas. For example, Fatima Syed (doctoral researcher) and Jessie Sim (research fellow) attended the EARLI (European Association for Research in Learning and Instruction) 2013 Biennial Conference, held in Munich at the campus of Technical University Munich (TUM). The theme was "Responsible teaching and sustainable learning". Fatima presented a paper written by Peter Davies and Lindsey Appleyard on secondary school students' understanding of the financial system, at a symposium on investigating conceptions and facets of financial literacy. The paper explored 15 - 16 years old secondary students' conceptions of the phenomena of debt and risk in the context of personal, bank and government behaviour. It looked at the ways in which these phenomena were understood in different contexts, the judgements which were made about good and bad behaviour and the reasoning that was used to justify these judgements.

Jessie Sim (pictured) also attended the "OECD/INFE/GFLEC Global Policy Research Symposium to Advance Financial Literacy" in Paris in October 2013. In this conference, evidence of people's financial literacy from South Africa, Indonesia, China and Brazil were presented. Each country developed their own financial literacy survey and different facets of financial literacy were measured. There was an interest and concern about using innovative ideas to change people's behaviour, for example programmes that utilise mass media and social marketing. Finally, to conclude the conference, there was a discussion about putting research into policy and practice and in particular, how to balance competing policy priorities with the investment of research in financial education. In summary, from OECD's perspective, the field of financial education and financial literacy is still at the stage where there is a search for the best methods to change behaviour, measure financial literacy and continuing to convince policy makers of the need to devote more resources into improving financial literacy which is still quite low in many countries.

Global policy makers need to devote more resources into improving financial literacy

Financial Education Workshop

In May 2014, CHASM hosted an international workshop on financial education, supported by a donation by Andrew Fisher. This was an invitation only workshop for experts and academics involved in financial education research from UK, Germany, Finland, Switzerland and the US as well as representatives from the OECD, Money Advice Service, Personal Finance Education Group and OFSTED. The purpose was to examine critically the current state of financial education initiatives and research findings to determine the way forward in this area. Also, possibilities of future collaborations and publications were explored.

CHASM internal seminars

Our CHASM seminars are open to all and are advertised through our e-bulletin and on our website. Since September 2013, we have organised the following:

September	Financial Education in Schools - Jessie Sim, CHASM
November	Too rich to rein in? The under-utilised wealth tax base - Chris Evans, University New South Wales
December	Policy responses to the decline of home ownership - Ben Pattison and Ricky Joseph, CHASM
January	Housing, Welfare and Post-Homeownership Societies - Richard Ronald, CHASM
March	Responsible lending in Australia - what can the UK learn - Jodi Gardner, CHASM
July	Harmful Societies: A social harm perspective - Simon Pemberton, Institute of Applied Social Studies

International Networks

CHASM has been focusing this year on expanding our international links in various ways. Most notably, we have launched INRAP (the International Network for Research on Asset Policies) this year. INRAP aims to create a 'virtual network' with access to an online database of experts. This will provide an easy-to-use mechanism to identify potential partners across a wide range of activities. INRAP also facilitates an email group so that interested parties can exchange news about research and policy developments across the world. Anyone can sign up by visiting our website: http://www.birmingham.ac.uk/research/activity/social-policy/chasm/inrap/what-is-inrap.aspx

As noted elsewhere in this report, we have also organised major international events this year, starting with a workshop in Brussels in November (see picture above) 2013 on asset-based welfare in Europe, including a meeting with the Director General of Social Protection in the European Commission. We also hosted an international workshop on financial education in May 2013, attended by participants from Germany, Finland, Switzerland and the US as well as representations from the OECD, Money Advice Service, Personal Finance Education Group and OFSTED.

CHASM is also increasingly drawing interest from a range of international visitors who come to see us to discuss our research and tell us about theirs. This year, we have received visitors from Korea, Japan, Australia and the US, as follows:

July 2013: Yoonjin Lee and Hyun Soo Choi, from the Korean Institute for Health and Social Affairs (Kihasa) Social Security Research Division, visited to discuss pensions.

September 2013: Nishimura Takao; Kakino Shigemi; Kamata Hiroko; Nakagawa Soichi and Makiko Hashinaga from the Japan Academy of Consumer Education (see picture below) with Karen Rowlingson, Jessie Sim and Irni Johan, to discuss financial education and capability.

December 2013: Karen Rowlingson and Fatima Syed met with Elena Gray, a high school teacher from Sydney, Australia and the recent recipient of the NSW Premier's Teachers First State Super Financial Literacy Scholarship. They discussed financial education in the UK and Australia and arranged for Elena to visit a local school.

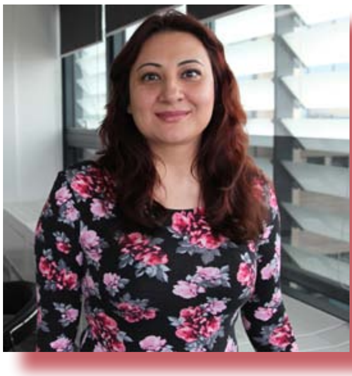
December 2013: Hannah Thomas Senior Research Associate, Institute on Assets and Social Policy (IASP), Brandeis University, US also visited CHASM. She works alongside Tom Shapiro (Director of IASP). Hannah has conducted research on asset policies, housing and wealth, foreclosures and community assets. We discussed current work and opportunities for future collaboration.

January 2014: Karen Fairweather from the University of Queensland, Australia, visited CHASM to talk about her work on responsible lending.

Doctoral Researchers

CHASM has four postgraduate researchers currently undertaking their PhD. Here is a summary of their research:

Ben Pattison: Generation Rent? Changes in housing tenure in the UK, supervised by Karen Rowlingson and David Mullins
The research is investigating changes in housing tenure in the UK, particularly the recent growth in the private rented sector. It assesses the extent to which the growth of this sector is due to difficulties young people face in becoming home owners and/or the contraction of social housing and/or changes in migration and demographic patterns. The implications of these changes will also be explored.



Fatima Syed: Personal finance education: What is it for? And how best to deliver it?, supervised by Karen Rowlingson and Lindsey Appleyard/Peter Davies
This study focuses on the introduction of personal finance education as a compulsory part of the National Curriculum in England and Wales from September 2014. The research will explore the how schools change their practice as a result of this reform.

Sam Thewlis: Changing attitudes to Personal Income Taxation during periods of austerity, supervised by Andy Lymer and Karen Rowlingson
As part of her research, Sam will look at whether certain actions by (primarily the UK) Government encourages or discourages tax compliance, and whether certain tax policies mean that citizens become disengaged with the tax system, and perhaps society as a whole, as a consequence, both at the bottom and top of the income/wealth scale.

Irni Rahmayani Johan: Financial capability among university student in Indonesia, supervised by Karen Rowlingson and Lindsey Appleyard
Using a mixed methods research, the aim of this study is to analyse the level of financial capability among university students in Indonesia by investigating their knowledge, skills, and attitudes. Then, based on the findings and by exploring the specific topics that should be delivered to the students, this study will help inform policy by recommending an effective model of financial education in higher institutions in Indonesia.

Undergraduate teaching and internships

CHASM is primarily a research centre but members also teach at undergraduate and postgraduate level on courses relating to social policy and accountancy/finance. In 2011/2012, CHASM ran a new module for final-year undergraduates in social policy, 'Your Money and Your Life: from welfare state to personal finance'. The module has now run for the third time, with increasing numbers of students each year. This year, we arranged for the student to hear talks from Citysave Credit Union, and Aston and Nechells Food bank.

This year, CHASM has hosted its first paid internships for undergraduate students, funded by Andrew Fisher. The interns will produce a short report on their chosen subject over summer 2014:

- Afsaneh Allybocus is a 3rd year Social Policy student with social research skills who will be researching responses to payday lenders from local authorities and the third sector.
- Ekta Bhayani is a 1st year Economics student who will be working with Amalia Di Girolamo and participating in the activity of the BEEL (Behavioural and Experimental Lab).
- Alex Stevenson is a 2nd year Accounting and Finance student who will be carrying out research into the challenges facing food banks in the UK.

Briefing papers

Our latest briefing papers are available at
http://www.birmingham.ac.uk/research/activity/social-policy/chasm/publications/briefing-papers.aspx

Our briefing papers since July 2013 discuss:

- Compensation for loss of pension rights or just working the system?
- Personal financial planning advice: Barriers to access
- Towards a 'cost of credit' cap in the UK: Lessons from Australia
- Future considerations in paying for funerals
- Impact of welfare reform on Your Housing Group
- Improving financial education in schools: the need for research access
- What do we want from the asset effect?
- Some key trends in the private rented sector in England: Analysis of Census
- Do the public really oppose Inheritance Taxes?
- New horizons? The future for UK Payday Loan companies
- The forthcoming 'Flat Rate' State Pension is helpful
- The debate about pension commencement lump sums
- Bank Taxation: FTT or VAT?
- Crony capitalism' remuneration committees and executive pay
- The changing remuneration mix for UK top management
- Are credit unions failing or are they repositioning themselves for the future?

Associate Members

CHASM has an associate membership scheme designed to develop links with academics and experts with similar research interests to CHASM.

External associate members

Beth Breeze, Director, Centre for Philanthropy, School of Social Policy, University of Kent

James Dempsey, Research Fellow, FinCris , Department of Politics and International Studies, University of Warwick

Chris Evans, Professor of Taxation, University of New South Wales, Australia

Damon Gibbons, Director, Centre for Responible Credit

James Gregory, Researcher, Centre for London

Omar Khan, Head of Policy Research, Runnymeade Trust

Stephen McKay, Distinguished Professor of Social Research, School of Social and Political Science, University of Lincoln

Andrew Mullineux, Professor of Financial Economics, Bournemouth University

Rajiv Prabhakar, Lecturer in Personal Finance, Open University

Tom Sorell, Professor of Politics and Philosophy, University of Warwick

Stuart Stamp, Doctoral Fellow, NUI, Maynooth

Steve Stillwell, Director of Education, Personal Financial Education Group (PfEG)

Sharon Wheeler, Financial Inclusion Manager, Your Housing Group

Internal associate members

Edward Brunsdon, Honorary Fellow, Institute of Applied Social Studies

Sajid Chaudhry, Research Fellow, FinCris, Department of Accounting and Finance, Birmingham Business School

John Doling, Emeritus Professor of Housing Studies, Institute of Applied Social Studies

Lee Gregory, Lecturer, Institute of Applied Social Studies

Margaret May, Honorary Fellow, Institute of Applied Social Studies

Simon Pemberton, Birmingham Fellow, Institute of Applied Social Studies

For the profiles of the associate members, please visit:
http://www.birmingham.ac.uk/research/activity/social-policy/chasm/staff/index.aspx

Core CHASM Staff

In terms of staffing, CHASM welcomes two new permanent core members: Professor Penelope Tuck, Professor of Accounting, Public Finance and Policy; and Professor Richard Ronald, Professor of Housing and Social Change (pictured). Two Research Fellows were appointed as maternity cover for Lindsey Appleyard: Jodi Gardner and Jessie Sim. Lindsey has now returned from maternity leave.

The full list of CHASM core staff is as follows:

- Karen Rowlingson, Director of CHASM and Professor of Social Policy
- Andy Lymer, Deputy Director of CHASM and Professor of Accounting and Taxation
- Lindsey Appleyard, Research Fellow, CHASM
- Paul Cox, Senior Lecturer of Finance
- Peter Davies, Professor of Education Policy Research
- Ricky Joseph, Research Fellow, CHASM
- David Mullins, Professor of Housing Policy
- Richard Ronald, Professor of Housing and Social Change
- Penelope Tuck, Professor of Accounting, Public Finance and Policy

Advisory Board Members

Academic community
Omneya Abd-Elsalam, Aston Business School
Dalton Conley, New York University
Chris Hamnett, Kings College London
Sir John Hills, London School of Economics
Marcin Kawinski, Warsaw School of Economics
Michael Sherraden, Washington University in St Louis
Susan Smith, Girton College, Cambridge

Policy and Business/Third Sector
Rosalind Copisarow, Oikocredit
Mark Fiander, Money Advice Service
Andrew Fisher, Towry
Peter Kelly, Unity Trust
Jacqui Kennedy, Birmingham City Council
Ed Mayo, Secretary General, Co-operatives UK
Sir Brian Pomeroy CBE, Former Chairman UK Financial Inclusion Taskforce
Steve Walker, Aston Reinvestment Trust
Sian Williams, Toynbee Hall

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