

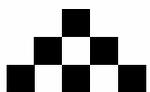


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FINANCIAL INCLUSION ANNUAL MONITORING REPORT 2016

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Executive summary

Towards a financially inclusive society

- This report is the fourth in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain from 2013–17.
- The report presents data on a range of indicators. Where possible, we have shown data from previous years to highlight trends in these indicators.
- We define financial inclusion broadly as the ability to manage day-to-day financial transactions; meet expenses (both predictable and unpredictable); manage a loss of earned income and; avoid or reduce problem debt.

The policy context

- Financial inclusion first emerged on the policy scene under the New Labour government from 1997 onwards. In particular, the Financial Inclusion Taskforce (from 2005–11) placed the issue of financial inclusion high on the public and policy agendas.
- The term 'financial inclusion' was rarely used by the Coalition government from 2010–15 even though many policies had an impact on levels of inclusion. The term experienced a revival early in 2015 with a major conference on the topic and publication of a report from the Financial Inclusion Commission. Both ventures were funded by the financial services industry though involved a range of stakeholders from government, the third sector and academia.
- The new Conservative government also rarely uses the word 'financial inclusion' but a number of their policies impact on the nature and level of inclusion; from changes to the social security and tax systems; to savings and pension policy; to financial services regulation.
- In 2016, the House of Lords has established an ad hoc Select Committee on financial exclusion and access to mainstream financial services.

A slow, highly unequal recovery

- Before the economic crash 2008, the British economy was typically experiencing a two per cent rise in GDP per year and so, over the seven or so years since then, we might expect to be about 15–20 per cent better off. GDP, however, crashed by seven percentage points between 2008–09. Since then, it has crept slowly upwards and has only just returned to pre-crash levels in 2015, suggesting that we have had seven 'lost years' of growth.
- Unemployment has fallen significantly since 2008 and is now very close to pre-recession levels. Nevertheless, 1.68 million people were unemployed at the end of 2015. And long-term unemployment remains high at nearly half a million people out of work for at least a year.
- 'Underemployment' fell very slightly between 2014–15 but 3.5 million workers still wanted to work more hours than they currently did. This was particularly true for those in part-time jobs.
- Average weekly wages have increased very slightly from 2014–15 but are still lower, in real terms, than they were before the recession. And a recent drop in the annual rate of pay increases suggests that we will see a further drop in real wages next year.
- According to the latest official Household Below Average Income dataset (ie, for 2013–14), median income after housing costs was £386 in 2013–14, compared with £418 in 2009–10 (in real terms), or a reduction of eight per cent.
- Means-tested benefits for single people out of work in 2015 gave them only 38 per cent of the income they would need to have an acceptable standard of living. A couple with two children had only 59 per cent of what they would need and a lone parent with one child only 55 per cent (a drop from 68 per cent in 2008).
- Inflation is now at its lowest rate since the crash – even reaching negative figures (deflation) in 2015. This could lead to stagnation in the economy if people defer spending in the expectation of lower prices in the future.

- Just under 10 million people were living in poverty in 2013–14 and there were 1.2 million people (including 312,000 children) who were 'destitute' at some point in 2015. These people could not afford to buy essentials to eat, stay warm and dry, and keep clean.
- There has been a dramatic increase in the number of people given three days emergency food and support by the Trussell Trust over the past few years, from just over 61,000 in 2010–11 to more than 1.1 million in 2015–16.

How are people feeling about their finances?

- According to latest figures, nine per cent of households in 2013–14 were finding it either very or quite difficult to manage financially and a further 24 per cent were 'just about getting by' (a combined total of 33 per cent). These figures are substantially higher than in the early 2000s, when around five per cent of the population said they were finding it quite or very difficult to manage, financially, and around 21 per cent were 'just about getting by' (a combined total of 26 per cent) but lower than the peak of 2009–10 when 14 per cent were finding things difficult and 28 per cent just about getting by (combined total of 42 per cent).
- The key groups that were finding it difficult to manage in 2013–14 were those between the ages of 35–54, and those on the lowest incomes. At least half of those in the bottom decile (ten per cent) of the income distribution were finding it difficult to manage, financially, or are just about getting by in 2013–14.
- Three people in ten in 2015 felt that the government's budget deficit policies since 2010 had impacted negatively on them. Only three per cent said they had had a positive impact.

Bank accounts

- For the first time since the economic crisis, there appears to have been an increase in the number of people without access to any kind of account in their household. In 2013–14, 730,000 people lacked access compared with 660,000 in 2012–13. This difference falls within the margin of error so we will look closely at next year's figures to measure any trends. But the figures do suggest that progress on helping people to get access to bank accounts has stalled.
- If we focus solely on whether individual adults have accounts in their own names, then about 1.71 million adults were, personally, unbanked in 2013–14 (up from 1.5 million the previous year).
- Having access to a bank account does not guarantee that the account will either be useful or be used. Data on the nature of different accounts available to people, and how these are used, is not currently available.

Meeting one-off expenses

- Overall, people seemed more able in 2016 to be able to find money for one-off expenses. When asked whether or not they could find £200 at short notice, 16 per cent said they would not be able to meet this expense or preferred not to answer the question in 2016 (a fall from 22 per cent in 2015).
- A further 14 per cent of the population in 2016 said they would have to borrow money – either through a formal loan (credit card, overdraft, loan etc.) or through an informal loan from family/friends – a fall from 20 per cent in 2014.
- Nearly half (46 per cent) said, in 2016, that they would be able to find £200 without cutting back on essentials or dipping into savings (a rise from 28 per cent the previous year).

Savings

- The savings ratio fell to 4.9 per cent in 2015 from a high of 11.5 per cent in 2010. This shows that, on average, people are saving less money from their disposable income once their spending is taken into account.
- In terms of the total amounts saved, just under half (46 per cent) of families had less than £1,500 in savings in 2013–14 and there has been very little change in these figures over the last three years. A further 28 per cent had saved between £1,500 and £20,000 and one in five (21 per cent) had over £20,000.
- According to the 2012–14 Wealth and Assets Survey, one in five households had net financial wealth below zero (that is, more financial debts than savings). At the opposite end of the spectrum, more than one in ten households had £100,000 or more of net financial wealth.

Pensions

- From 2014 to 2015, we witnessed a massive upsurge in active membership of occupational pension schemes. In the private sector, the figure almost doubled within a year from 2.7 million to 4.9 million.
- The very recent increase in number of active members of occupational schemes is very closely related to the introduction of auto enrolment into workplace pensions from October 2012.
- However, these defined contribution schemes have low employer and employee contribution levels which are unlikely to provide an adequate retirement income. There is therefore a need for auto escalation of contributions alongside auto enrolment.

Borrowing

- It is not easy to find data on borrowing which is reliable and comparable over time. Different datasets collect the data using different definitions and in different ways. A new, comprehensive, survey of credit and debt is vital for us to get a clearer picture here.
- Consumer credit boomed in 2015, continuing a trend since 2012 when the government introduced a 'funding for lending' scheme to crack the credit crunch. There is now concern that credit may be too easily available.
- According to the Wealth and Assets Survey, 61 per cent of households in 2012–14 had borrowed money from one or more source of unsecured credit – a drop from 65 per cent in 2006–08. This suggests that fewer people are taking out unsecured loans, but among those that are, the amounts being borrowed are increasing.
- In 2012–14, the median value of financial liabilities (unsecured credit) for those households with such liabilities was £37,000, up from £32,400 in 2006–08
- The number of people using credit unions increased again from 2014 to 2015 to nearly 1.3 million.
- Mortgage lending increased in the 12 months following February 2015, both in terms of the number of loans and their value.



Problem debt

- As with data on credit, it is also difficult to find reliable data on 'problem debt' which can be compared over time.
- Most people with unsecured credit find it manageable but one in 20 households were behind with two or more payments on a fixed-term non-mortgage loan in 2012–2014
- Council tax arrears appear to be increasing considerably as support for council tax has been cut back and devolved to local authorities in England and Wales
- Data from the Insolvency Service shows that the rate of individual insolvency fell from 32.4 per 10,000 adults in 2010 to 17.5 in the last quarter of 2015.
- Mortgage (re)possessions by county court bailiffs in England and Wales were around 7,000 in 2003 but then rose to a peak of 36,000 in 2008 before falling to 6,000 in 2015.
- Evictions from rented properties (technically referred to as landlord possession) show a different trend with actual possessions in the county courts of England and Wales reaching their lowest level around 2010 at around 27,000 but then increasing to over 41,000 in 2015.

Home contents insurance

- The proportion of households with home contents insurance has declined from 65 per cent in 2008–9 to 60 per cent in 2013–14. This is largely due to the inability to afford such insurance.

Conclusion

- This report shows some positive signs compared to last year. For example, unemployment has fallen and some groups in the population have increased their savings and have more of a financial cushion to draw on in times of need. Insolvencies have fallen, as have mortgage possessions. In terms of financial inclusion, this all suggests that some groups are now better able to meet their expenses (predictable and unpredictable). And some are better able to reduce and avoid problem debt.
- Other trends around financial inclusion are less positive however. Increased access to transactional bank accounts appears to have stalled. Further cuts to basic benefits are making it harder for some people to manage, financially. And, for some, debt is increasing with any savings having been used up, leaving people with great difficulties to afford even the very basics let alone have a financial cushion to absorb any (further) drops in income. There is also evidence that landlord repossessions have increased for those in rented accommodation. Thus some groups are at much higher risk of financial exclusion as well as poverty if not destitution.
- It therefore looks as though the experience of the recovery and financial inclusion remains very unequal. Some people are benefitting from economic growth and greater financial inclusion while many others are struggling ever more and being financially excluded.

Introduction: towards a financially inclusive society

This report is the fourth in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain. In order to provide a comprehensive picture, this report takes the same framework as the previous three reports and updates figures, where available, to give the most recent data and trends.

According to Kempson and Collard¹, a financially inclusive society would be one in which everyone had the ability to:

- Manage day-to-day financial transactions (eg, through appropriate bank accounts)
- Meet one-off expenses (both predictable expenses through savings, and unpredictable expenses also through savings and/or appropriate credit and insurance products)
- Manage a loss of earned income (eg, through savings, including pension savings)
- Avoid/reduce problem debt

In this series of reports, we argue that people need three key components in order to achieve financial inclusion as follows:

- A secure income which meets a minimum standard. The Minimum Income Standards Team² define a minimum income standard as covering 'more than just food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.'
- Access to appropriate and well-regulated financial services, particularly transactional bank accounts, savings accounts, affordable credit, pensions and insurance products.
- Access to free and appropriate advice and education, particularly for those with debt problems.

This provides a broad framework for any study of financial inclusion but there are also particular social and technological trends that are worthy of highlighting and research published by the FCA in 2016³ on access to financial services in the UK highlighted five such trends here: digital transformation, especially in banking; compliance and crime prevention, in the form of the anti-money laundering and know-your-customer regulations; automated processes in the credit market; increasingly segmented markets for insurance; and how policies to tackle problems associated with an ageing population impact on people's access to credit in later life.

In a separate report also published by the FCA in 2016⁴, the authors used three metaphors to describe the difficulties consumers had in accessing financial services. They talked about: the void – physical and digital barriers to access; the maze – complex bureaucratic procedures; and the fog – lack of transparent and simple information which hampered understanding.

Alongside much empirical and policy-focused research on financial inclusion there is also an increasingly lively debate, in academic circles, about the nature of financial inclusion and whether it serves as a progressive response to financialisation or serves to advance the process of financialisation⁵. In these debates, financialisation is seen as the increasing role and power of the financial sector in both the economy in general and people's lives in particular. Financialisation is also generally seen as part of the shift in responsibility from the (welfare) state to the individual.

The first chapter of this report briefly reviews the policy context to financial inclusion. The remainder of the report presents data on a range of indicators from a number of sources (see the Appendix for further details). The choice of indicators relates to Kempson and Collard's framework and the three key components to achieving financial inclusion outlined above. Where possible, we have shown data from previous years to consider trends in these indicators.

¹ Kempson, E and Collard, S (2012) *Developing a vision for financial inclusion*, London: Friends Provident Foundation

² The MIS team works at the Centre for Research into Social Policy at the University of Loughborough, see <http://www.minimumincomestandard.org/index.htm>

³ Collard, S, Coppack, M, Lowe, J and Sarkar, S (2016) *Access to financial services in the UK*, London: FCA, <http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf>

⁴ Rowe, B, De Ionno, D, Peters, D and Wright, H (2016) *Mind the gap. Consumer research exploring experiences of financial exclusion across the UK*. London: ESRO/FCA. Available at: <https://www.fca.org.uk/static/documents/research/vulnerability-exposed-research.pdf>

⁵ See, for example: Berry, C (2014) 'Citizenship in a financialised society: financial inclusion and the state before and after the crash' *Policy and Politics*, 1–17; Finlayson, A (2009) 'Financialisation, financial literacy and asset-based welfare', *British Journal of Politics and International Relations*, 11, 3, 400–21; Leyshon, A and Thrift, N (2009) 'The capitalisation of almost everything: the future of finance and capitalism', *Theory, Culture and Society*, 24, (7–8), 97–115

The policy context

Financial inclusion first emerged on the policy scene under the New Labour government from 1997 onwards. Key policy milestones under New Labour included:

- 1999 – the Social Exclusion Unit set up Policy Action Team 14 to look at financial exclusion.
- 2003 – Basic Bank Accounts were introduced.
- 2004 – HM Treasury published 'Promoting Financial Inclusion'.
- 2005 – the Financial Inclusion Taskforce was established.

The Financial Inclusion Taskforce was set up to advise HM Treasury with a mission to: increase access to banking; improve access to affordable credit, savings and insurance; and improve access to appropriate money advice⁶.

The Coalition government (2010–15) retained an interest in this issue but had no overall strategy⁷. The Financial Inclusion Taskforce was formally wound up, as originally planned, in March 2011 and the term 'financial inclusion' was rarely mentioned in government policy despite some relevant reforms in this area (for example, in relation to Credit Unions and reform of the regulation of high-cost, short-term credit via the Financial Conduct Authority (FCA)⁸. Mortgage lenders also had to change their practices to conform to tighter regulation of affordability checks. The government also made changes in ISA arrangements, allowing people to save more in such tax-free accounts. And the introduction of auto enrolment in workplace pensions was a significant change in pensions policy alongside the extra freedom given to people in terms of being able to access the whole of their Defined Contribution pension pot on retirement.

Despite these positive reforms, the government also made considerable cuts to benefits which made it more difficult for people (both in and out of work) to make ends meet. The Social Fund was also reformed and cut, reducing alternatives to high cost lenders. And while the government certainly supported the principle of encouraging savings and self-reliance, one of its first acts was to abandon the introduction of the Saving Gateway, a policy specifically designed to help those on low incomes to save.

While the Coalition government rarely used the term 'financial inclusion', it was nevertheless revived in 2015 through two key (non-government) initiatives. The first was a major conference held in January 2015 in London, sponsored by HSBC and Lloyds Banking Group. The second key initiative was the formation of a Financial Inclusion Commission, a non-partisan, cross-party commission supported by Mastercard but independent, chaired by Sir Sherard Cowper-Coles. The Commission produced a report in March 2015⁹ which argued, among other things, for a senior minister in government on financial inclusion and capability, with the title of 'Minister for Financial Health'.

These two initiatives placed financial inclusion back on the public agenda but the election of a Conservative government in May 2015 has not seen a particular policy focus on financial inclusion. Nevertheless, various policies have had an impact on financial inclusion, not least with further cuts to benefits and tax credits causing hardship for some¹⁰. Government policy has also been active in other fields, not least: basic bank accounts; workplace pensions; new savings schemes; and local welfare assistance. These are all mentioned later in this report.

In a report published by the FCA¹¹ (2016: 18) on access to financial services, the authors echoed the Financial Inclusion Commission's call for a stronger governmental lead on this issue, arguing that: 'unless there is a strategic approach to addressing access problems, excluded consumers will remain unable to access the market and the benefits of financial services. Yet at the same time, the market can only go so far in addressing the varying financial needs of people in the UK today. As authors, we ask whether progress can be made without a more joined-up approach between all the stakeholders involved in financial services: the FCA, government, firms and consumer organisations. This reflects the fact that many different organisations have varying interests and responsibilities. While there are ad hoc examples of collaboration, there is no systematic attempt to work together. By continuing to act in isolation, we consider that progress will be severely hindered.'

Calls for action on financial inclusion are also likely to be made by the House of Lords which plans to establish an ad hoc Select Committee on financial exclusion and access to mainstream financial services¹². Evidence from this year's report will feed into this committee and we will report on its activities in next year's report.

⁶ see Rowlingson, K and McKay, S (2014) *Financial inclusion annual monitoring report 2014*, Birmingham: University of Birmingham

⁷ See Appleyard, L (2015) *Financial inclusion: review of Coalition Government policies 2010–15*, Birmingham: University of Birmingham

⁸ See Gardner, J and Rowlingson, K (2015) 'High cost credit and welfare reform', In Defence of Welfare II http://www.social-policy.org.uk/wordpress/wp-content/uploads/2015/04/08_gardner1.pdf

⁹ Financial Inclusion Commission (2015) *Financial inclusion: improving the financial health of the nation*

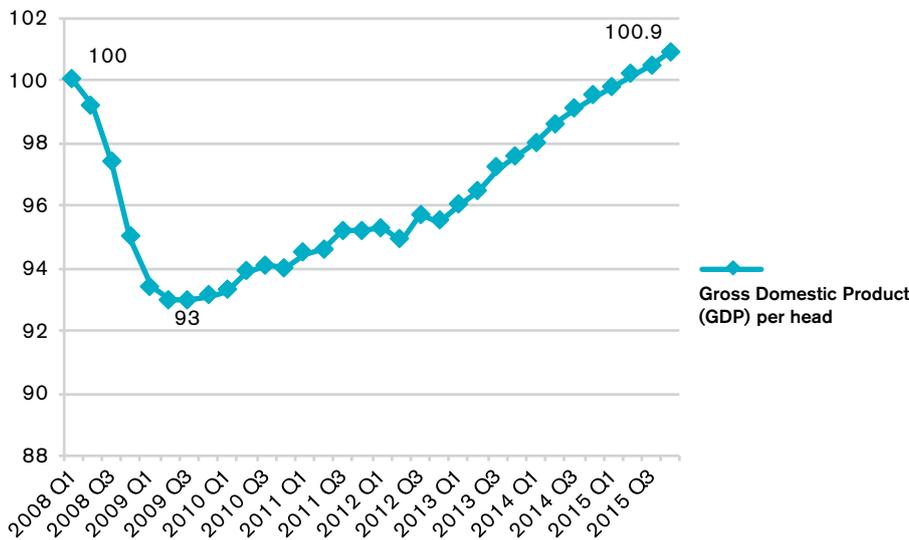
¹⁰ McKay, S and Rowlingson, K (2015) 'Social security under the coalition and Conservatives: shredding the system for people of working age; privileging pensioners in Bochel', H and Powell, M (eds) *The Coalition government and social policy*, Bristol, The Policy Press.

¹¹ Collard, S, Coppack, M, Lowe, J and Sarkar, S (2016) *Access to financial services in the UK*, London: FCA, <http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf>

¹² <http://www.publications.parliament.uk/pa/ld201516/ldselect/ldliaisn/113/113.pdf>

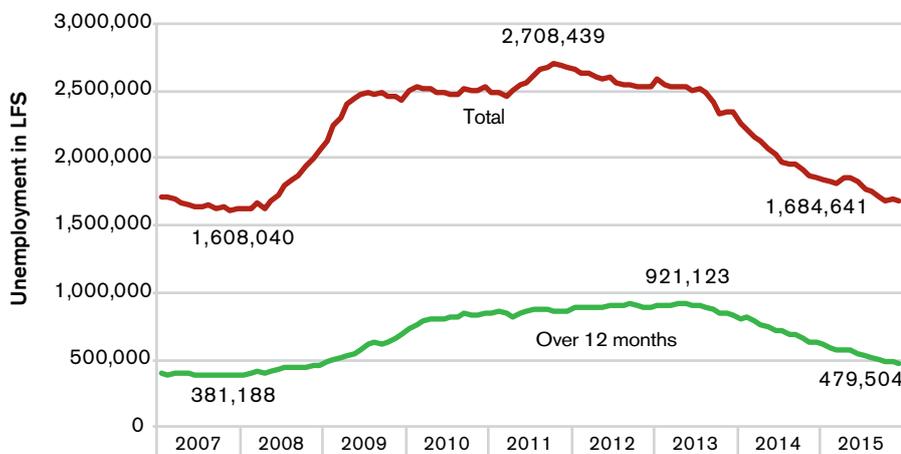
A slow, highly unequal, recovery

Figure 1: Gross Domestic Product per head



As highlighted in our previous monitoring reports, the fundamental cornerstone of financial inclusion is for people to have a sufficient level of income to meet basic needs. The source of income is also important as those in employment generally have better access to appropriate financial products, such as affordable credit, than those out of work. A key indicator of the state of an economy is GDP (Gross Domestic Product) which is the amount an economy produces each year. Figure 1 takes 2008 as a baseline for GDP per head and shows that over the course of one year, from 2008–09, this fell by seven percentage points. From then until 2012, there was a slow recovery, and from 2012, GDP has grown more steadily but it has only just reached the pre-crash level of 2008. Before the crash, the British economy was typically experiencing two per cent rise in GDP per year and so, over a period of seven years, we might expect to be about 15–20 per cent better off rather than at the same level.

Figure 2: Unemployment fell in 2015 and is nearly down to pre-crash levels



As we have also seen in previous reports, the recession of 2008–9 clearly had a major impact on rates of unemployment. At the beginning of 2007, there were more than 1.6 million people unemployed. In the space of just over a year another million people had joined the ranks of the unemployed and unemployment then peaked at 2.7 million in 2011. Most recent data shows that it has now fallen to 1.68 million at the end of 2015 (see figure 2). It is therefore not too far away from pre-crash levels. Long-term unemployment more than doubled between 2008 and 2013 from just under 0.4 million people out of work for over a year in 2008 to more than 0.9 million in 2013. By the end of 2015, the figure had also dropped – to just under 0.5 million – still somewhat higher than pre-recession levels.

Figure 3 further illustrates the recovery of the labour market in terms of the number of full-time jobs, which is now higher (at the end of 2015) than it was before the crash in 2008.

There have been further positive signs recently in other aspects of the labour market. For example, underemployment¹³ dropped between 2014 and 2015 from nearly 4 million to 3.5 million workers 'underemployed' (see figure 4) – still, however, more than before the recession. On average, underemployed workers want to work an extra 11.3 hours per week¹⁴. Underemployment is a particular issue for part-time workers – one in five of whom would like to work more hours (compared with one in 20 full-time workers). Interestingly, similar numbers of workers now consider themselves 'overemployed' (in other words they want to work fewer hours and would be willing to take a commensurate cut in pay) – just over 3.2 million at the end of 2015. These workers are much more likely to be in professional occupations and, on average, they would like to work 11.2 hours less per week.

Figure 3: The number of full-time employees rose in 2015 and is now higher than before the crash



Figure 4: Under-employment dropped very slightly in 2015 but remains high. Over-employment has continued to rise since 2012, Labour Force Survey (LSF)



¹³ The definition and measurement of underemployment has changed recently and so the precise figures for previous years are different from last year's report but the broad concept and underlying trends are the same. Basically, underemployed workers are those who are employed but who either wish to work more hours in their current role or who are looking for an additional job or for a replacement job which offers more hours. They must be able to start working extra hours within the next two weeks to be categorized as 'underemployed'.

¹⁴ <http://www.ons.gov.uk/ons/rel/lmac/underemployed-workers-in-the-uk/2014/rpt-underemployment-and-overemployment-2014.html>

Figure 5: Part-time employment and all forms of self-employment have grown from 2007–14, Labour Force Survey

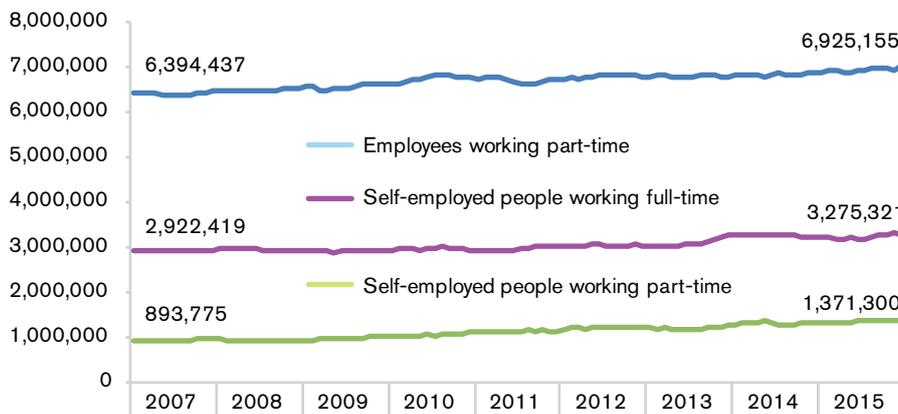


Table 1: Contracts with no guaranteed minimum number of hours (NGHCs)

Millions and Per cent			
Reference period	Total NGHCs where work was carried out (millions)	Percentage of contracts that are NGHCs (%)	Percentage of businesses making some use of NGHCs (%)
Jan 2014	1.4	5	13
Aug 2014	1.8	6	11
Jan 2015	1.5	6	11
May 2015	2.1	7	11
Nov 2015	1.7	6	10

Table source: Office for National Statistics Business Survey

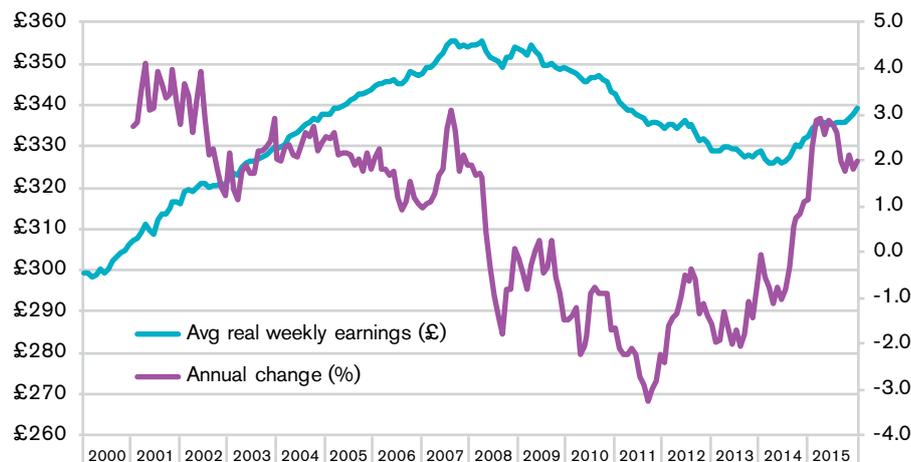
As we have seen, part of the reason for underemployment is that people are more likely to have part-time jobs or be self-employed and yet want more hours of work. Figure 5 shows the increase in part-time employment and self-employment (both full and part-time) from 2007 to 2015.

Alongside 'underemployment' and the growth in part-time and self-employment, we have also seen a growth in zero hours contracts. Once again, definitions and measurements of such contracts (also referred to as 'contracts with no guaranteed minimum number of hours – NGCHs) varies over time but the Office for National Statistics (ONS) has estimated that between five and seven per cent of contracts (between 1.4 and 2.1 million) were NGCHs in 2014–15, with indications of a slight increase over that period. The same data source (a survey of businesses) also showed that around one in ten businesses made use of such contracts. The ONS have also estimated, from a survey of individuals (the Labour Force Survey) that 700,000 people had zero hours contracts at the end of 2014. The discrepancy could be due to people not necessarily being aware that they have a zero hours contract when asked about it in the survey. Also, it is quite possible that some people have more than one zero hours contract. Crucially, we still seem to have little data on how the hours worked on zero hours contracts actually vary from week to week.

According to the Office for National Statistics, people who report being on a zero hours contract are more likely to be at the youngest end of the age range with nearly two in five (38 per cent) of people on zero hours contracts aged 16 to 24 (compared with 12 per cent for all people in employment not on a zero hours contract). Furthermore, a quarter (23 per cent) of people on zero hours contracts are in full-time education. These patterns may partly reflect the groups most likely to find the flexibility of zero hours contracts an advantage, for example, young people who combine flexible working with their studies.

Another key change in recent years in the labour market is the drop in levels of real pay (ie, pay levels adjusted to take inflation into account). Indeed, one of the reasons why employment has remained strong appears to be that employers have tended to cut wages rather than jobs. Falling real earnings have therefore been a striking feature of the recession (see figure 6). Average real weekly wages have increased over the last year or so (from 2014–15) but are still lower than prior to the recession. This can be explained partly due to changes in the composition of the labour force and partly due to changes in the hours that people work. During the recession, those in lower skilled, lower-paid jobs were more likely to become unemployed while those who remained in work saw their pay and/or hours of work cut. While the recent increase in real weekly wages is welcome, figure 6 also shows that 2015 saw a drop in the annual rate of pay increases which suggests that we will see a further drop in real wages next year.

Figure 6: Levels of real pay (adjusted by CPI)



The overall effect of changes in the labour market and the tax/benefit system¹⁵ is that incomes and earnings have fallen. According to the latest official Household Below Average Income dataset (ie, for 2013–14¹⁶), median income after housing costs was £386 in 2013–14, compared with £418 in 2009–10 (in real terms), or a reduction of eight per cent. These latest figures for 2013–14 show 9.6 million individuals in relative poverty (60 per cent median income) before housing costs, while there were 10.4 million under the absolute poverty measure.

Figure 7: Consumer Price Index (CPI) inflation, Jan 2008 to Feb 2016



People’s living standards are, of course, related to both their incomes and their outgoings. Inflation (as measured by the Consumer Prices Index) fell below two per cent at the beginning of 2014 and reached 0 per cent at the beginning of 2015 (see figure 7). During 2015, we even saw a period of deflation (prices going down) though the very latest figures suggest that inflation has returned (but only at a level of 0.3 per cent). This low level of inflation (and indeed deflation) appears to be due to a combination of factors not least: falling oil prices, commodity prices, fuel and gas prices; supermarket price wars not least with competition from LIDL and ALDI; and low wage growth. While low inflation can be good for people in many ways, if people defer spending to wait until prices come down further then this can cause stagnation in the economy. Furthermore, while low inflation may ease budgetary pressures for many households, the more long-term increases in prices over the last five years mean that the costs of many goods is still high relative to changes in income over the same period. ‘Stagflation’ is therefore a live potential threat facing the economy now.

¹⁵ See the Institute for Fiscal Studies analyses of the impact of tax and benefit changes: <http://www.ifs.org.uk/budgets/showindex>
¹⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437246/households-below-average-income-1994-95-to-2013-14.pdf

Figure 8: Means-tested, out-of-work benefits (Income Support/Pension Credit) as a percentage of Minimum Income Standards (excluding rent, childcare, council tax)¹⁸

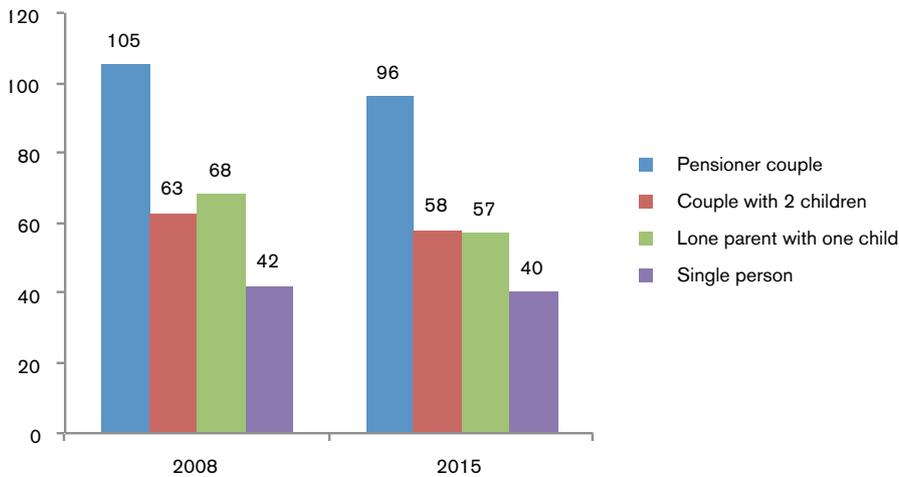
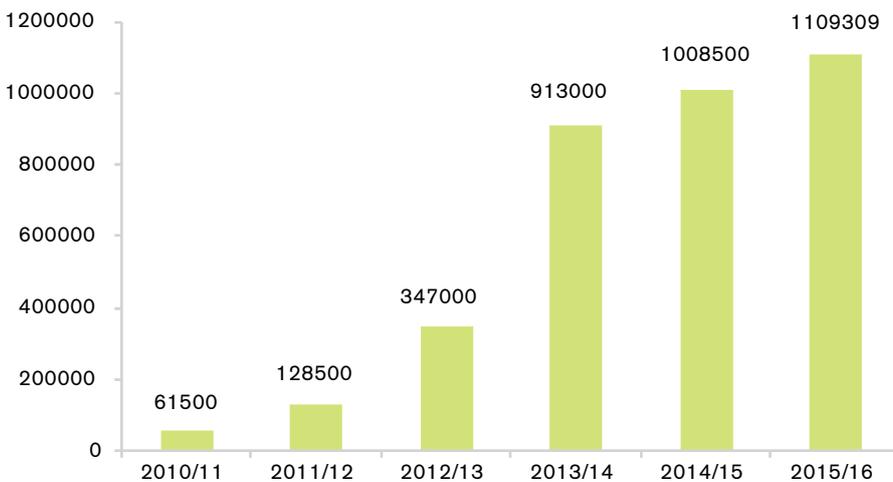


Figure 9: Number of people given three days' emergency food and support by the Trussell Trust increases to 1.1 million²⁰



A vital source of income for many people out of work is the social security system. Figure 8 shows that safety net means-tested benefits for single people out of work in 2016¹⁷ gave them only 39 per cent of the income they would need to have an acceptable standard of living. This percentage has not changed particularly in recent years and, during the last year, has remained stable due in general to zero inflation and zero uprating of benefit levels. A couple with two children had only 59 per cent of what they would need in 2016 and a lone parent with one child only 55 per cent (a drop from 68 per cent in 2008). If inflation increases, benefits will fall even further behind what is needed to make ends meet, given the various benefit caps which will prevent them from increasing to cover inflation costs. Pensioners, due to the relative generosity of Pension Credit, have generally been able to meet the minimum income standard if they claim all the benefits they are entitled to.

Despite the positive economic signs shown above, it is clear that this is a two-speed recovery with those out of work particularly struggling. Indeed, a Joseph Rowntree Report in 2016¹⁹ used the term 'destitution' to describe a situation when people cannot afford to buy the essentials to eat, stay warm and dry, and keep clean. The report suggested that there were about 1.2 million people, including 312,000 children, were in this situation in the UK at some point during 2015. And while some migrant groups faced particularly high risks of destitution, the great majority (79 per cent) of those destitute were born in the UK. The report identified the following key triggers pushing people in poverty into destitution: debt repayments (usually to public authorities); benefit delays and sanctions; high living costs; and, for some migrants, extremely low levels of benefits and lack of access to the UK labour market. The report also suggested that destitution is geographically clustered in former industrial areas, largely in the north of England and in the other UK countries, and in some London boroughs and seaside towns. While it is not possible to measure trends in destitution over time there is evidence that severe poverty has increased since 2007, implying a rise in the risk of destitution. There is also evidence that some indicators of destitution, such as rough sleeping, have also increased significantly. Another indicator of destitution may be the need to turn to a food bank. Figures from the Trussell Trust show a dramatic increase in the number of three days' emergency food parcels given out over the past few years with an increase from just over 61,000 in 2010–11 to more than 1.1 million in 2015–16 (see figure 9).

¹⁷ Figures for 2016 were provided by email by Donald Hirsch prior to publication. Figures for previous years and methodology can be found here <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/MIS-2015-full.pdf>

¹⁸ Hirsch, D (2013) *A minimum income standard for the UK in 2013*, <http://www.jrf.org.uk/sites/files/jrf/mis2001-ebook.pdf> and data from previous reports

¹⁹ <https://www.jrf.org.uk/report/destitution-uk>

²⁰ <https://www.trusselltrust.org/news-and-blog/latest-stats/>

Increasing use of food banks is linked to a more general increase in extreme poverty/deprivation.

How are people feeling about their finances?

So far in this report we have looked at objective measures of income and employment and shown increasing pressures on families to manage their finances. But how are they feeling about all of this? There are various sources of data on this. For example, the Eurobarometer Consumer survey asks respondents how they think the general economic situation has changed over the last 12 months. For example, a negative balance means that, on average, respondents reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change. Figure 10 shows that 2012 saw a low-point in people's perceptions of their financial situation compared with the previous year but that since the spring of 2015, people have, on average, reported feeling better off than they had been a year ago.

Figure 10: Perception of financial situation compared with 12 months ago in the UK

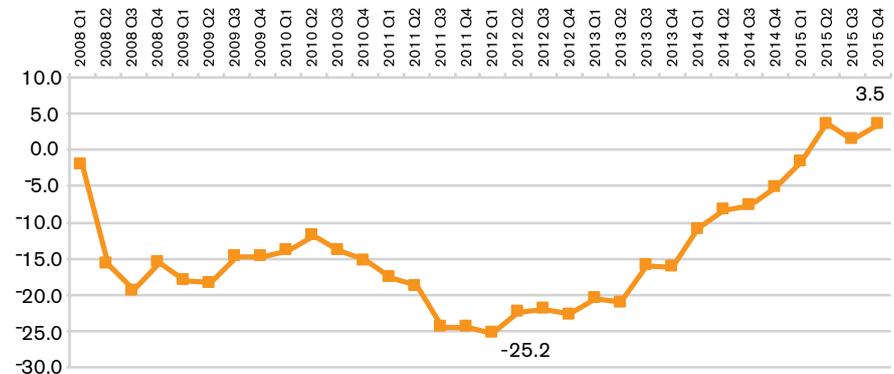


Figure 11: Unemployment fell in 2015 and is nearly down to pre-crash levels

The Understanding Society survey also asks people about how they are managing, financially, and according to our most up-to-date figures, nine per cent of households in 2013–14 were finding it either very or quite difficult to manage financially and a further 24 per cent were 'just about getting by' – a combined total of 33 per cent (see figure 11).

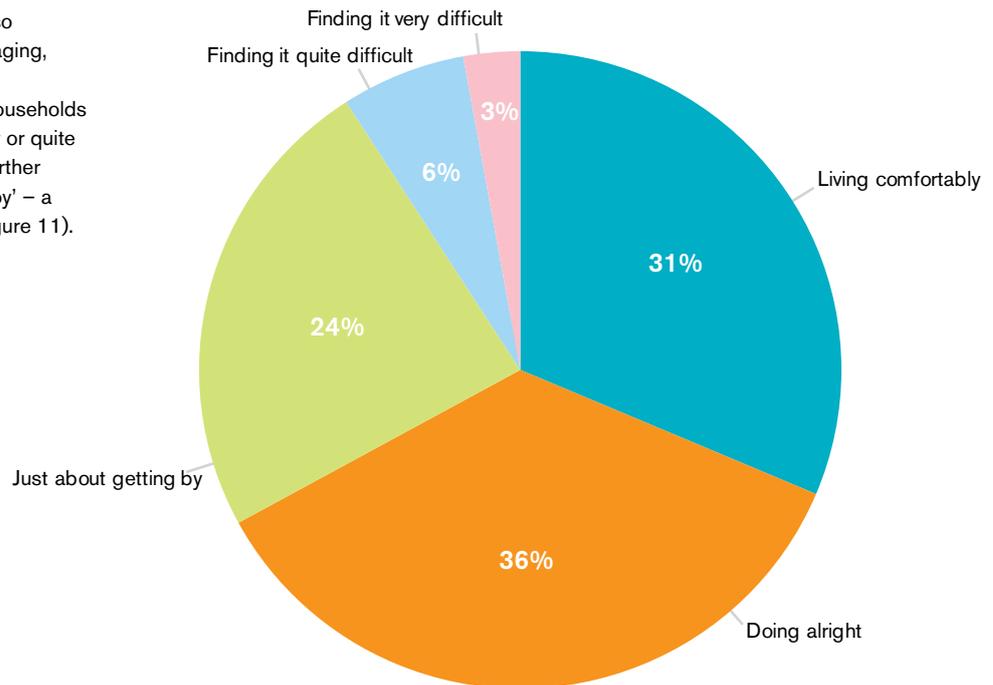


Figure 12: Households in 2013–14 were finding it less difficult to manage than the previous year but still more difficult than before the crash, British Household Panel Survey (up to 2008–9²¹, Understanding Society (from 2009–10)

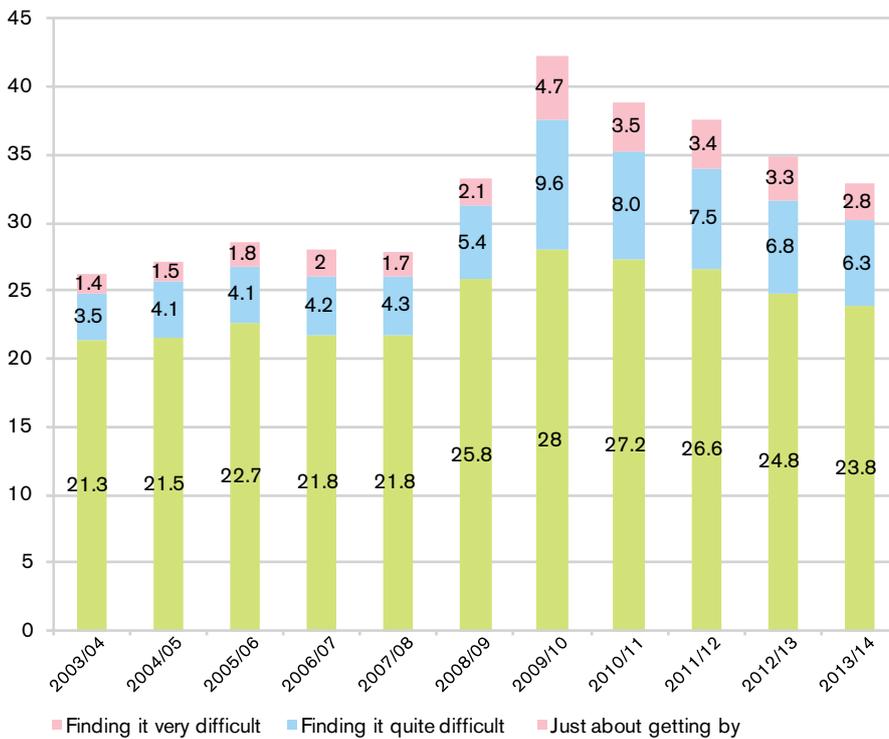
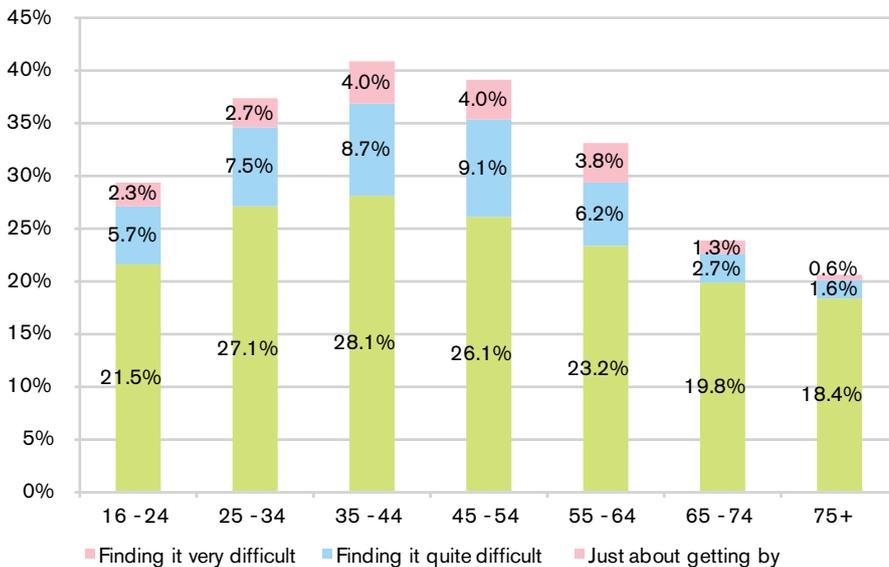


Figure 12 shows how these figures have changed in recent years. During the early 2000s, around six per cent of the population said they were finding it quite or very difficult to manage financially and around 22 per cent were 'just about getting by' (a combined total of 28 per cent). The impact of the recession of 2008 was that this proportion grew to a total of 42 per cent in 2009–10. Four years on, households appear to have adjusted somewhat to the pressures on their budgets but levels of financial difficulty are still above the pre-crash figures: 33 per cent of the population – about one in three households – are still finding it difficult to manage, financially, or are just about getting by.

Middle-aged groups are particularly feeling the squeeze on their budgets. This is due to the wages stagnation mentioned above and may also be the result of having to support young people who are either unemployed, underemployed or staying on in education. More than two in five of all 35–44 year olds in 2013–14 said that they were finding things difficult or just about getting by (see figure 13). Those over pension age have been relatively protected in terms of spending cuts and express less difficulty managing on their incomes than other age groups. This may also reflect the point made in the previous chapter that means tested support for pensioners is just about high enough to meet the minimum income standard whereas for other groups it is nowhere near.

Figure 13: Middle-aged groups were finding it most difficult to manage in 2013–14, Understanding Society data



²¹ Seddon, C (2012) *Measuring National Well-being – Personal Finance, 2012*, ONS, http://www.ons.gov.uk/ons/dcp171766_278355.pdf

Of course, the key groups that are finding it difficult to manage are those on the lowest incomes and figure 14 shows that more than half of those in the bottom decile (ten per cent) of the income distribution were finding it difficult to manage, financially, or were just about getting by in 2013–14.

This year's report highlights some new data from the Bank of England/NMG's survey (see figure 15). It asked people for their views about the impact of government policy on them over the last five years, in terms of whether such impact had been positive, negative or neutral. While this is a very general subjective question and did not specify the kind of impact it was interested in, the findings are nevertheless interesting, with 30 per cent of the population responding that the impact had been negative and only three per cent mentioning a positive impact. Almost half the population said that government policy had had no impact on them at all which is perhaps most surprising of all and 16 per cent were unsure of the impact.

Figure 14: Half of those in the bottom ten per cent of the income distribution were finding it difficult to manage, financially, or are just about getting by in 2013–14, Understanding Society data

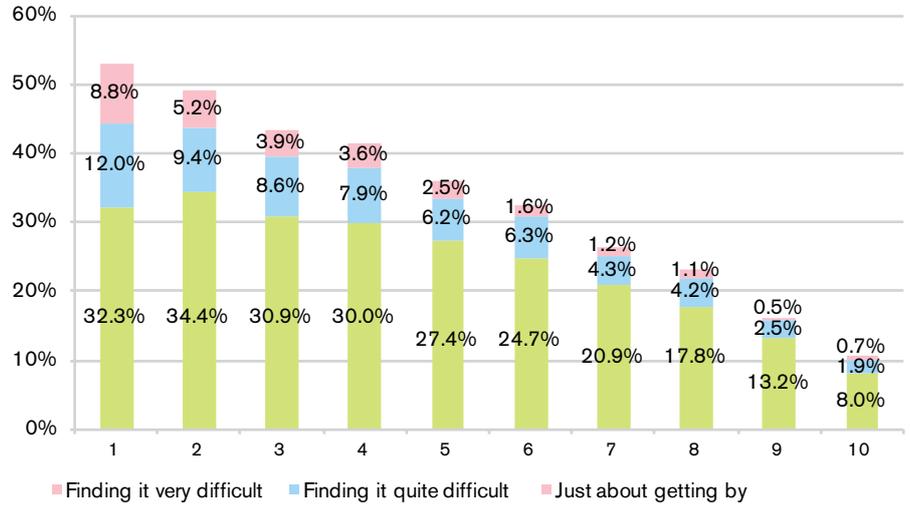
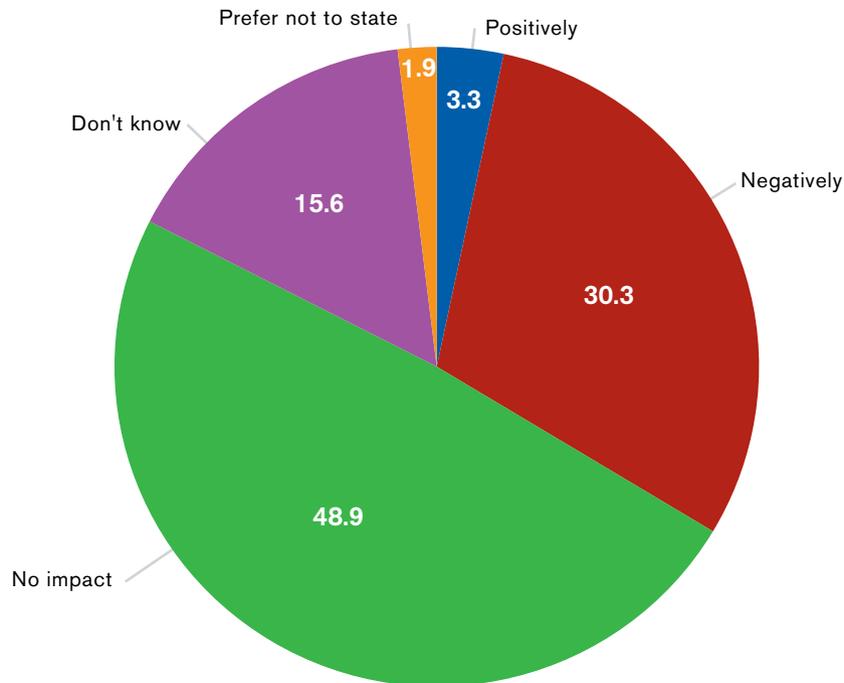


Figure 15: Since 2010, the government has announced a succession of measure in order to cut the country's budget deficit. How have these measures affected your household over the past 5 years?





Bank accounts

Access to a bank account is a core part of financial inclusion as it enables people to manage day-to-day financial transactions and this means having access to an appropriate:

- Account or equivalent product into which income can be paid, held securely and accessed easily;
- Method of paying and spreading the cost of household bills and regular commitments;
- Method of paying for goods and services, including making remote purchases by telephone and on the internet.²²

The number of adults without access to an account of any kind is relatively small as a proportion of the population. The Family Resources Survey collects a great deal of detail about accounts, but the opening question seeks to identify whether any accounts are either currently held, or have been held in the last 12 months. In Table 2 we extend the series of estimates of the unbanked previously produced by the Treasury. The final column shows the number of adults living in households without access to a relevant account. From 2005–6 to 2012–13, the number without access to any account in their household fell from 1 million to 660,000, amounting to about one per cent of households. But this year is the first time we see a reversal of that trend, with 730,000 households lacking access to any accounts in 2013–14.

The dataset on which this is based is a survey, of course, so there is some degree of sampling error associated with these figures (as with previous year's figures). We can, however, be 95 per cent confident that the actual figure lies somewhere between 673,000–789,000. Another point to make here is that there seems to be more missing data this year than in previous years. So although the reversal of this trend is worth noting and may signify that progress on 'underbanking' has stalled. It will be important to see whether this continues next year or not.

Table 2: Households and adults without access to a current or basic bank account, or savings account, Family Resources Survey^{23 24}

Grossed up numbers.			
Year	Adults without current or basic bank account (including 'did not state')	Adults living in households without access to a current or basic bank account, or savings account - (including 'did not state')	Adults living in households without access to a current or basic bank account, or savings account – Positively affirmed no account
2013–14	1.71m	1.02m	0.73m
2012–13	1.50m	1.00m	0.66m
2011–12	1.87m	1.37m	0.70m
2010–11	1.97m	1.51m	0.77m
2009–10	2.36m	1.78m	0.87m
2008–09	2.54m	1.85m	0.87m
2007/08	2.71m	1.85m	0.89m
2006/07	3.00m	2.09m	1.01m
2005/06	2.85m	1.97m	1.00m
**			
2002–03	4.38m	2.83m	2.02m

** Figures are not available for 2003–04 and 2004–05. In those years the FRS did not distinguish between basic bank accounts and post office card accounts (which have generally not been counted as a relevant account in past monitoring figures).

Table 3: Do you have now, or have you had at any time in the last 12 months any accounts? This could be in your own name only, or held jointly with someone else. (INCLUDE INTERNET/PHONE ACCOUNTS, Family Resources Survey, adult data [anyacc]).

Whether any accounts	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Yes	44,828,296	45,147,566	45,890,210	46,295,434	46,986,457	46,410,058
No	995,897	1,008,048	871,287	868,038	926,049	1,314,714
Don't know	1,600,962*	271,796	242,451	329,949	416,629	460,057
Refused		1,215,075	1,019,666	1,007,548	1,161,829	1,341,454

*In 2008/09 the missing codes (refused and don't know) were not separate.

²² See Kempson, E and Collard, S (2012) *Developing a vision for financial inclusion*, London: Friends Provident Foundation

²³ Source: own analysis of Family Resources Survey for 2008–09, 2009–10, 2010–11 and 2011–12 based on previous methodology from HM Treasury which drew data from different questions on account-holding in the FRS. Published HMT figures for 2002–03 (http://www.hm-reasury.gov.uk/d/stats_briefing_101210.pdf).

²⁴ The last three years of data have been re-released with new information on weights, so estimates vary slightly from those previously published.

Following on from this, a number of adults responded in the survey that they did not know if they have an account, or refuse to answer. If we include those who 'do not state' whether or not they have an account then there are just over 1 million adults living in households without accounts. And if we focus solely on whether adults, themselves, have accounts, then 1.71 million adults are, personally, unbanked. Of course, this will include people who may be able to make use of their partner's account but they, themselves, have no such account. And some of these adults may be living with older parents or adult children who have accounts and so their own access to banking facilities may be more limited.

Table 3 shows the trends in the numbers of people 'not stating' whether they have an account or not. This number declined substantially from 2008–9 to 2011–12 but then, somewhat surprisingly, increased in 2012–13 and again in 2013–14. The FRS did not previously separate out 'don't knows' from 'refuseds' in 2008–9 but we can now see that most of the 'not stated's' are indeed people who refuse to say whether or not they have an account. Table 3 also shows a marked increase in the number of people who say they 'do not know' if they have an account or not. There is, however, a considerable increase in the number of people who positively say they do not have an account – to 1.3 million in 2013–14.

Having access to some kind of account does not guarantee financial inclusion. A key issue is whether the account is appropriate in providing transactional services (the ability to pay in money and pay bills etc.). The roll-out of Universal Credit is also relevant here as people are expected to claim online and have payments paid into bank accounts. The European Parliament has also been active in this area with its Payment Accounts Directive (PAD), passed in September 2014, which created a right to a basic bank account. This must be enshrined in national law across Europe by September 2016. Chapter four of the PAD states that payment accounts must be offered to all customers, without prejudice based on their nationality, place of residence, race, age, sexual orientation or disability. These accounts will allow people to make payments online, withdraw cash from an ATM and go overdrawn. Member states will have to ensure that enough banks offer such accounts, regardless of the applicant's nationality or place of residence.

Basic bank accounts have existed in the UK since 2003 but some participating banks have found ways to reduce the costs of providing such accounts by limiting access to ATMs or charging fees for failed direct debits. In November 2015, HM Treasury reported on the consultation it had carried out on the implementation of the EU payment accounts directive²⁵. In December 2015, nine of the major high street banks in the UK launched basic bank accounts that would not charge a fee for missed payments²⁶. And customers will be able to use the same services (ATMs and Post Office counter access) as other account holders. However, there are still concerns that banks may not promote such accounts widely and so people may not be aware that they exist or that they can have access to them.

More generally in terms of bank accounts used by the wider public, the Competition and Markets Authority have produced some useful information on use of personal current accounts in 2015 and their review has highlighted problems with high costs and lack of transparency of costs for overdrafts²⁷. Problems have also been highlighted in relation to switching between accounts. A final report is due in the summer 2016 and the CMA may use this opportunity to introduce caps to monthly overdraft fees and a price comparison website. Whether this will be enough to tackle the problems is unclear but we will review this report next year.

²⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477200/PAD_consultation_responses.pdf

²⁶ <http://www.bbc.co.uk/news/business-35168705>

²⁷ <https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk>



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Meeting one-off expenses

Another key element of financial inclusion is to be able to meet one-off expenses. People therefore need an appropriate means to smooth income and expenditure, for example through:

- Savings accounts that are secure, accessible and protect savings from inflation, if not providing some matched-savings incentives
- Affordable credit (eg, through sustainable lower-cost alternatives to commercial sub-prime lenders)
- A safety net of interest-free loans and grants for people on very low incomes

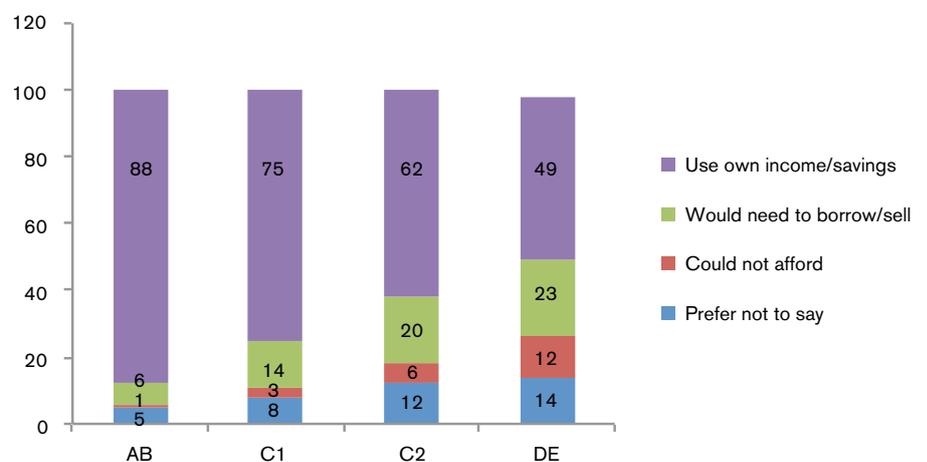
We therefore need a more specific question in our Ipsos/MORI surveys. We asked what respondents would do if they had to pay an unexpected expense of £200. In 2013 nearly two in five (39 per cent) said that they would be able to pay this from their own income, without difficulty (see table 4). This figure has risen to 46 per cent in 2016. A further eight per cent, in 2013, said they would be able to pay this from their own income but would have to cut back on essentials (no change by 2016). And a further 17 per cent would dip into their savings (again a similar figure in 2016). About one in five in 2013, however, said they would have to borrow money to meet this expense – either through a formal loan (credit card, overdraft, loan etc.) or through an informal loan from family/friends (19 per cent). This had fallen to 14 per cent in 2016. The remaining one in five in 2013 either said they would not be able to meet this expense or preferred not to answer the question. There has been little change here since then. So the data shows, again, a slight polarisation, with more a slight increase in the proportion of people able to pay this amount without too much difficulty and a reduction in the proportion who would have to borrow. But a similar proportion of people, at the bottom, unable to find the money.

We can see this polarisation clearly by comparing the responses of people by social class in 2016. Fewer than half of those in the semi or unskilled occupations saying that they could find the money from their own income or savings compared with 88 per cent of those in the professional/senior managerial occupations.

Table 4: Imagine you had to pay an unexpected expense of £200 in one lump sum, within seven days from today. Which, if any, of the following would you do to pay this expense?
Source: Ipsos/MORI survey

	2013	2014
I would pay this with my own money, without dipping into my savings or cutting back on essentials	39	46
I would pay this with my own money, without dipping into my savings, but I would have to cut back on essentials	8	8
I would have to dip into my savings	17	16
I would use a form of credit (eg, credit card, take out a loan or make use of an authorised overdraft facility)	8	5
I would go overdrawn without authorisation	2	1
I would get the money from friends or family as gift or loan	9	8
I would have to sell (a) personal/household item(s) to get the money	1	1
I would not be able to pay this expense	6	5
Prefer not to say	11	9
Base	967	927

Figure 16: Ability to meet unexpected expense of £200 by social class in 2016,
Source: Ipsos/MORI survey



Savings

As we have just seen, savings can be very helpful in meeting one-off expenses (both anticipated and unanticipated expenses). They can also help people to manage a drop in income and avoid problem debt. They are, therefore, a cornerstone of financial inclusion but, as we shall see, levels of saving are low in Britain, particularly among people on low incomes who need them most. This is largely due to a lack of income to save (see earlier in this report) but attitudes to spending and saving are also important. 'Incentives' to save are also important and this links to interest rates and other potential ways to encourage people to save.

There are many ways to measure actual and potential saving. One measure is the household saving ratio as measured in the National Accounts²⁸ by subtracting household spending – on goods and services, housing and financial services – from household income, which includes post-tax earnings from employment, benefits and net interest received, as well as imputed sources of income. A lower saving ratio may arise either because of a fall in households' income, a rise in their expenditure or a combination of the two. As shown in figure 17, the saving ratio was 13.2 per cent, at the beginning of 1997 and this fell to a low of 4.8 per cent just before the economic crash. The fall in the savings ratio over this period was due to strong consumer confidence and the rise in house prices which led many households to increase their spending and take on more debt. The savings ratio then grew sharply as a result of the crash as households became more cautious and tended to pay off their debts and cut back on spending. Unemployment and lower incomes would also have reduced discretionary spending. However, since the middle of 2010, the saving ratio has fallen again from 11.5 per cent to 4.9 per cent in the latest quarter. This is partly due to the fact that disposable income has risen very slowly while expenditure has risen more quickly – restricting the amount of money that households have available to save.

Figure 17: Household Savings Ratio, Office for National Statistics²⁹

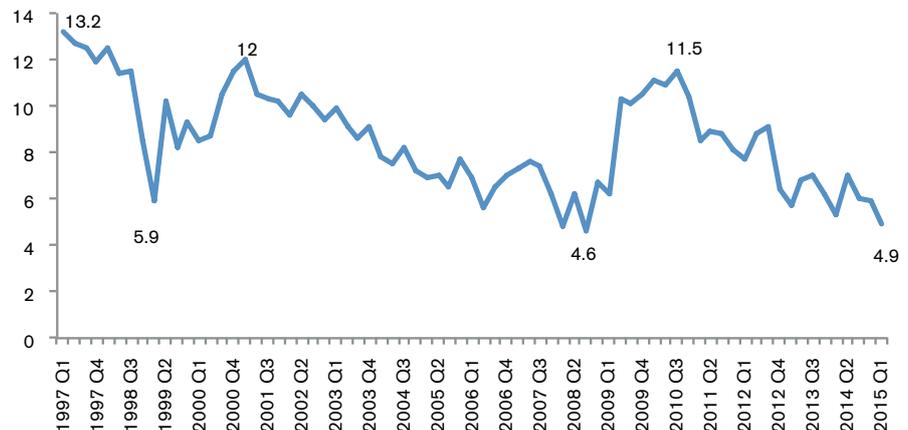
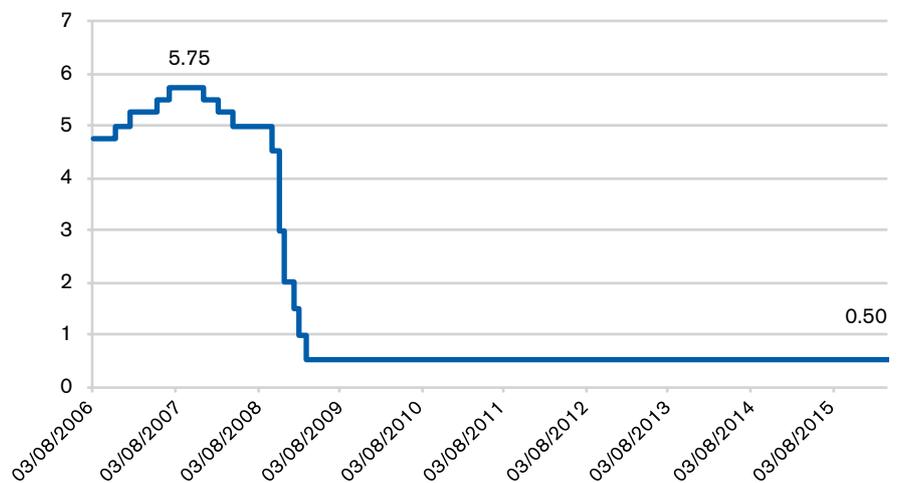


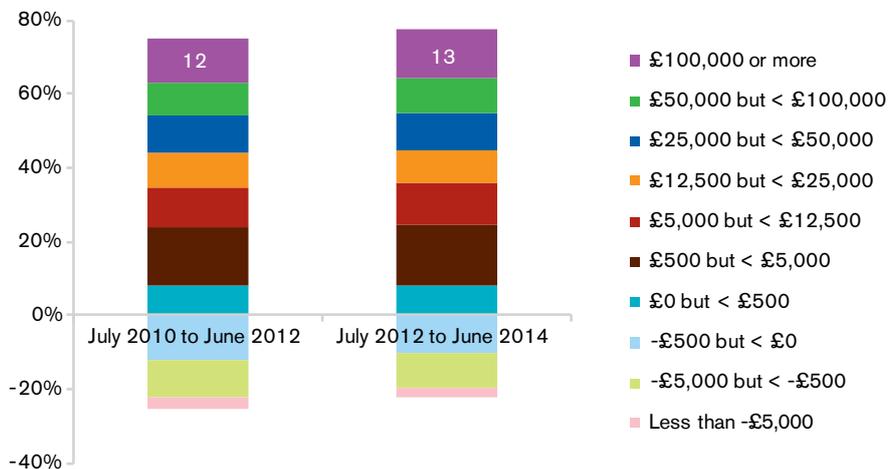
Figure 18: Bank of England Official Base Rate



²⁸ <http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/nationalaccountsarticles/2015-07-01#the-saving-ratio-is-on-a-downward-trend>. The Non-Profit Institutions Serving Households sector is currently measured alongside households, and comprises of institutions such as charities and trade unions. For the purposes of the data in this report, any mention of the household sector includes NPISH.

²⁹ <http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/nationalaccountsarticles/2015-07-01#the-saving-ratio-is-on-a-downward-trend>

Figure 19: Household net financial wealth (banded), Wealth and Assets Survey



Level of saving is not just related to level of disposable income, of course, but also to attitudes to spending/saving which can be influenced by a range of factors, not least the 'incentives' to save, including those related to the interest rate on savings. But, in this regard, there has been very little incentive to save in recent years given that interest rates have been negligible since 2009 (see figure 18 which shows the Bank of England Official Base Rate from 2006–15).

Every few years the British Household Panel Survey/Understanding Society survey asks people about their saving behavior but there is no new data this year so the figures presented in last year's report are still the most up-to-date here. They show that about two in five of the population were putting something away 'now and then' with much higher rates of saving among those on higher incomes. Those on higher incomes were also saving much larger amounts than those on lower incomes.

In terms of the total amounts held in savings, new data released this year from the Family Resources Survey shows that 45.6 per cent of families had less than £1,500 in savings in 2013–14. A further 27.5 per cent had between £1,500 and £20,000 and one in five (21.1 per cent) had over £20,000. One in 20 (six per cent) did not wish to answer this question. The figures show a very slight increase in the highest level of saving on previous years.

We also have new data from the Wealth and Assets Survey this year which shows that median gross financial wealth for households in 2012–14 was £8,500. This figure has remained more or less the same since 2006–08. Sometimes, however, people have savings at the same time that they have unsecured debts. We might think that they would use their savings to pay off their debts but this is not always the case. Other people have unsecured debts but no savings. Figure 19 therefore shows the position on net financial wealth (that is, the amount people have in financial savings once we take account of any unsecured debt, that is personal loans, credit card borrowing and so on). Here, we find that more than one in five households (22 per cent) in 2012–14 had net financial wealth below zero (that is, more financial debts than savings). The level of negative net financial wealth has, however, fallen from 25 per cent in 2010–12, suggesting that people, on average, were paying off their debts. At the opposite end of the spectrum, more than one in ten (13 per cent) had £100,000 or more of net financial wealth. This seems a very high level of net wealth but it does include the value of endowment policies (including those to repay mortgages, and also savings held for children). Nevertheless, we still find a considerable degree of inequality in net wealth.

Net financial wealth is also very unequally distributed by household income. Figure 20 shows that it is only among households in the top half of the income distribution that people have an average of more than £5,000 in net financial wealth. The richest ten per cent of households, by income, have an average (median) of nearly £70,000 net financial wealth.

Figure 21 shows median gross financial wealth in different types of savings schemes from 2006–08 to 2012–14 according to the Wealth and Assets Survey. The data is based on households with each type of asset. It shows that the amounts in some accounts dropped between 2006–08 and 2008–10 (for example, in UK bonds and gilts and Unit/investment trusts as well as UK shares and savings accounts). But, since then, for those who have each type of account, the amounts in them has increased. In some cases, these increases are very significant, for example in unit/investment trusts and bonds, the kinds of wealth held by the wealthiest groups.

Figure 20: Median household net financial wealth, by total household net equivalised income decile, Wealth and Assets Survey (figures quoted are for 2012–14)

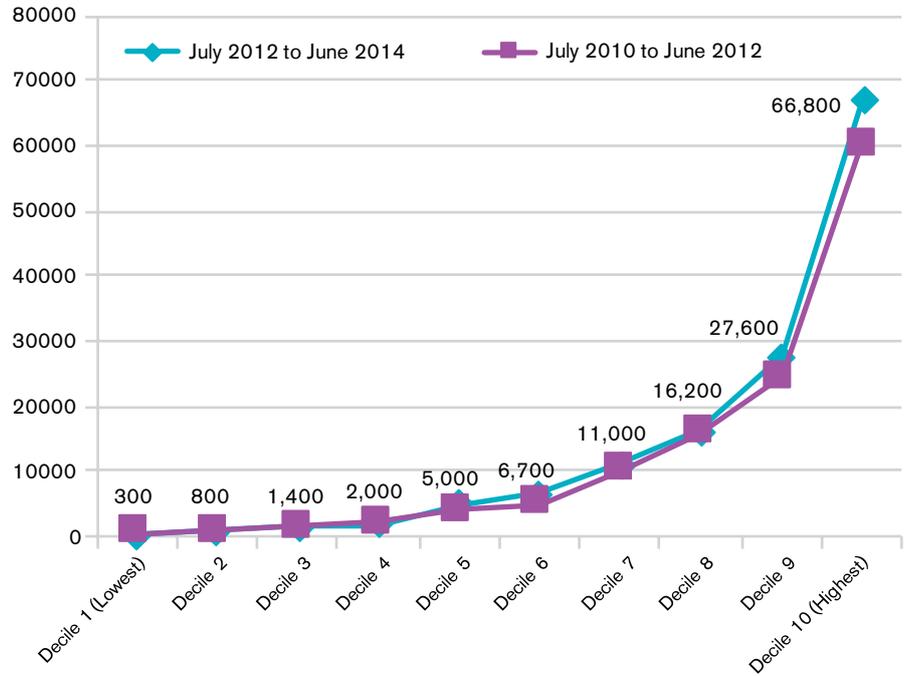
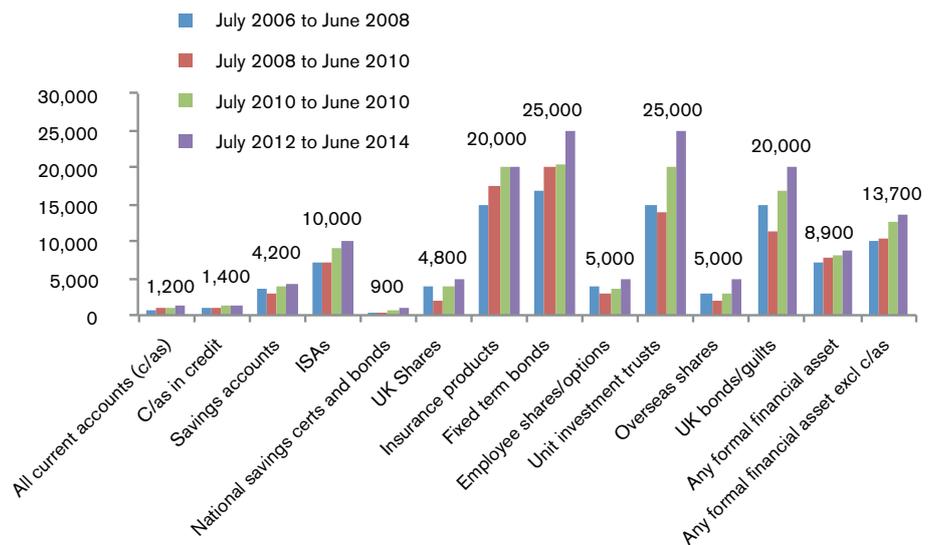


Figure 21: Median financial wealth in different types of savings schemes, Wealth and Assets Survey





LAND ACTIVE ENCOURAGEMENT

Pensions

Pensions are rarely included in discussions about financial inclusion but they are clearly important in relation to security and inclusion in later life.

Figure 22 shows that there was a long-term decline in the number of active members of occupational pension schemes from 10.7 million in 1990 to 7.8 million in 2013 but this figure then rose, for the first time in 30 years, to 8.1 million in 2014. Last year, there was then a dramatic increase to 10.2 million in 2015. Alongside this, the number of people with preserved pension entitlements has increased from 4.5 million in 1990 to 10.6 million in 2014.

This recent increase in active membership of occupational pension schemes is almost entirely due to the introduction of auto enrolment for workplace pensions (see below) and it has helped to reverse the long-term decline in pension membership which had been a feature of the private (but not the public) sector. Figure 23 shows that there had actually been long-term growth in public sector pensions over the 2000s. Our most recent data shows increases in both private and public sector active pension membership so the tide has turned in the private sector (see figure 23).

The decline in active pension membership up to 2014 had also been a particularly strong feature in relation to Defined Benefit schemes and this decline continues – see figure 24. These schemes provide guarantees about the amount that people will receive when they retire, for example, as a proportion of their final salary depending on the number of years in the scheme. Other schemes, known as Defined Contribution, give no such guarantee, with the amount received in retirement typically depending on performance in the stock market and so placing more of the financial risk on the employee/contributor rather than the employer/pension provider. The recent upswing in private pension activity has been almost entirely in relation to Defined Contribution schemes rather than Defined Benefit schemes.

Figure 22: Number of active members of occupational pension schemes (in millions), Source: Office for National Statistics Occupational Pension Schemes Surveys

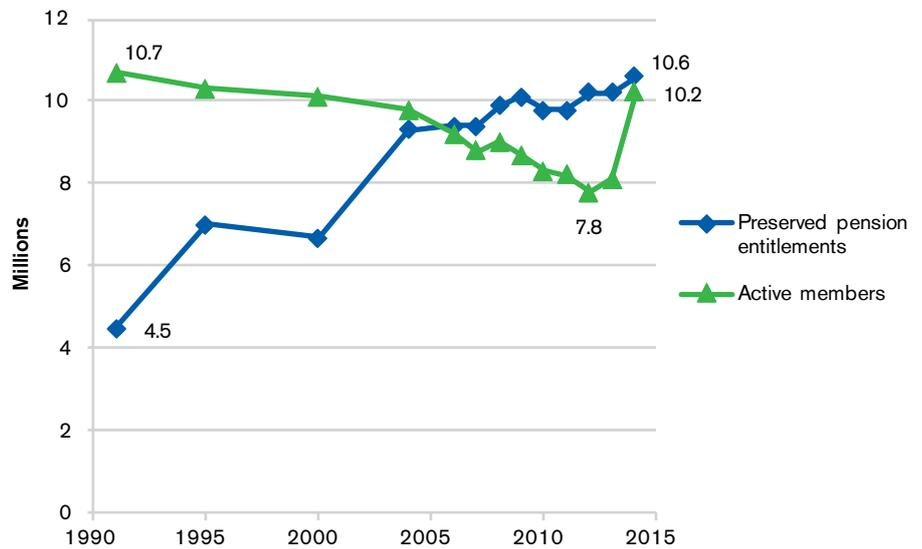
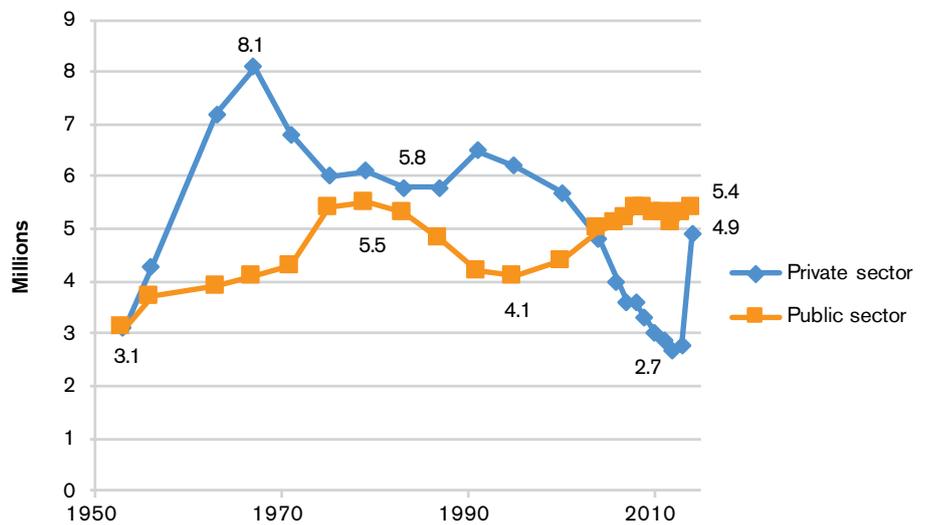
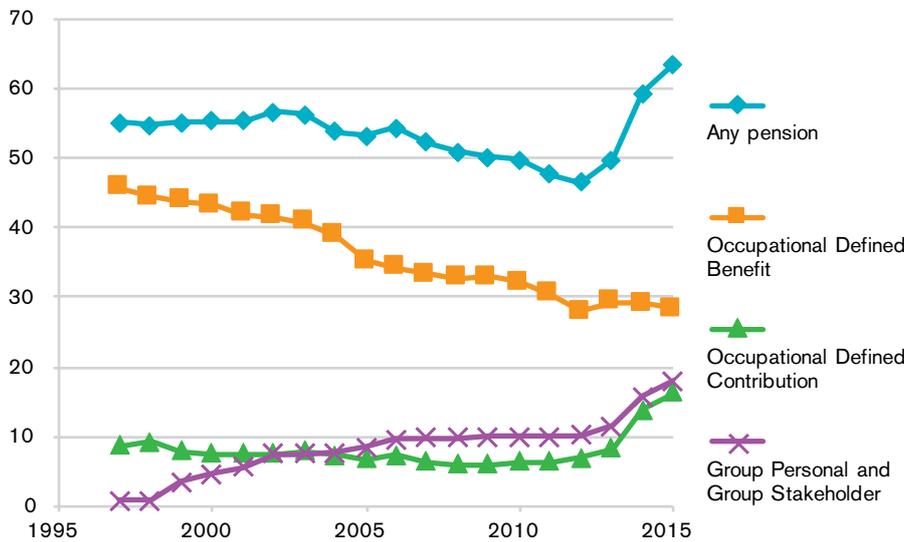


Figure 23: Active membership of occupational pension schemes by sector, 1953 to 2014, Source: Office for National Statistics Occupational Pension Schemes Survey³⁰



³⁰This trend data needs to be interpreted with some caution as it is not a continuous time series. For example, there have been changes in the definition of the private and public sectors so estimates for 2000 onwards differ from earlier years. From 2000, organisations such as the Post Office and the BBC were reclassified from the public to the private sector. Nevertheless it provides a good indication of the trends in different sectors.

Figure 24: Active membership of occupational pension schemes (in millions) by type of pension,
 Source: Office for National Statistics Occupational Pension Schemes Survey



As mentioned overleaf, the very recent increase in number of active members of occupational schemes is very closely related to the introduction of auto enrolment into workplace pensions from October 2012. Employers became subject to auto enrolment in order of size, with all large employers with 250 workers or more subject to the duties by 1 February 2014. Duties for medium employers with 50 to 249 workers were effective from 1 April 2014 to 1 April 2015. And duties for small and micro employers with up to 49 workers will start from 1 June 2015. The duties relate to those aged between 22 and state pension age, working or ordinarily working in the UK and earning more than £10,000 (2014–15 earnings threshold) unless they are already an active member of a qualifying scheme (eg, NEST). The option is available for automatically enrolled jobholders to opt out of a scheme. Figures from NEST³¹ suggest that opt out rates for workplace pensions were running at ten per cent overall, and eight per cent at NEST in 2015.

Figure 25: Proportion of employees with workplace pensions: by sector and age, 2015, Office for National Statistics Occupational Pension Schemes Survey

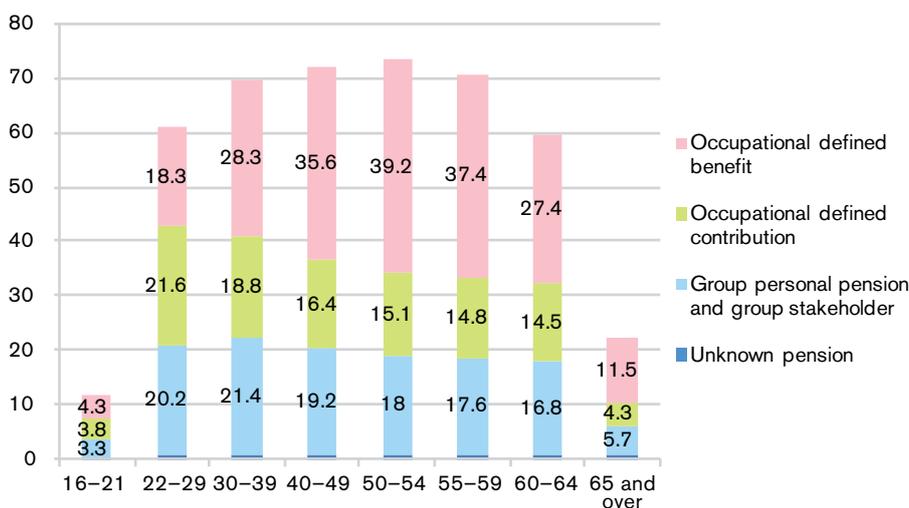


Figure 25 shows the proportion of full-time employees with workplace pensions is very low, as we might expect, among 16- to 21-year-olds but then rises to about half of those aged 22–29, peaking at just over 70 per cent for those aged 50–54 in 2015.

³¹ <http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/nest-insight-2015.pdf>

Figure 26 shows that public sector pensions are more widespread among all income groups (except those earning less than £100 per week gross wages, presumably because there are very few such workers in the public sector). Those on the lowest pay levels are less likely than those on the highest to have public sector pensions but the difference between them is far lower than the inequalities in the private sector where 79 per cent of those on wages over £600 per week have a private pension compared with only 19 per cent of those on £100–200 per week gross wages.

While the proportion of employees paying into private pensions has dramatically increased, this will not, in itself, guarantee a high level of income in retirement as this will depend on the levels of contribution made by employee and employer. Figures 27 and 28 show the level of employee and employer contribution in private sector and public sector occupational pensions. It is clear from this data that the level of contribution to private sector pensions is far lower than for public sector pensions (both in terms of employee contributions and employer contributions). For example, half of employees with private sector pensions are paying in less than four per cent of their income into these pensions and similarly receiving less than four per cent employer contributions. By contrast, half of employees with public sector pensions were paying in over seven per cent of their income and receiving 12–15 per cent from employer contributions. The level of contributions to private sector pensions is not only very low compared with public sector pensions but is also very low compared with what would be needed to achieve the level of retirement income that many people aspire to. This has led to calls for ‘auto escalation’ of contributions to run alongside auto enrolment into workplace pensions. ‘Auto escalation’ would mean that people would start contributing relatively small percentages when they first start paying into the pension but then increase the percentage over time so that the amount they contribute is sufficient for a sufficient income in retirement.

Figure 26: Proportion of full-time employees with workplace pensions: by sector and gross weekly pay, 2015, Office for National Statistics Occupational Pension Schemes Survey

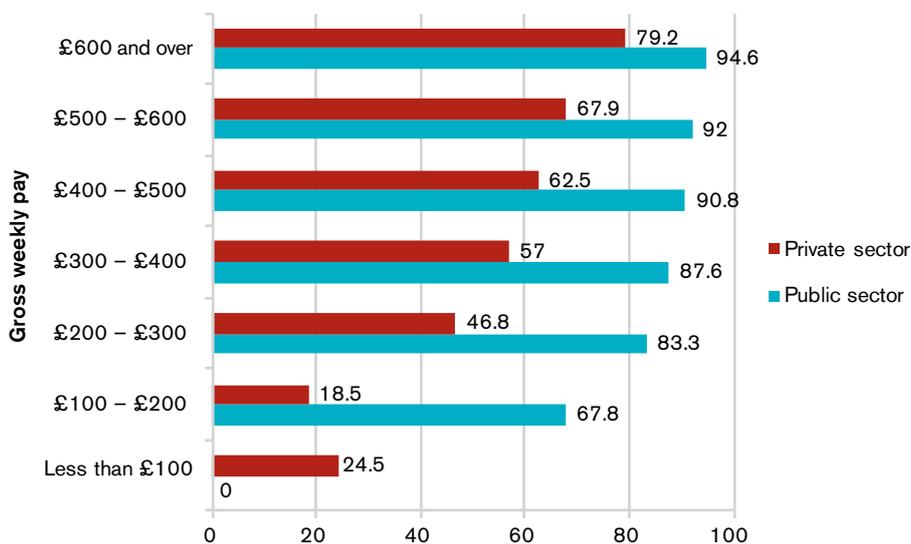


Figure 27: Employees with workplace pensions: percentage employer contributions (banded) by sector, 2015, Office for National Statistics Occupational Pension Schemes Survey

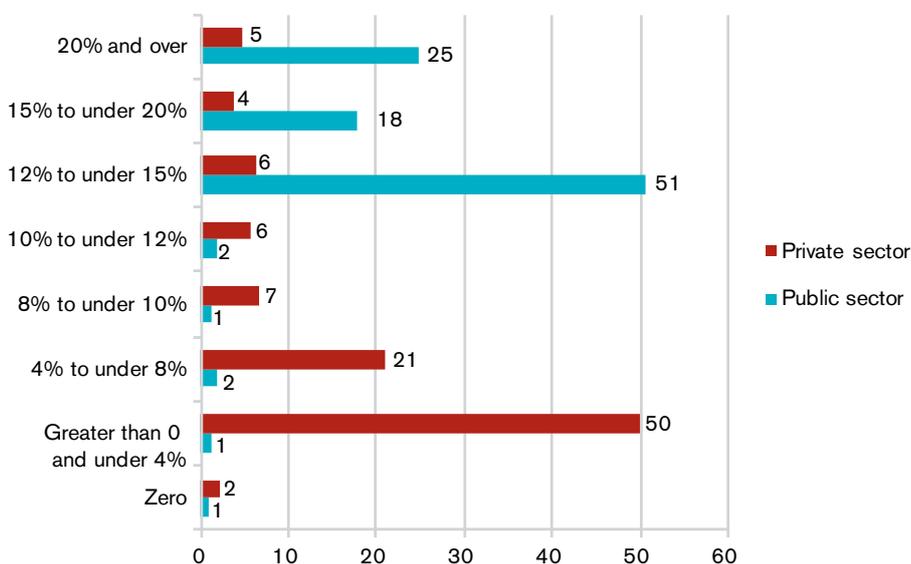
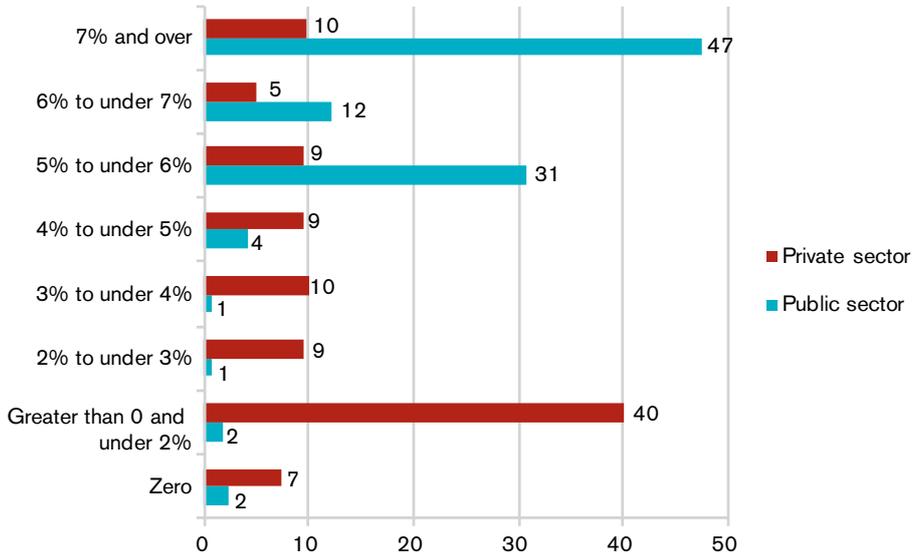


Figure 28: Employees with workplace pensions: percentage employee contributions (banded) by sector, 2015, Office for National Statistics Occupational Pension Schemes Survey



Borrowing

As we have stressed in previous reports, some forms of borrowing/debt may be very positive, for example, in enabling people to buy a home or invest in education. Borrowing can also help people to smooth income and expenditure and meet one-off expenses where they do not have savings (see page 21). However, those on the lowest incomes are often charged the highest rates for borrowing and may also be borrowing to pay for essentials due to low income. This section highlights key data on borrowing.

Before doing so, however, it is again important to note that different terms and definitions are used here. Some data sources refer to all 'borrowing' as 'debt' while others refer to credit and still others to 'indebtedness'. Furthermore, how different activities are labeled is open to question. For example, someone may have a credit card but never use it or just use it as a payment mechanism, clearing the full balance every month. Should this count as 'borrowing' or not? And there are also different datasets which ask questions of different samples in different ways leading to different answers. It is therefore important to bear all of this in mind when interpreting the data.

Our data on borrowing comes from different sources, using different definitions and methods of data collection. It is therefore difficult to get a consistent picture of trends over time and some of the most useful data sets have not been updated since 2008–9 and so cannot show the impact of the recession/recovery on borrowing. A new national survey of 'credit and debt' is urgently needed.

The annual rate of growth in the stock of consumer credit (excluding student loans) picked up to 8.3 per cent in November (see figure 29). Within this, 'other loans' and advances such as for personal loans and overdrafts, continued to account for the majority of the overall net flow. Indicative estimates, which are only available for 2014 and 2015, suggest that the majority of these flows were for car finance. The latest data also shows that borrowing on credit cards increased by £411 million in November 2015, up from a rise of £271 million in October, while debt on personal loans and overdrafts increased by £1.1 billion over the month. This increase in unsecured borrowing follows a three-year lull between August 2009 and August 2012, when consumer credit contracted every month. The government responded to this 'credit crunch' with the 'funding for lending scheme' which allowed commercial banks to borrow funds from the Bank of England cheaply, so that the banks then pass this on in the form of cheap loans to households and firms. This has contributed to a more competitive market for personal loans with costs falling to the lowest-ever level. However, the availability of cheap funds from the Bank of England has also led to lenders requiring fewer funds from the general public, to then lend on to borrowers and this has had a knock-on effect on interest rates on savings accounts which are extremely low, as we saw earlier.

Given the impact of the 'funding for lending scheme' and the general upturn in the economy, it is perhaps little surprise to see increased borrowing. Many households can manage their credit commitments without difficulty but this level of increase in borrowing does raise concerns about whether some households will become overindebted. Indeed, the Bank of England, itself, has expressed concern about the impact of rising personal borrowing on the stability of the UK economy³².

Data from the Wealth and Assets Survey is also available on changes in the percentage of people with unsecured credit or mortgage commitments ('liabilities'). Figure 30 shows that the proportion with any form of liability has actually declined from 65 per cent in 2006–08 to 61 per cent in 2012–14.

These figures might seem to run counter to the Bank of England data on increased borrowing but the apparent contradiction is explained by the fact that, while fewer people are borrowing money, those who are, are borrowing more. Figure 31 shows that half of those with liabilities in 2006–08 owed at least £32,400 whereas half of those with liabilities in 2012–14 owed at least £37,000. People with mortgage liabilities, not surprisingly, owe much more than those with financial liabilities, with the amounts for both rising between 2006–08 and 2012–14. So there seems to be a polarization between a (slowly) growing number of people without any unsecured borrowing and a group of people with increasing amounts.

³² <http://www.theguardian.com/money/2016/jan/04/rise-consumer-borrowing-fastest-pre-crisis-levels-bank-of-england-boe>

Figure 29: Annual rate of growth in the stock of consumer credit(excluding student loans), Bank of England Data

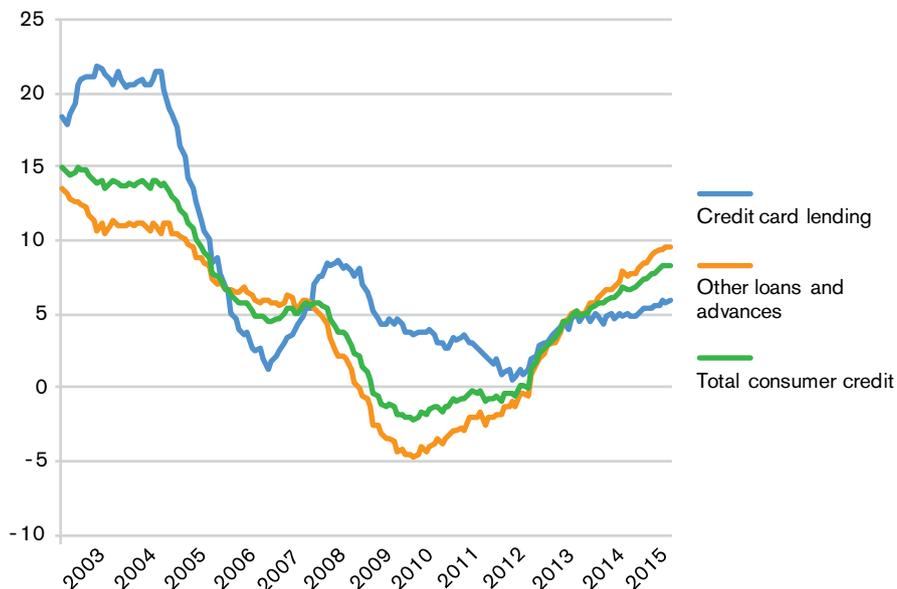


Figure 30: Percentage with liabilities, Wealth and Assets Survey

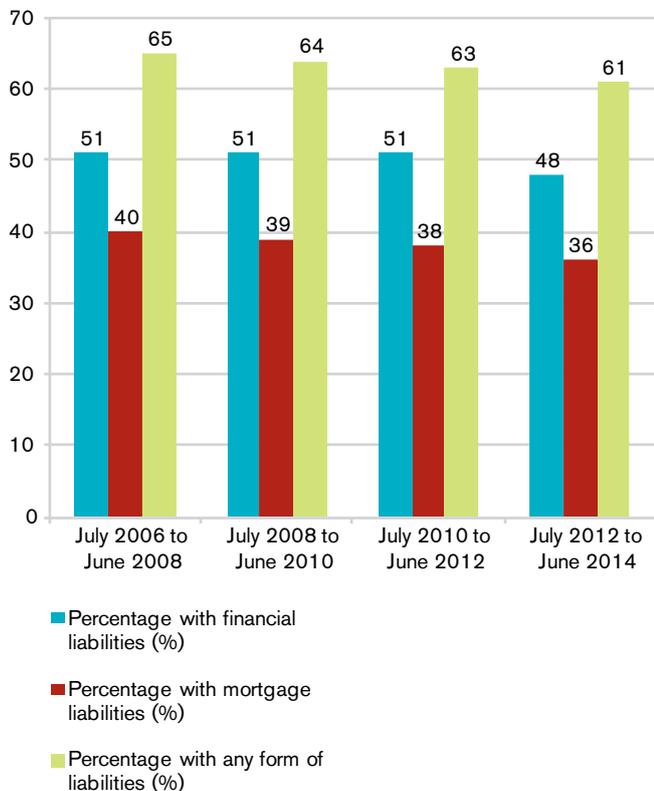


Figure 31: Amount of liabilities, Wealth and Assets Survey

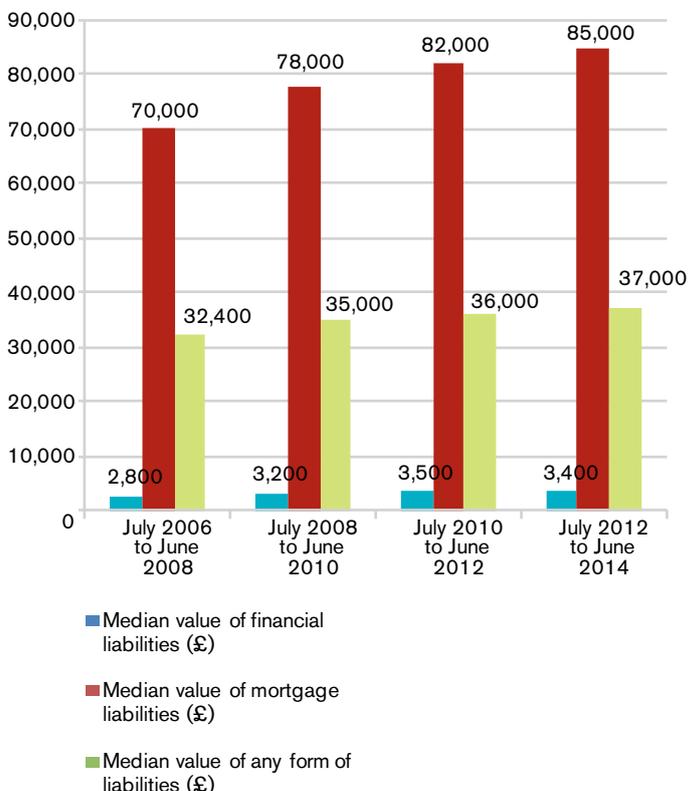


Figure 32 shows the different types of unsecured borrowing and how this has changed over time. For example, in 2006–08, 26 per cent of households owed money on credit cards compared with 23 per cent in 2012–14.

The amount owed in different types of credit commitment varies greatly with loans from the Student Loan Company being by far the highest for those that have them (see figure 33): £11,000 on average in 2012–14. Other formal loans, such as personal loans come next in value (£5,500) followed by hire purchase (£2,900) and then informal loans (£1,900) which are higher in value than credit card commitments for those that have them.

Figure 34 shows that, for those that have them, student loans are the largest debts people have. Of course, they are a rather different form of debt from other kinds, with repayments linked to income. Nevertheless, they are already increasing and will rise even more dramatically next year when we will see the impact of the rise in the cap on tuition fees to £9,000 per year in 2012–13. Data from 2015 from the Student Loan Company³³ already shows that average debt for those entering into repayment in England was already £21,180 prior to the cap on tuition fees being raised (see figure 34).

Students subject to the maximum £9,000 per year fees will only become liable for repayment from April 2016. Students in Scotland entering into repayments have much lower levels of debt than in England (£9,440 in 2015). The average repayment per year in 2013–14 was £870 in England and £660 in Scotland.

Financial liabilities vary according to household type and table 5 illustrates this. It also gives figures on the amount owed, average income and the 'debt to income' ratio for each household type. Couples with dependant children have the highest 'debt to income' ratio of all household types in the table apart from 'multiple households' (for example, where adult children are living with their parents or two or more friends are living together in the same household).

Figure 32: Unsecured borrowing from different sources in 2006–14, Wealth and Assets Survey

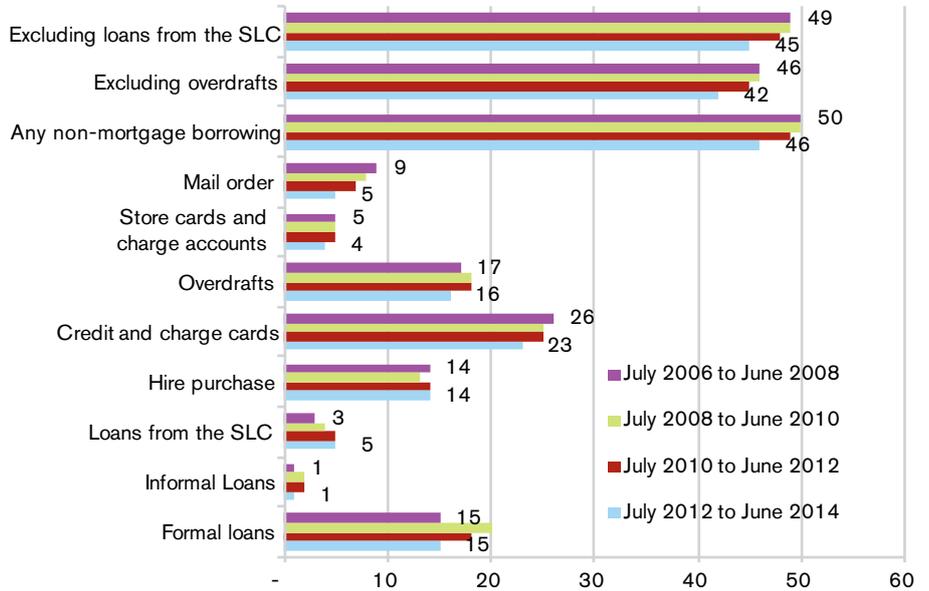
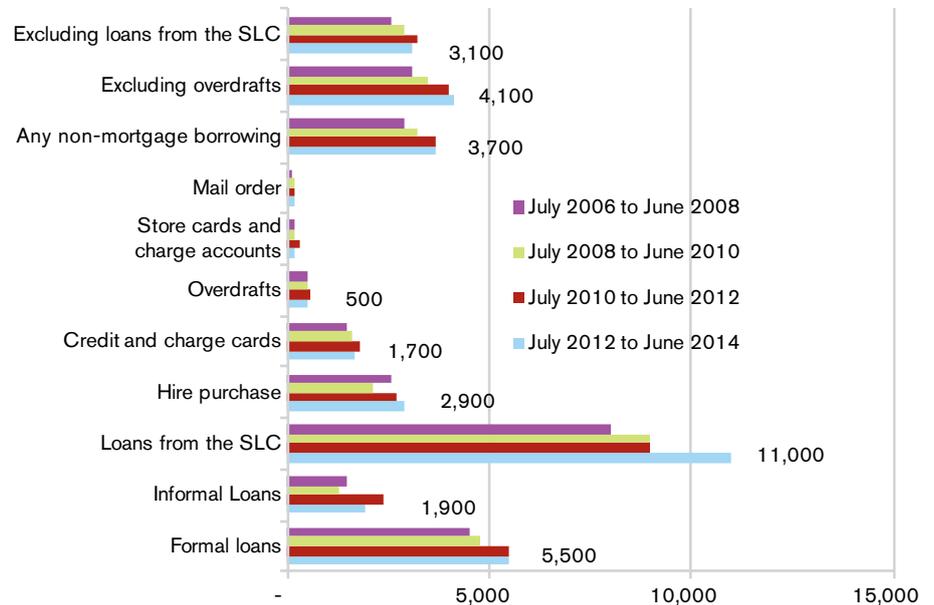


Figure 33: Amount owed on different credit commitments



³³ <http://www.slc.co.uk/official-statistics.aspx>

Figure 34: Average levels of student debt for those entering into repayment in each year, according to Student Loans Company

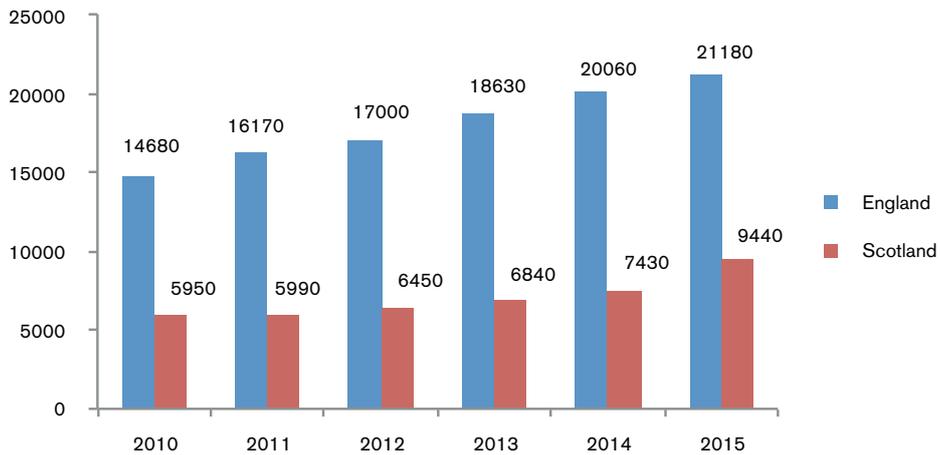


Table 5: Amount borrowed by household type in 2012–14

Household Type	Percentage with financial liabilities (%)	Median value of financial liabilities (£)	Median value of annual net equivalised income (£)	Median household debt to income ratio
Single household, over 60/65	15	1,100	20,800	0.05
Single household, under 60/65	48	1,800	22,900	0.09
Couple both over 60/65, no children	17	1,900	27,100	0.07
Couple both under 60/65, no children	60	6,000	35,900	0.16
Couple 1 over/1 under 60/65, no children	34	2,600	29,000	0.10
Couple, dependant children	65	4,700	25,000	0.19
Couple, non-dependant children	63	4,600	31,800	0.15
Lone parent, dependant children	65	1,400	18,700	0.08
Lone parent, non-dependant children	63	2,100	23,000	0.10
2 + households/other household type	64	5,700	26,000	0.22
All households with financial liabilities	48	3,400	25,800	0.13

Median values include only households with financial liabilities, Wealth and Assets Survey 2012/14

Levels of borrowing are clearly linked to income but the correlation is not particularly strong or linear. For example, in 2010–12, 42 per cent of those in the lowest income quintile (20 per cent of households) had financial liabilities compared with 48 per cent in the top income quintile (see figure 35).

Higher income households tend to borrow more than those on low incomes but they, by definition, have greater resources with which to repay their debts. Figure 36 therefore shows the median financial debt to income ratios for households with different income levels. It shows that the highest levels are found in the fourth-highest quintile followed by the lowest. All quintiles have seen their debt to income ratio decline between 2010–12 and 2012–14 except the middle quintile which has seen an increase in this figure.

So far, we have focused on mainstream sources of credit (student loans, personal loans, credit cards) but some of those on the lowest incomes cannot access this form of credit, turning instead to payday lenders, home collected credit and so on. Last year's report mentioned payday lending in depth given the recent reforms (including the introduction of a cap on the cost of such lending) which seemed to lead to a reduction in this form of lending. We do not have any new data on this here and so turn to data on another, albeit much cheaper, form of alternative credit: credit from credit unions.

Over 1.2 million people (including young people) were members of credit unions at the end of 2015 in Britain, more than double the number just ten years ago (see figure 37). The total figure for 2015 increases to nearly 2 million (1.9 million to be precise) if Northern Ireland is included. While the number of credit union members has risen every year since 2004, the number of credit unions continues to fall, year on year, from 569 to 342 between 2004 to 2015 in Britain as credit unions have merged to lower the costs of administration³⁴.

Alongside credit unions, another potential source of low-cost (actually no-cost) credit has, traditionally, been the Social Fund. Until 2013, this provided grants and interest-free loans to those on means-tested benefits in certain situations. However, this system has been fundamentally reformed as Community Care Grants (CCGs) and Crisis Loans were replaced with locally based support^{35 37}.

Figure 35: Percentage with financial liabilities by household income quintiles, Wealth and Assets Survey

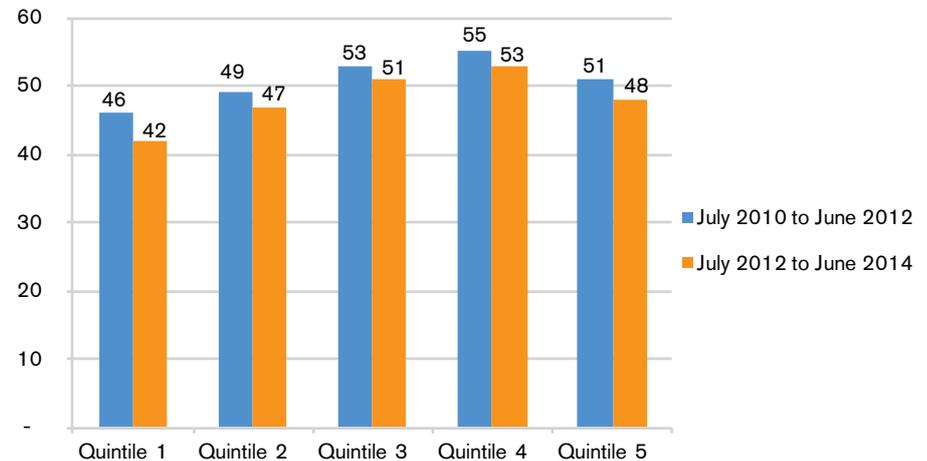
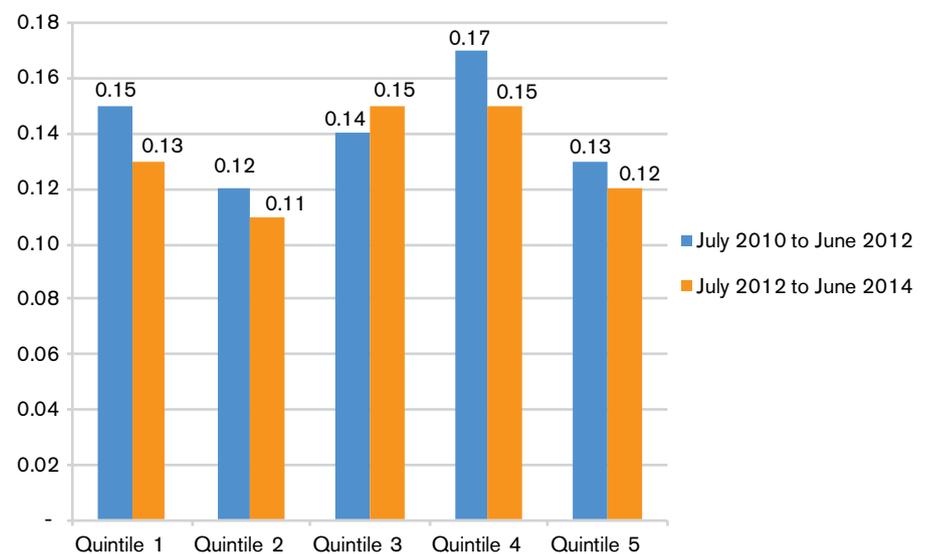


Figure 36: Median financial debt to income ratio by household income quintiles, Wealth and Assets Survey



³⁴ <http://www.bankofengland.co.uk/prd/Pages/regulatorydata/creditunionsstatistics.aspx>

³⁵ <http://www.bankofengland.co.uk/prd/Pages/regulatorydata/creditunionsstatistics.aspx>

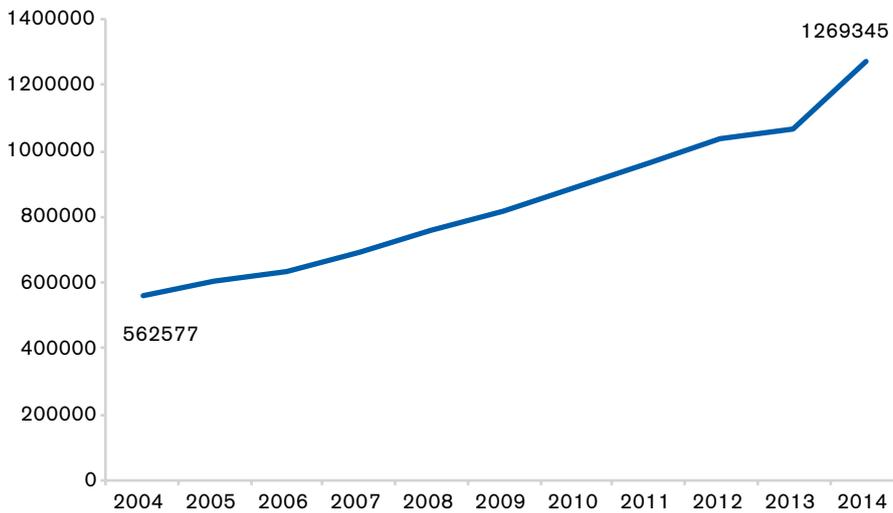
³⁶ Department for Work and Pensions (2012) *Annual Report on the Social Fund by the Secretary of State for Work and Pensions 2011/12*, London: TSO

³⁷ Gibbons, D (2013) *Local Welfare Provision, Low-Income Households, and Third Sector Financial Services Provision*, London: Friends Provident Foundation

³⁸ <https://www.nao.org.uk/wp-content/uploads/2016/01/Local-welfare-provision.pdf>

³⁹ <https://www.cml.org.uk/news/press-releases/gross-mortgage-lending-176-billion-in-february/>

Figure 37: Total number of members of credit unions in Britain³⁵ (excluding Northern Ireland) (including 'Juvenile Depositors'), Bank of England Data



According to the National Audit Office, between 2010–11 and 2015–16, the government reduced its core funding to councils by an estimated 37 per cent as part of its deficit-reduction strategy³⁸. At the same time, councils faced increasing demand due to demographic and economic changes. Councils were given £141 million in 2013–14 for local welfare provision and an additional £30 million to administer this support. However, 78 per cent of councils did not spend all this resource, despite great need, due to uncertainty about funding for 2014–15 and future years. Councils generally provide support in goods rather than cash and there is considerable variation in how support is provided locally but there is very little evaluation of how effective different approaches are. Since April 2015, some (about ten per cent) of councils have reduced or completely cut local welfare assistance because there is no longer a specific grant for this from central government even though money is planned to be set aside in 2016–17 for local welfare provision as part of the local government finance settlement.

This section of the report has focused mostly on unsecured credit but secured borrowing (primarily mortgages) is by far the largest debt that most people have during their lifetime and this form of debt has been increasing in recent years. After a fall between February 2014 to February 2015, mortgage lending increased by 30 per cent from February 2015 to February 2016, reaching £17.6 billion, according to the latest figures from the Council for Mortgage Lenders (CML)³⁹. This is the highest lending total for a February since 2008, on the eve of the financial crash, when gross lending reached £24.1 billion.

One of the short-term drivers of high mortgage activity during this period was an increase in buy-to-let loans before the introduction of changes to stamp duty rates on second homes, which came into effect on 1 April 2016. The rates on additional homes are now three percentage points above the standard stamp duty rates, which will add £6,000 to the upfront cost of investing in a £200,000 property. Now that this change has come into effect, it is likely that affordability pressures might dampen activity again.

Problem debt

As is the case with data on 'borrowing', there are also issues in relation to data on 'problem debt'. Once again, definitions vary and the way data is collected over time also varies. Also, while data on debts is collected on some routine surveys (such as the Wealth and Assets Survey and Family Resources Survey) the detail provided by these datasets is limited and it takes several years for the data to become openly available. The Bank of England/NMG data provides some additional data which is released more quickly but we still lack a comprehensive picture of problem debt and the last time that we had such a survey was in 2008–09 when the Department for Trade and Industry/Business Innovation and Skills carried out a series of surveys. These were referred to in last year's report so will not be repeated here but lack of data on this vital issue is a pressing problem. The Conservative Party did, indeed, note that their new Financial Policy Committee would 'monitor and control the growth of indebtedness'⁴⁰ and there is some data from the Bank of England on this. But the data collection methods are not consistent every year and the number of questions asked is very limited. We therefore suggest, again this year, that the government should collect better evidence on problem debt.

One type of problem debt is a credit commitment which has become unmanageable, often due to losing a job or having a reduced income compared with when the credit commitment was taken on. As Table 6 highlights, the Wealth and Assets Survey (WAS) found that the proportion of households who were behind with two or more payments on a fixed-term non-mortgage loan remained stable at four per cent between 2006–8 and 2012–14⁴¹.

About one in ten households said that they cannot keep up with bills and regular debt payments, according to the Family Resources Survey in 2013–14 and this figure has remained the same since 2010–11.

In 2016, the Money Advice Service produced a report on over-indebtedness through building statistical models to estimate levels of over-indebtedness across the UK from three research surveys⁴². Respondents were defined

Table 6: Percentage of households behind with two or more payments

	July 2006 to June 2008	July 2008 to June 2010	July 2010 to June 2012	July 2012 to June 2014
Personal and cash loan arrears	4	5	5	4
Mail order arrears	4	4	3	2
Any fixed term non-mortgage borrowing arrears ³	4	4	4	4

as being over-indebted if they both: found that it was a heavy burden to keep up with bills and credit commitments; and also had fallen behind or missed payments in at least three of the last six months. The model was then applied across the country to provide national and regional estimates. According to this research, 16 per cent of the population (8.2 million people) in the UK were over-indebted. Some regions had particularly high rates of over-indebtedness (including Northern Ireland, Wales, the West Midlands and North East) while others had lower rates (including Scotland, the South East, South West and East of England). Levels of over-indebtedness in London were only slightly higher than average but this masked great inequality within the capital. For example, more than 20 per cent of those living in Newham, Barking and Dagenham, Tower Hamlets, Greenwich and Hackney were over-indebted compared with fewer than 14 per cent of those in Bromley, Kingston-upon-Thames, City of London, Kensington and Chelsea and Richmond-upon-Thames.

The report also identified five key factors which were highly correlated with over-indebtedness as follows: renting rather than owning your home; having dependant children, particularly having three or more; being a lone parent; having a low income; and being aged 25–34.

One type of problem debt that has received attention this year has been council tax arrears. According to the debt charity, StepChange⁴³, typical council tax arrears among its clients had jumped to £961 in 2015 compared with £717 in 2011. And while one in seven people seeking help on debts in 2011 had serious council tax arrears, it was now around one in three. Figures from National Debtline, the free

advice service run by the Money Advice Trust, have shown a similar trend – whereas only 14 per cent of callers were in arrears on council tax in 2007, this had increased to 25 per cent in 2015.

Both charities also highlighted a worrying trend towards increasingly 'aggressive' use of bailiffs by local authorities. The Money Advice Trust, for example, produced data which revealed that 2.1 million debts were passed to bailiffs by local authorities in 2014–15, an increase of 16 per cent over a two-year period⁴⁴. Of these, 1.27 million related to council tax arrears.

A previous survey⁴⁵ of StepChange Debt Charity clients with council tax arrears in 2014 showed that:

- 62 per cent of people struggling with arrears who contacted their council for assistance were still threatened with court action
- 51 per cent were threatened with bailiff action
- Only 13 per cent were encouraged to seek debt advice

It is likely that council tax arrears have increased partly due to the changes introduced in 2013, when council tax benefit was effectively abolished as a centralised benefit. Responsibility for helping people with council tax payments was devolved in England to local authorities and most of these have introduced minimum payments for people who were previously exempt. On average, these families are required to pay £171 in council tax per year.

⁴⁰ <https://www.conservatives.com/manifesto>

⁴¹ <http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/report--chapter-5--financial-wealth.html>

⁴² <https://www.moneyadviceservice.org.uk/en/corporate/a-picture-of-over-indebtedness>

⁴³ <http://www.stepchange.org/Mediacentre/Pressreleases/RecordCouncilTaxarrearsproblems.aspx>

⁴⁴ <http://www.stepchange.org/Mediacentre/Pressreleases/RecordCouncilTaxarrearsproblems.aspx>

⁴⁵ <http://www.stepchange.org/Portals/0/documents/media/reports/Council-tax-debt-report-2015.pdf>

Figure 38: Individual insolvency rate in England and Wales, quarterly data. Rates are the number of individual insolvencies per 10,000 adults

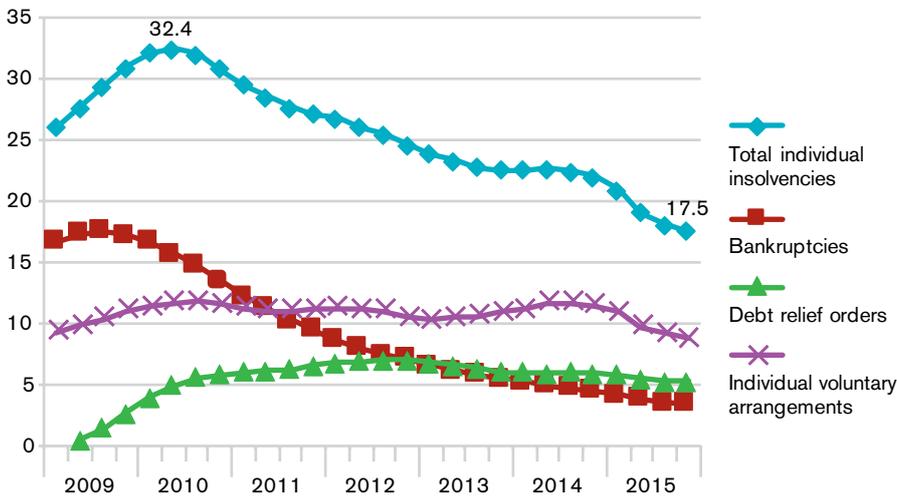
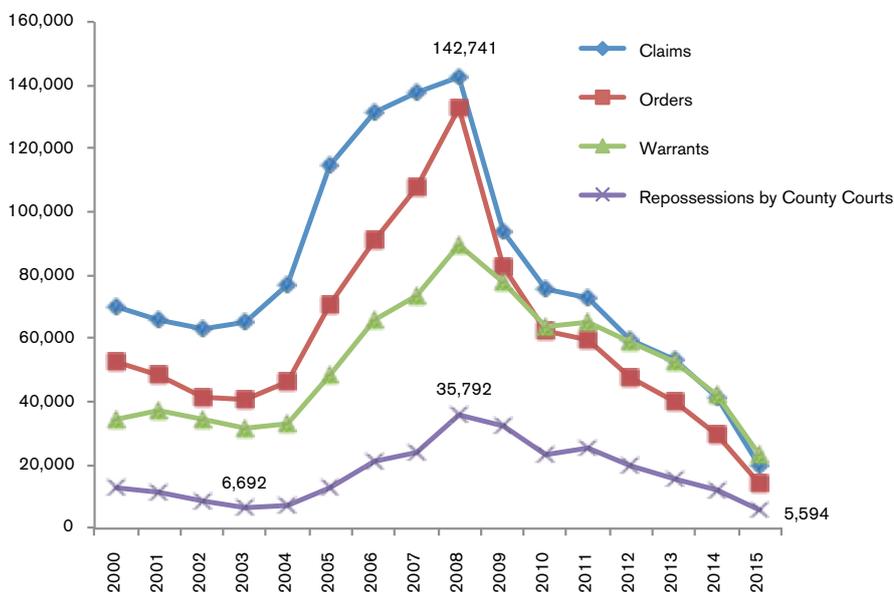


Figure 39: Mortgage possession statistics in County Courts in England and Wales, Ministry of Justice data



Another indicator of problem debt is the rate of insolvency⁴⁶. Individual insolvency procedures include bankruptcy, debt relief orders (with effect from 6 April 2009) and individual voluntary arrangements:

- Bankruptcy: a form of debt relief available for anyone who is unable to pay the debts they owe. Any assets owned will vest in a trustee in bankruptcy who will sell them and distribute the proceeds to creditors in accordance with the order laid down by statute.
- Debt relief order: a form of debt relief available to those who owe £15,000 or less and have little by way of assets or income. There is no distribution to creditors, and discharge from debts takes place 12 months after the DRO is granted.
- Individual Voluntary Arrangements – a voluntary means of repaying creditors some or all of what they are owed. Once approved by the majority of creditors, the arrangement is binding on all. Such arrangements are supervised by a licensed Insolvency Practitioner.

Data from the Insolvency Service⁴⁷ shows that the total individual insolvency rate has declined from a peak of 32.4 per 10,000 adults in 2010 to 17.5 in the last quarter of 2015. Rates of bankruptcy have been steeply declining since 2009 while debt relief orders have increased and individual voluntary arrangements remained fairly stable (see figure 38).

Another, quite extreme, indicator of problem debt is the number of properties taken into possession over time. Repossession is the final part of a process which starts with a claim for possession, followed by an order and then a warrant. As figure 39 shows, all parts of this process (claims, orders, warrants and actual possessions) increased markedly from the early 2000s to 2008–09 and thus predates the recession though is, of course, closely linked to the credit crunch which subsequently led to recession. As far as claims for possession go, these rose from 58,000 in 2002 to 143,000 in 2008 and have now fallen to 20,000⁴⁸. Actual (re)possessions by county court bailiffs were around 7,000 in 2003 but then rose to a peak of 36,000 in 2008 before falling to 6,000 in 2015.

⁴⁶ See the Insolvency Service website: <http://www.bis.gov.uk/insolvency>

⁴⁷ <https://www.gov.uk/government/statistics/insolvency-statistics-january-to-march-2015>

⁴⁸ <https://www.gov.uk/government/statistics/mortgage-and-landlord-possession-statistics-october-to-december-2014>

This decline in repossessions might seem surprising given the extent of the recession and austerity in the UK but it appears to be the result of actions taken by government, regulators and other key actors⁴⁹. Low interest rates have certainly helped along with increased help with mortgage payments when people lose their jobs. The government also introduced new protocols to ensure that lenders exercised greater forbearance when borrowers found themselves in arrears. However, some of this support for mortgagors is due to end in 2016 so this may cause some difficulties, particularly if interest rates rise and cuts in tax credits are pursued.

We see a different trend with evictions from rented properties (technically referred to as landlord possession)⁵⁰. Figure 40 reports on landlord possession claims (which may not necessarily lead to evictions). These actually declined among social landlords during the early 2000s with a total of 90,000 in 2010 but increased quite dramatically to 113,000 in 2013. They have subsequently declined again to 95,000 but are therefore still higher than the 2010 figure. Accelerated possession claims are used when the tenant is near the end of their lease. It is not possible to split this into private and social landlords. They have increased every year since 2009 from 17,000 to 38,000 in 2015.

Not all claims lead to evictions but figure 41 shows that in 2015, there were over 41,000 landlord (re)possessions/evictions in England and Wales, a dramatic increase from the 27,000 in 2010 – see figure 41.

Figure 40: Landlord possession claims in the county courts of England and Wales by type of procedure and landlord, 1999 – 2015, Q4⁵¹

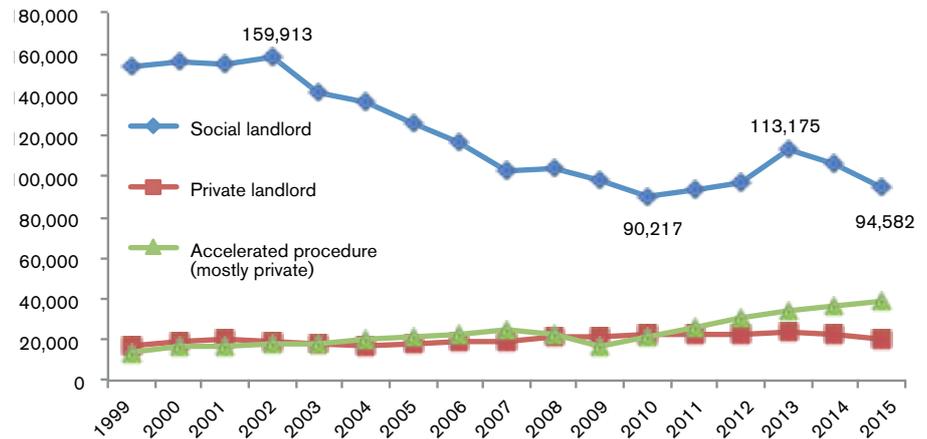
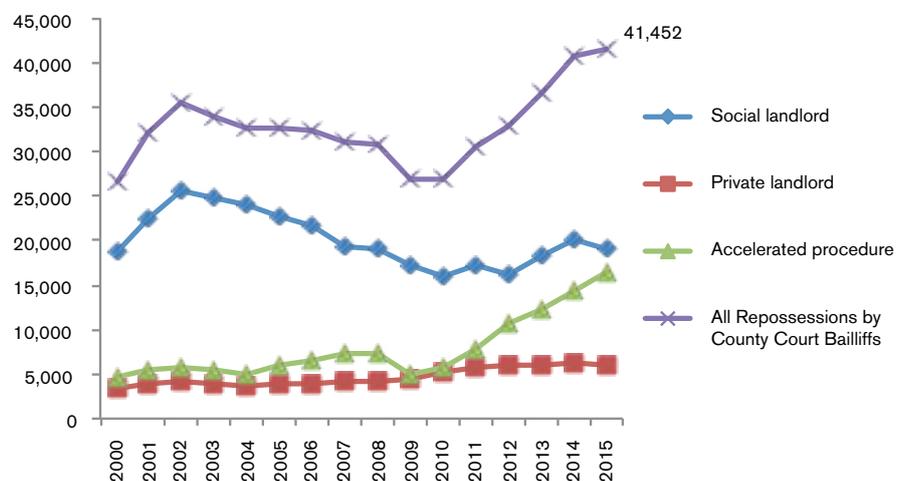


Figure 41: Landlord possession workload in the county courts of England^{1,2}, 1999 – 2015, Q4, HM Courts and Tribunals Service CaseMan and Possession Claim On-Line (PCOL)



⁴⁹ Kempson, E (2016) 'What explains the low impact of the financial crisis on levels of arrears among UK households?' in Ferretti, F (ed) *Comparative Perspectives of Consumer Over-Indebtedness: A View from the UK, Germany, Greece, and Italy*, Eleven International Publishing

⁵⁰ Ministry of Justice (2015) Mortgage and landlord possession statistics quarterly, October to December 2014, Ministry of Justice Statistics bulletin,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/403190/mortgage-and-landlord-possession-statistics-october-december-2014.pdf

⁵¹ Please note that possession claims do not always lead to actual evictions.



Home contents insurance

When budgets are tight, as they have increasingly become in the last few years, home contents insurance may seem like an expensive luxury. In particular, people on the lowest incomes may have relatively few possessions to insure and may find that the products available are designed for those with more.

There have therefore been a number of attempts to increase the proportion of households covered by home contents insurance, not least by investigating ways of involving the third sector⁵² and making the products more appropriate to low-income households in terms of the minimum amount that needs to be covered. But there appears to have been little change here. According to the Family Expenditures Survey and Living Costs and Food Survey, the proportion of those in the poorest quintile who had home contents insurance increased from 52 per cent to 56 per cent from 1999–2000 to 2009–10 but more recent figures from the Family Resources Survey suggest an overall decrease in the proportion of working adults who have home contents insurance between 2008–09 to 2013–14 from 65 per cent to 60 per cent (see figure 42).

Figure 42: Home contents insurance for working-age adults 2008–09 to 2013–14, Source: Family Resources Surveys



⁵² Dayson, K, Vik, P and Ward, A (2009) Developing models for delivering insurance through CDFIs – opportunities and risks, Community Finance Solutions

Conclusions

This is the fourth in a series of five annual reports on financial inclusion which we define broadly as the ability to manage day-to-day financial transactions; meet expenses (both predictable and unpredictable); manage a loss of earned income and; avoid or reduce problem debt.

Compared to last year there are some positive signs. For example, unemployment has fallen, employment has increased, wage levels are rising slowly and inflation is low (perhaps too low). Some groups in the population have increased their savings and have more of a financial cushion to draw on in times of need. The number of people saving in an occupational pension has increased dramatically in the last year. Fewer people are in debt and insolvencies have fallen, as have mortgage possessions. This all suggests that financial inclusion has increased for some groups as they are now better able to: meet expenses (both predictable and unpredictable expenses); manage a loss of earned income and; avoid or reduce problem debt.

Other signs are less positive, however. More people appear to be 'unbanked' this year than last year which suggests that the ability to manage day-to-day financial transactions will be reduced.

And some people are struggling more, not less, to meet their expenses and avoid or reduce problem debt. Basic benefits have been cut even further for those of working age. Incomes in 2013–14 were eight per cent lower than they had been in 2009–10 (in real terms). And 10 million people were living in poverty in 2013–14, with 1.2 million destitute (including 312,000 children). For those who borrow money, the amount is increasing and it is difficult to afford even the basics. More than half of those in the bottom decile (ten per cent) of the income distribution were finding things difficult or just about getting by. Council tax arrears are also increasing considerably, with 'aggressive action' against those who have fallen behind. Landlord repossessions have increased for those in rented accommodation.

It therefore looks as though some (particularly those at the top of the income distribution and perhaps some towards the middle) have been able over the last couple of years to benefit from economic growth and become more financially included while many others in the middle and at the bottom are struggling ever more and being financially excluded. This report therefore echoes the calls made by the authors of a recent Financial Conduct Authority report⁵³ for government to take a stronger lead in pursuing a more holistic and joined-up approach to financial inclusion. We hope that the newly established House of Lords Select Committee on financial exclusion will also help to achieve this.

⁵³ Collard, S, Coppack, M, Lowe, J and Sarkar, S (2016) *Access to financial services in the UK*, London: FCA, <http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf>

Appendix – Data sources and research methods

This research, funded by the Friends Provident Foundation, has been carried out in three main stages: stakeholder engagement; secondary analysis of existing data sources; and a module of questions on an Ipsos/MORI omnibus survey in 2013, 2014 and 2015.

Stakeholder engagement

The research began with discussions with key stakeholders about the approach the research might take. Stephen McKay led a workshop at the 2012 Centre for Responsible Credit conference and then the project team held an event in London in January 2013 to specifically discuss to consider the scope of the research (in particular, how wide or narrow a definition of financial inclusion we should use), the type of indicators we might monitor and the data sources we should consult. Stakeholders engaged included Brian Pomeroy, former Chair of the Financial Inclusion Taskforce alongside representatives from: Fair Banking Foundation; Centre for Responsible Credit; Financial Services Authority; DWP Finance Change, Credit Union Expansion project; Which?; ABCUL; Resolution Foundation; IPPR; and Transact.

Secondary analysis of existing data sources

A number of data sources were analysed as part of this research. The key sources were:

■ Wealth and Assets Survey (WAS)

This is a relatively new panel survey of people's assets and general wealth, including pensions, financial assets, property and savings. Four waves have been produced, covering 2006–08, 2008–10 and 2010–12 and 2012–14⁵⁴ ⁵⁵. The first wave of the survey comprised 30,595 responding households. The second wave comprised 20,170 responding households, all of whom had taken part in wave 1. The third wave comprised 21,541 responding households.

It returned to responding households from waves 1 and 2 who gave their permission to be re-interviewed. In addition, a new cohort was introduced at wave 3 (12,000 issued addresses) with the aim to maintain an achieved sample size of around 20,000 responding households. The fourth wave of the survey ran from 2012 to 2014 and comprised 20,247 responding households. It returned to responding households who gave their permission to be re-interviewed. Households who were eligible but who could not be contacted in the previous wave were approached again at wave 4. A new cohort was introduced (8,000 issued addresses) with the aim to maintain an achieved sample size of around 20,000 responding households⁵⁶. These data are Crown Copyright.

■ Family Resources Survey (FRS)

This is a long-running annual cross-sectional survey of over 24,000 households. It is used by government and others to describe the income distribution and numbers of households below various income lines. It also collects details about accounts held⁵⁷. These data are Crown Copyright.

■ British Household Panel Survey, and Understanding Society (BHPS and US)

The BHPS was a panel survey of individuals living in around 5,500 households in 1991. Where possible those individuals have been interviewed on an annual basis since then⁵⁸. This source is now largely subsumed into the new Understanding Society survey.

A large new sample of over 40,000 households (plus remaining BHPS respondents) is now interviewed each year⁵⁹.

■ Data on credit and debt

There are a number of sources of data on credit and debt using different methodologies, making trends over time difficult to measure. Many of these sources are also considerably out of date. The Department of Trade and Industry/Business Innovation and Skills carried out a series of studies on over-indebtedness beginning with a detailed survey by MORI in 2002, which involved 1,647 face-to-face interviews with the head of household or their spouse/partner. A second survey was also carried out in 2004 by MORI (the Financial Services Survey, or FSS) which collected data from almost 10,000 individuals. Results for 2006 were based on unweighted ONS data collected for 7,443 households interviewed between July and December 2006. In particular, the results for the FSS in 2004 are not directly comparable with the other results available, as they are based on responses for individuals rather than households or family units. BIS then published a report on over-indebtedness in Britain⁶⁰ based on data from the YouGov DebtTrack survey, a series of online surveys carried out between July 2008 and July 2009 with a sample size of around 3,000. Another source of data here is the NMG survey for the Bank of England, carried out in 2012–15⁶¹ ⁶².

⁵⁴ Office for National Statistics. Social Survey Division, Wealth and Assets Survey, Colchester, Essex: UK Data Archive [distributor], March 2013. SN: 7215, <http://dx.doi.org/10.5255/UKDA-SN-7215-1>, and <http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/index.html>

⁵⁵ <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-4/2012-2014/index.html>

⁵⁶ <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-4/2012-2014/index.html>

⁵⁷ Department for Work and Pensions, National Centre for Social Research and Office for National Statistics. Social and Vital Statistics Division, Family Resources Survey, 2010–11 [computer file]. Colchester, Essex: UK Data Archive [distributor], October 2012. SN: 7085, <http://dx.doi.org/10.5255/UKDA-SN-7085-1>

⁵⁸ University of Essex. Institute for Social and Economic Research, British Household Panel Survey: Waves 1–18, 1991–2009 [computer file]. 7th Edition. Colchester, Essex: UK Data Archive [distributor], July 2010. SN: 5151.

⁵⁹ University of Essex. Institute for Social and Economic Research and National Centre for Social Research, Understanding Society: Waves 1–2, 2009–11 [computer file]. 4th Edition. Colchester, Essex: UK Data Archive [distributor], January 2013. SN: 6614, <http://dx.doi.org/10.5255/UKDA-SN-6614-4>

⁶⁰ BIS (2010) Over-indebtedness in Britain: second follow-up report, <http://www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf>

⁶¹ Between 12 and 30 September 2013, NMG Consulting carried out an online survey of around 6,000 UK households on behalf of the Bank and asked them a range of questions about their finances. See: <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130406.pdf>

⁶² <http://www.bankofengland.co.uk/research/Pages/onebank/datasets.aspx#2>

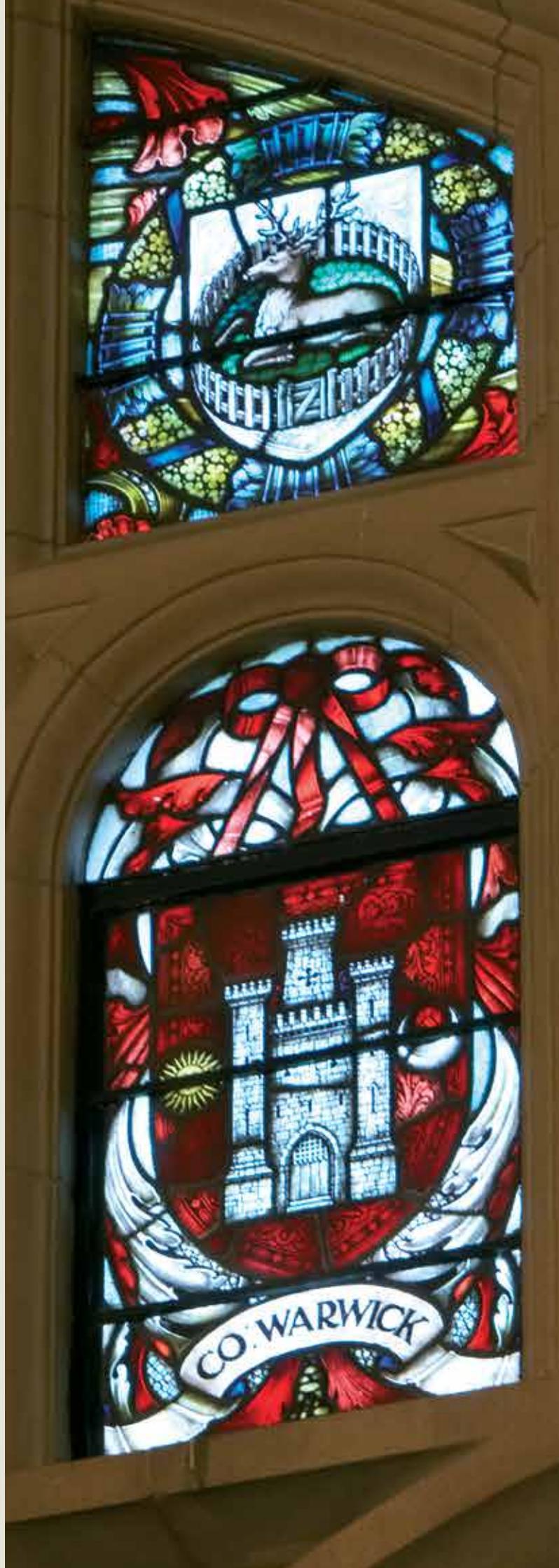
■ **Labour Force Survey (LFS)**

Each quarter around 120,000 individuals are included in the LFS. The emphasis is on collecting labour market data, including those who are unemployed⁶³. These data are Crown Copyright.

■ **Ipsos/MORI omnibus survey 2013–16**

The final part of the project involved placing questions on an omnibus survey to collect up-to-date information not available from other sources. We developed a range of questions which were then refined in consultation with researchers at Ipsos/MORI. The survey was then carried out between 7 and 16 June 2013. A total of 967 adults aged 18+ in Great Britain were interviewed as part of the face-to-face omnibus. The data for this module was collected through self-completion. The survey was repeated in May 2014 with an achieved sample of 981 adults, and again in April 2015 with 996 adults, and again in April 2016 with 927 adults.

⁶³ Office for National Statistics. Social Survey Division and Northern Ireland Statistics and Research Agency. Central Survey Unit, Quarterly Labour Force Survey, July–September, 2012 [computer file]. Colchester, Essex: UK Data Archive [distributor], November 2012. SN: 7174, <http://dx.doi.org/10.5255/UKDA-SN-7174-1>





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