UNIVERSITY OF BIRMINGHAM | CHASM Centre on Household Assets and Savings Management

FINANCIAL INCLUSION ANNUAL MONITORING BRIEFING PAPER 2019

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Executive Summary

Despite increasing levels of employment, poverty is rising for all groups, including those in work. This is a fundamental driver of financial exclusion and so it is no surprise to see low rates of saving and high rates of problem debt in this year's briefing paper. Council tax debt is particularly widespread which again comes as no surprise given reductions in council tax support for people of working age since 2013. The use of bailiffs and, potentially prison, for those with council tax debt needs urgent attention. The growing number of personal insolvencies is also extremely worrying, given that 70,000 Individual Voluntary Arrangements were made in 2018, compared with 40,000 in 2015.

On a more positive note, the number of people 'unbanked' has reached an all-time low but there are still just over a million people without access to their own transactional bank account – and some financial institutions are doing far more to provide basic bank accounts than others. Indeed, some financial institutions are making considerable profit from unarranged overdrafts, with people in deprived areas more likely to pay overdraft fees. The Financial Conduct Authority proposes to tackle this issue from 2020 and we look forward, with anticipation, to monitoring progress.

Introduction

This briefing paper builds on six previous annual reports commissioned to measure changing levels of financial inclusion in Britain from 2013 onwards. This year's briefing paper is funded by Friends Provident Foundation and Barrow Cadbury Trust. The paper presents data from a number of different datasets. Where possible, we have shown data from previous years to highlight trends in these indicators. Links to infographics and data sources are included in the paper.

We define financial inclusion broadly as the ability to: manage day-to-day financial transactions; meet expenses (both predictable and unpredictable expenses); manage a loss of earned income and; avoid or reduce problem debt. In order to achieve financial inclusion, people need both a sufficient level of income and access to appropriate financial services. This briefing paper therefore begins with evidence of the broad economic picture in terms of growth, employment and incomes before focusing on access to financial services.

1 – The economy

Economic growth has fallen, since 2014, to 1.3% in 2018 (**1.1**). In 2019, the rate of inflation was 1.8%, just below the government target of 2% - a slight fall from the level in 2017/2018 when inflation had risen dramatically following the 2016 Brexit referendum and drop in the value of sterling (**1.2**). After nine years, when the Bank of England's Official Interest Rate was at or below 0.5%, the interest rate was raised to 0.75% in August 2018. Historically, this is still a very low rate (**1.3**).

2 – Employment levels, types and earnings

Unemployment continues to decline and remains at lower levels than before the economic crash of 2008/9. But, in 2019, there are still 1.3 million people out of work who are available for, and actively seeking, a job (**2.1**). The number of people in full-time employment has continued to grow, at pace, since 2013 (**2.2**). And since 2011, there has been a particularly significant increase in the percentage of women aged 60–64 who are in employment, no doubt due in large part to changes in the state pension age for this group (**2.3**). The rapid growth in zero hour contracts, witnessed since 2012, has now stabilised at nearly 1 million people on such contracts (**2.4**). While the growth in employment is very welcome, average weekly real earnings have still not quite recovered to their pre-crash levels. This is worth repeating – weekly earnings today buy less than they did a decade ago (**2.5**).

3 – Poverty

Despite increasing levels of employment, poverty is rising. In 2016/17, 14 million people were living in poverty (incomes below 60% median AHC) in the UK. More than 4 million of these were children, a rise of 500,000 since 2011/12; and 2 million of these were pensioners. More than 8 million of those living in poverty had at least one person in paid work in their family (**3.1**). Workers in four types of industry have particularly high rates of poverty: accommodation and food services; agriculture, forestry and fishing; administrative and support services; and wholesale and retail (**3.2**). Relative poverty among pensioners and children actually declined during the recession as average earnings fell and the social security system protected the most vulnerable. But poverty is now increasing again among these groups (**3.3**). Means-tested benefits for people out of work are increasingly failing to help people reach a Minimum Income Standard. In 2009, a lone parent with one child received two thirds of what they needed (**3.4**). Ten years later, they received less than half. The Trussell Trust gave out more than 1.5 million emergency food parcels in 2018/19 (**3.5**).

4 – Financial wellbeing

More than a quarter of the population in 2016/17 said they were just about getting by, financially, or finding it difficult to do so (**4.1**). More than two in five of those on the lowest incomes (bottom 20%) were just getting by or finding things difficult in 2016/17 (**4.2**). The pressures of living on low incomes cause poor mental and physical health. Nearly half (45%) of people in the poorest fifth of the population in Great Britain were worried about money or debt in 2016. Poverty also reduces the length of time people live in good health – by as much as 15 years if we compare those in the most deprived fifth of areas of England with those in the least deprived (**4.3**).

5 – Access to financial products

The number of people 'unbanked' that is, without a transactional bank account, continued to decline in 2018. However, there were still just over a million people who lacked access to their own transactional bank account. Nearly half of this group lived in households where someone else had an account but this still means that just over half a million people neither had an account themselves nor had access to one in their household (**5.1**).
Fee-free basic bank accounts offer people services, including direct debits, without the risk of running up overdraft charges. According to HM Treasury, in June 2018, there were 7.5 million basic bank accounts open with the top nine financial institutions offering personal current accounts. Some of these institutions offer more basic bank accounts than would be expected from their total market share of current accounts including: Co-operative bank; Clydesdale and Yorkshire Bank; Nationwide; and Lloyds Banking Group. Others offer far fewer basic bank accounts than we would expect including: Royal Bank of Scotland; and Barclays (**5.2**).

6 – Savings

The amount people were saving from their incomes remained at a very low rate in 2018, half the level it had reached in 2015 (**6.1**). More than half (53%) of 22–29-year-olds had no money at all saved in a savings account in 2014 to 2016, compared with 41% in 2008 to 2010. However, those who did, had an average of £1,600 saved, up from £900. Thus inequality is increasing within this age group (**6.2**). The UK's household savings rate is lower than the EU (28) average and far lower than many of our largest and closest Western European neighbours (**6.3**).

7 – Pensions

The last four years have seen a dramatic rise in the number of people with an active private sector pension, from 2.8 million in 2013 to 8.8 million in 2017. This is largely due to the introduction of automatic enrolment into workplace pensions (**7.1**). And for the first time, in recent history, the number of active members of Defined Contribution schemes was higher than the number of members of Defined Benefit schemes (**7.2**). Auto enrolment into workplace pensions has certainly increased the number of people with private pensions. But not all those who have a workplace pension are actually making contributions to it (**7.3**). And the private sector is still lagging behind the public sector in many respects, particularly in terms of providing pensions for people in low-paid jobs (**7.4**) and also in terms of contributing less into people's pensions (**7.5**). From April 2019, the minimum contributions to workplace pensions increased from 5% to 8% (2% to 3% for employers and 3% to 5% for employees). This should increase the contribution rates of private sector pensions unless employees decide to opt out (**7.6**).

8 – Borrowing

Mortgage lending (approvals) dropped dramatically in 2007/8. They have increased slowly since then and appear to have plateaued in the last year or two (**8.1**). Unsecured lending is still increasing, year on year, but at a slower rate than in recent years. This is the case for both net credit card lending (**8.2**) and net consumer credit lending (excluding student loans and credit cards) (**8.3**).

In 2018, 52 million people had a personal current account (PCA) in the UK. More than a third used an arranged overdraft and 26% used an unarranged overdraft. The majority of unarranged overdrafts were for less than £50. On average, firms made £2.50 for every £1 lent through unarranged overdrafts. In 2017, firms made an estimated £2.4bn in revenue from overdrafts and people in deprived areas were more likely to pay these fees (**8.4**).
In April 2019, the FCA announced a number of reforms of overdrafts, to take place from April 2020, to tackle these issues (**8.5**).

At the end of 2018, there were over 2 million members of credit unions in the United Kingdom (1.8 million adults and 240,000 children/young people). England had most members in total but, as a percentage of the population, fewer than 2 per cent of people in England were members. In Northern Ireland, by contrast, more than a third of the population were members of a credit union in 2018.

9 – Problem debt

We have very little reliable data on problem debt but 3 million people were behind with any one or combination of the following: gas, electric, water, rent, mortgage or council tax debt at some point in 2017/18. Of these, council tax debt is the most widespread, with nearly 1.6 million people falling behind with it. This is, perhaps, no surprise given the reductions in council tax support for working age adults since 2013 (**9.1**). Six in ten people in the poorest fifth of the population report that they are in problem debt, most commonly falling behind with Council Tax payments, rent or utility bills (**9.2**).

In 2017, Citizens Advice helped people with 690,000 household bill debt problems, compared to 350,000 consumer credit issues (**9.3**). According to Citizens Advice in 2018, 2.2 million people reported being contacted by bailiffs in the last two years and more than a third of these – 850,000 people – experienced bailiffs breaking the rules, including: refusing to accept affordable payment offers; pressing people to make unrealistic offers; misrepresenting their rights of entry; taking control of goods inappropriately; and acting aggressively and unsympathetically (**9.4**).

The number of insolvencies continues to grow each year, driven particularly by the increase in Individual Voluntary Arrangements (IVAs) from 40,000 in 2015 to over 70,000 in 2018 (**9.5**). The number of accelerated tenant evictions (repossessions) has continued to decline while evictions by social landlords remain stable and there has been a slight increase in evictions by private landlords in the last year (**9.6**).

10 – Insurance

Only 6 in 10 working-age adults had home contents insurance in 2017/18. Of those who did not have it, the reasons given were equally split between those saying it was: not relevant to them; relevant but they did not want it; they wanted it but it was unaffordable (**10.1**). Londoners were particularly likely to be uninsured with 45% in this position in 2018. This may be due to higher rates of renting in London, given that renters generally are much less likely than home owners to have contents insurance (**10.2**). More people had car insurance than home contents insurance in 2017 (**10.3**).

To see all the data from this paper, please visit **www.birmingham.ac.uk/financial-inclusion-2019**

Learn more
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