

# **Financial Inclusion: Annual Monitoring Report 2022**

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## Key notes for 2022

### Negative growth

Following a 'post-COVID-19' bounce-back in GDP, growth has stagnated and, indeed, started to fall in 2022

### Unemployment falls, zero hours contracts increase

1.3m people unemployed in Q2 2022. Zero hours contracts have increased to over 1m

### Benefits crash in value

Means-tested benefits for those out of work are worth less relative to Minimum Income Standards than at any time in the last decade

### Half a million people with no access to banking in 2020/21

### Borrowing increased in 2021 while savings rate fell

### 79% workers have pensions

Record high in number of workers with private pensions in 2020 but contribution levels can be low

### Inflation in double figures

After falling to near zero in 2021, inflation reached double figures in 2022 causing a cost-of-living crisis

### Interest rates at decade high

Bank of England Base Rate reached 3% in November 2022 causing mortgage payments to rise

### Over 2 million emergency food parcels provided

by the Trussell Trust in 2021/22

### One in six finding it difficult to manage

October Ipsos survey

### £45,000 student debt

Being the average Student Loan Company balance for those who finished their courses in 2021.

### Record number of IVAs

Number of Individual Voluntary Arrangements for insolvency reached record high at over 80,000 in 2021

## Financial inclusion – 10 years on

	Then (2012)	Trends between	Now (2022)
<b>Economy</b>			
GDP	-0.1% (2012, Q2)	COVID-19 crash, ‘recovery’ and recession	-0.1 (2022, Q2)
Inflation	2.6% (2012)	Reached zero in 2015/16 then fluctuated before massive increase in 2022	10.1% (2022)
BoE base rate	0.5% (2012)	Stable till 2016 then fluctuated between 2018-2021. Sharp increases during 2022	3.0% (2022)
<b>Labour market</b>			
Unemployment.	2.6m (2012)	Reduced over the period	1.3m (2022)
Under-employment.	3m (2012)	Reduced over the period	2.3m (2022)
Employment.	71% in (2012)	Big drop in FT self-employment	76% (2022)
Zero hours contracts.	250,000 (2012)	Massive increase over period	1m (2022)
<b>Incomes</b>			
Average real weekly earnings.	£455 (2012)	Fluctuated but massive drop in 2022 due to inflation	£480 (2022)
Poverty: 60% median After Housing Costs.	21.1% (2010/11)	Increased to peak in 2019/20 but reduced in latest year due to average income declining	20.3% (2020/21)
Social security safety net.	38% MIS for single working age in 2013.	Declined in value in terms of MIS (Minimum Income Standard)	25% MIS for single working age in 2022
Food bank use (Trussell Trust).	130,000 in 2011/12	Massive increase though small reduction last year	2.2m in 2021/2
<b>Subjective financial wellbeing</b>	10% in 2011/12 report financial difficulty (reporting finding it quite or very difficult, when asked how they are managing financially)	The proportion in our 2022 Ipsos survey saying that they are finding it “very” or “quite” difficult, when asked how they are managing financially at the moment, was 16%, higher than the equivalent figure in the Family Resources Survey in 2011/12 (10%) which had fallen to 7% in 2019/20.	16% in 2022 reporting finding it quite or very difficult, when asked how they are managing financially at the moment

	Then (2012)	Trends between	Now (2022)
<b>Bank accounts:</b> Number with no bank account in household	0.8m in 2010/11	Reduction in numbers of people un-banked though consequences of being un-banked increased	0.5m in 2020/21
<b>Savings:</b> Household savings ratio	8.5% at end of 2011	General decline but massive spike in savings during COVID-19 crisis	6.8% at end of 2021
<b>Pensions: %</b> Workers with private pensions	48% in 2011	Massive increase in occupational pension membership due to auto enrolment but questions over contribution rates	79% in 2021
<b>Borrowing</b> 12-month growth rate in credit card lending. Mortgage approvals.  Student loans: average debt on graduation.	1.9% in 2012  600,000 in 2011/12  £16,000 in 2010/11	Crash in credit card borrowing during Covid crisis but now higher than at any time since before the 2008/9 GFC  Crash in mortgage approvals during Covid crisis but now higher than at any time since 2008/9 GFC  Massive increase in outstanding student loans and average debt of those graduating	10.6% in 2022  900,000 in 2021/22  £45,000 in 2020/21
<b>Problem debt</b> % families falling behind with bills. Debt 'solutions'.  Mortgage possessions. Landlord possessions.	8.0% families 2012/12 49,000 IVAs in 2011 37,000 in 2011 32,000 in 2011	Decreased  Massive increase, particularly since 2015 Massive drop 2011-2016 then down again during COVID-19 Massive drop during COVID-19, increase since then	5.4% families 2020/21 81,000 IVAs in 2021 2,000 in 2021 9,500 in 2022
<b>Insurance:</b> % with home contents insurance	65%	No real change	63%

## Executive summary

### Key findings

The last 10 years have seen spells where progress was made in relation to financial inclusion. For example, in terms of the broad underpinnings for financial inclusion, unemployment had fallen, employment had increased and, prior to the current living cost crisis, average incomes had been growing in real terms. At the same time, however, there was also growth in zero hours contracts and poverty rates, with phenomenal increase in the use of food banks. In terms of more specific aspects of financial inclusion, there have been reductions in both the number of people unbanked and the number of mortgage possessions. But this contrasts with a general reduction in saving, increase in borrowing and use of 'debt solutions' including Individual Voluntary Arrangements (IVAs).

These broad trends have been obscured in some ways by the massive economic shock caused by the COVID-19 pandemic, from which we are yet to recover, and the current 'cost of living crisis'. During 2022, inflation reached double figures and the Bank of England base rate rose to its highest in 30 years. A long recession is forecast and the UK faces two years when real household disposable incomes are expected to fall – by 4.3% in 2022-3 and by 2.8% in 2023-4 according to the Office for Budget Responsibility. These are unprecedentedly bad times. The measures taken to offset fuel prices are likely to be essential to budgets, but it remains unclear what will happen to levels of rents, interest rates on mortgages and unsecured credit, with wages now lagging considerably behind price growth.

### The economy

- We have seen continued dramatic economic change in the last year, caused by a range of factors including our emergence from the pandemic, the impact of Brexit and the war in Ukraine but also by the changes announced in the UK government's 'mini budget' of September 2022.
- Economic growth is stagnant and there was negative growth in Q2 of 2022.
- Inflation reached double figures in July 2022.
- Interest rates were sharply increased to 3% by November 2022.

### The labour market

- Despite an increase during the COVID-19 crisis, unemployment has fallen again and is now lower than at any time in well over a decade.
- 'Underemployment' rose during the COVID-19 crisis but has fallen again and is now lower than it has been for over a decade.
- Full-time employment has increased dramatically over the last decade but full-time self-employment and part-time employment decreased significantly during COVID-19. Part-time employment appears to be increasing again in the last year however.
- The number of people on zero hours contracts has fluctuated in recent years but reached over 1 million in the first quarter of 2022 – around double the figure a decade ago.

## **Incomes**

- Average real wages for those in work increased during the pandemic but have been declining since late 2021. Wages are not keeping pace with high inflation.
- Official data on relative poverty levels is not particularly timely but shows that poverty decreased during the pandemic as average incomes fell and so those on the lowest incomes were less likely to fall below 60% of the average. Nevertheless, 27% of children and 15% of pensioners were living in poverty after housing costs in 2020/21.
- The means tested social security safety net has reached an all-time low in providing enough money for people to meet a Minimum Income Standard. A single working-age person only receives a quarter of what they need and families with children about half.
- Use of food banks fell below its pandemic peak in 2020/21 but 2.1 million emergency food parcels were still being provided by the Trussell Trust alone in 2021/2.

## **Subjective financial wellbeing**

- There were clear signs of strain on people's finances, with 16% finding things either quite or very difficult, and 25% 'just getting by' in 2022.
- Some groups have fared worse than others including those describing themselves as 'Gypsy or Irish traveller', 'African', 'Caribbean' or 'Arab', from the list of options with which they were presented. Similarly, respondents who identified as 'Pakistani' or 'Bangladeshi' also reported had high levels of financial difficulty.
- Consumer confidence is lower than at any time since records began in the 1970s.

## **Bank accounts**

- In 2020/21, there were just over half a million adults living in households without any access to a transactional bank/savings account. This was a slight decrease on 2019/20.
- Just over a million people in 2020/21 personally lacked a transactional bank/savings account.

## **Savings**

- On average, personal savings increased during the pandemic as some people were unable to spend their money on holidays, leisure, entertainment and other forms of consumption. But the savings rate has now returned to its previously low level.
- Within these aggregate figures, there is much variation. Nearly one in five reported that their savings had decreased during the pandemic. Nearly three in ten reported an increase.
- About 359,000 people have saved money in the government's Help to Save scheme.

## **Pensions**

- Membership of occupational pension schemes continue to increase largely as a result of the introduction of automatic enrolment into workplace pensions since 2012, with 79% of employees now having access to an occupational pension – the highest ever figure.
- Access to a pension scheme does not, however, necessarily mean that people are contributing enough into it to meet their basic needs in retirement and indeed the majority of workplace pensions managed by the biggest provider, NEST, were actually ‘inactive’ in 2022.

## **Borrowing**

- On average, borrowing increased in 2021, as consumers returned to spending (and therefore borrowing) on holidays, leisure, entertainment and other forms of consumption following the ‘forced saving’ of the pandemic. Some may also be borrowing to meet living costs. Credit card lending has seen a particular surge.
- Student loan debt continues to increase (to £160 billion in 2020/21) but, for the first time ever, the number of people making repayments decreased, as did the amount repaid, no doubt due to the impact of the pandemic on young people’s employment and earnings.

## **Problem debt**

- Consistent, reliable, real-time trends on problem debt are difficult to find but data from the Family Resources Survey suggests that 4 million people were living in households in 2020/21 that had fallen behind with household bills.
- The number of people taking out an Individual Voluntary Arrangement to help them manage their debt problems increased to an all-time high, 81,000 in 2021.
- Mortgage possessions declined during COVID-19. They have started to rise slightly during 2021.
- Landlord possessions plummeted dramatically during the COVID-19 pandemic (owing to changed regulations) before increasing in 2021, although not to pre-pandemic levels.

## **Insurance**

- There has been little change in the percentage of adults with home contents insurance over the past year – or indeed over the past decade.

# Introduction

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## Towards a financially-inclusive society

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This report is the tenth, and final, in a series of annual monitoring reports supported by the Friends Provident Foundation and Barrow Cadbury Trust to monitor progress towards, or indeed, away from, financial inclusion in Britain. To aid comparisons and provide a comprehensive picture, it uses the same framework as the previous reports and updates figures, where available, to give the most recent data and trends.

Given that this is the last report in the series, we also highlight changes observed during the decade in which we have been monitoring financial inclusion.

Before presenting our data and commentary on these trends in detail, we start, as always, with our definition of financial inclusion. According to Kempson and Collard<sup>1</sup>, a financially inclusive society would be one in which everyone had the ability to:

- manage day-to-day financial transactions (e.g. 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 (e.g. 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 Team<sup>2</sup> 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.

Much of the governmental focus on financial inclusion relates to the second of these – access to financial services. In their *Financial Inclusion Report 2018/19*, HM Treasury and the Department for Work and Pensions (DWP) stated that *"Financial inclusion' means that individuals, regardless of their background or income, have access to useful and affordable financial products and services.'* This begs the question of which products and services are 'useful' rather than 'harmful' and which are 'affordable' rather than 'unaffordable'. It also requires further exploration of the

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

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

barriers to access, which the FCA has<sup>3</sup> described using three metaphors: 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 relationship between financial inclusion and financialisation. Discussion revolves around whether financial inclusion policies serve as a progressive *response* to financialisation or *advance* the process of financialisation<sup>4</sup>. 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, and as part of the shift in responsibility from the (welfare) state to the individual.

We briefly review the policy context to financial inclusion in this chapter. 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.

## The policy context

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Financial inclusion first emerged on the policy scene in the UK under the New Labour government from 1997 onwards. Key policy milestones under New Labour included: the establishment of Policy Action Team 14 in 1999 by the Social Exclusion Unit to focus on financial exclusion; the introduction of Basic Bank Accounts in 2003; publication of '*Promoting Financial Inclusion*' by HM Treasury in 2004; and then the formation of the Financial Inclusion Taskforce in 2005 to advise HM Treasury on access to banking, access to affordable credit, savings and insurance, and improve access to appropriate money advice<sup>5</sup>.

The Coalition Government (2010-2015) retained an interest in this issue but had no overall strategy<sup>6</sup>. 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

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<sup>3</sup> 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>.

<sup>4</sup> See, for example: Prabhakar, R (2022) *Financial inclusion*, House of Commons Library Research Briefing; Prabhakar, R (2021) *Financial Inclusion: Critique and Alternatives*, Bristol: The Policy Press; Berry, C (2014) 'Citizenship in a financialised society: financial inclusion and the state before and after the crash' *Policy & 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

<sup>5</sup> See Rowlingson, K and McKay, S (2014) *Financial inclusion annual monitoring report 2014*, Birmingham: University of Birmingham

<sup>6</sup> See Appleyard, L (2015) *Financial inclusion: review of Coalition Government policies 2010-2015*, Birmingham: University of Birmingham

regulation of high-cost, short-term credit via the Financial Conduct Authority (FCA)<sup>7</sup>. Mortgage lenders had to change their practices to conform to tighter regulation of affordability checks in the wake of the financial crash. The government also made changes to Individual Savings Accounts (ISAs), allowing people to save more in such tax-free accounts. The introduction of auto enrolment in workplace pensions was a significant change in pensions policy alongside the extra freedom given to people to access the whole of their Defined Contribution pension pot on retirement. Alongside these 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. While the government certainly supported the principle of encouraging savings and self-reliance, one of its first acts was to abandon the Saving Gateway, an initiative 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 was the formation of a Financial Inclusion Commission, a non-partisan, cross-party commission chaired by Sir Sherard Cowper-Coles which produced a report in March 2015<sup>8</sup> arguing for, among other things, greater leadership from government. The election of a Conservative government in May 2015 did not initially see a particular policy focus on financial inclusion. Austerity policies remained in terms of further cuts to benefits and tax credits causing hardship for some<sup>9</sup> but government policy was active in other related fields, not least: basic bank accounts; workplace pensions; new savings schemes; and local welfare assistance.

In a report published by the FCA<sup>10</sup> (2016: 18), the authors echoed the call for a stronger strategic lead from government and this call was again reinforced by the House of Lords Select Committee on Financial Exclusion in 2017<sup>11</sup>. Following on from this, in June 2017, the government established two ministerial roles with responsibility for financial inclusion: the Parliamentary Under Secretary of State (Minister for Pensions and Financial Inclusion – Guy Opperman) in DWP and the Economic Secretary to the Treasury – John Glen, with the two departments producing the first of what was intended to be an annual report on financial inclusion in 2019<sup>12</sup>. They also established the Financial Inclusion Policy Forum which is co-chaired by both Ministers and meets twice a year. With the arrival of Liz Truss as Prime Minister in September 2022, these roles changed and with Truss replaced by Rishi Sunak as PM on 25<sup>th</sup> October there has been further

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<sup>7</sup> 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](http://www.social-policy.org.uk/wordpress/wp-content/uploads/2015/04/08_gardner1.pdf)

<sup>8</sup> Financial Inclusion Commission (2015) *Financial inclusion: improving the financial health of the nation*

<sup>9</sup> 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.

<sup>10</sup> 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>

<sup>11</sup> [House of Lords - Tackling financial exclusion: A country that works for everyone? - Select Committee on Financial Exclusion \(parliament.uk\)](https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/13202.htm) [https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/13202.htm]

<sup>12</sup> The third such report was published in December 2021. <https://www.gov.uk/government/publications/financial-inclusion-report-2020-2021>

change of personnel – with Andrew Griffith as Economic Secretary to the Treasury, Victoria Atkins as Financial Secretary and John Glen as Chief Secretary but the full responsibilities in relation to these roles is yet to be clarified on the Treasury website at the time of writing (4<sup>th</sup> November 2022). There is a similar lack of clarity in the Department for Work and Pensions in terms of the responsibilities of the various ministers and whether financial inclusion will be among them.

A series of reforms and changes in regulation have taken place since 2016. For example, the FCA introduced a cap on the cost of rent-to-own products from July 2019 and a package of reforms relating to overdrafts culminating in a change from April 2020 such that banks could only charge a simple annual interest rate for overdraft users – without additional fees and charges. The FCA have also acted in relation to a growing form of high-cost credit, Buy Now Pay Later (BNPL) offers. From the end of 2019, providers were obliged to give clearer information to customers and to prevent interest payments being backdated. And in 2021, HM Treasury announced that other, interest-free, BNPL credit agreements which currently sit outside the scope of regulation will be regulated by the FCA in order to protect consumers<sup>13</sup>.

HM Treasury<sup>14</sup> has also been active in other ways in this space, with the Help to Save scheme launched in September 2018, to support people on low incomes to build up a savings buffer. An initial pilot of a new Prize-linked Savings Scheme took place between October 2019 and March 2021 (i.e. largely during the pandemic). Fifteen credit unions took part, and nearly 14,000 accounts were opened. The independent evaluation of the scheme<sup>15</sup> suggested that it did help increase awareness and positive attitudes towards credit unions while also helping individuals to save more than they otherwise would have done. The Association of British Credit Unions is now working with credit unions to continue the scheme<sup>16</sup>. The government also announced in the March 2021 budget a £3.8m pilot of a No Interest Loans Scheme<sup>17</sup>.

Credit unions also exist, of course, to provide affordable loans and, in relation to this, Fair4All Finance<sup>18</sup> established a COVID-19 Resilience Fund in 2020 which lent over £3.8m to support 31 providers who then collectively lent £138m each year and served 136,000 customers. More recently, it was announced in June 2022 that Fair4AllFinance<sup>19</sup> will roll out its No Interest Loan Scheme pilot across the country<sup>20</sup>. Loans will be administered in practice by credit unions and other lenders but the scheme is funded with £3.8 million from the Treasury, £1.2 million from lender JP Morgan Chase, and up to £1 million from each of the UK's devolved Governments.

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<sup>13</sup> <https://www.gov.uk/government/news/buy-now-pay-later-products-to-be-regulated>

<sup>14</sup> HM Treasury (2019) *Financial Inclusion Report 2018-19*  
<https://www.gov.uk/government/publications/financial-inclusion-report-2018-to-2019>

<sup>15</sup> IFF Research for HM Treasury (2021) PrizeSaver Evaluation: Final Report  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1004208/IFF\\_Research\\_PrizeSaver\\_Evaluation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004208/IFF_Research_PrizeSaver_Evaluation.pdf)

<sup>16</sup>  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1004209/20210701\\_PrizeSaver\\_summary\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004209/20210701_PrizeSaver_summary_report.pdf)

<sup>17</sup> <https://www.moneyadvicetrust.org/blog/5-things-we-learned-from-todays-budget/>

<sup>18</sup> <https://fair4allfinance.org.uk/>

<sup>19</sup> <https://fair4allfinance.org.uk/developing-new-products-and-services-to-address-market-gaps/>

<sup>20</sup> <https://www.theguardian.com/money/2022/jun/19/interest-free-loan-scheme-expanded-20000-britons>

Potential borrowers will need to be referred to the scheme through housing associations, credit unions, or via lenders that have agreed to work with Fair4All Finance on the programme. Borrowers will be able to borrow between £100 and £2,000 under the scheme, with the average amount expected to be £500. Credit unions will use the scheme to support borrowers who have applied and been rejected for an interest-charging loan elsewhere.

Despite an increase in government leadership on financial inclusion from 2017 onwards (see above), follow-up work from the House of Lords Select Committee on Financial Exclusion reported<sup>21</sup>, in April 2021, that there was still a need for a coherent published government strategy on financial inclusion. The Committee also made further recommendations in relation to access to cash, digital inclusion, Basic Bank Accounts, the role of the Post Office, affordable credit, the Help to Save scheme, financial education and so on.

Despite all this activity on the policy and regulatory fronts, the last few years have been dominated first by Brexit, then the COVID-19 pandemic and now the living cost crisis. Last year's report provided further detail of relevant policies to financial inclusion during the COVID-19 crisis, such as lenders being asked to provide mortgages payment deferrals and similar deferrals for other loans where borrowers were struggling to make payments. Renters also received some temporary protection from eviction if they were unable to pay their rent. The government response was unprecedented, including the £1,000 per annum Universal Credit uplift, a re-alignment of Housing Benefit with 30th percentile local rents to increase support for rent payments and a relaxation of the sick pay rules. In addition, local authorities received extra funds to help vulnerable households with costs for essentials such as food, clothing and utilities and council tax bills. Another flagship policy was the Coronavirus Job Retention Scheme (CJRS) which supported 11.7 million employments between March 2020 and September 2021<sup>22</sup>. There was also support for the self-employed through the Self-Employment Income Support Scheme (SEISS). As of 15 September, the scheme had supported 2.9 million<sup>23</sup> people. However, many of these policies have now ended and, as we saw in last year's report and will see again in this year's, these policies have not prevented many from suffering poverty and accumulating debt.

A more long-lasting policy<sup>24</sup>, introduced in May 2021 was the new 'breathing space' (Debt Respite) scheme to give people in problem debt time (60 days for a standard breathing space) to get their finances back on track. For those eligible, creditors will not be able to add interest or fees to any debts, or take enforcement action, for 60 days. But debtors will still need to keep making their regular payments if they can afford to do so. The scheme also includes a mental health crisis breathing space, extending these protections for the duration of an individual's mental health crisis treatment, plus a further 30 days space. Changes to Debt Relief Orders announced in 2021 will also provide further help for some in debt.<sup>25</sup>

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<sup>21</sup> <https://committees.parliament.uk/work/1052/financial-exclusion-followup/publications/>

<sup>22</sup> <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-7-october-2021/coronavirus-job-retention-scheme-statistics-7-october-2021>

<sup>23</sup> <https://www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-october-2021/self-employment-income-support-scheme-statistics-october-2021>

<sup>24</sup> <https://www.gov.uk/government/news/new-scheme-to-give-people-in-problem-debt-breathing-space-launched>

<sup>25</sup> <https://www.stepchange.org/policy-and-research/response-to-dro-eligibility-changes.aspx>

The squeeze on incomes over the past few years appears to have led some people to revert to cash budgeting to keep an even closer eye on every penny but, as we have seen in previous reports, access to cash is becoming more difficult – and withdrawing cash from accounts can incur a cost. The government announced in May 2022 that the forthcoming Financial Services and Markets Bill would protect access to cash by guaranteeing customers “reasonable access” for withdrawal and deposit facilities. It would set and amend geographic access requirements to achieve this. It would also formalise the FCA’s powers to oversee this. More widely, the Post Office has signed a series of agreements with a wide range of banks and building societies to offer basic banking facilities to personal and business customers. Almost 3 in 10 people used those services in 2021. A series of Community Access to Cash pilot projects has also explored various alternative approaches to providing cash withdrawal and banking services.

A number of new initiatives have also been introduced to help respond directly to the cost-of-living crisis, caused largely by the massive increase in inflation in 2021/2022 – and with particular concern over the rising cost of energy bills. For example, in February 2022 the government announced a £150 Council Tax rebate for those in Bands A to D (with Scotland and Wales introducing similar policies) and a £200 temporary rebate on all electricity bills in the autumn. This policy package meant a £350 boost to most households’ incomes in 2022-23, but the initial plan was for the energy rebate to be a loan and so would have to be repaid at a rate of £40 per month from 2023-24. The government further announced in May 2022 that every household in the UK would get an energy bill discount of £400. In addition, eight million households on means-tested benefits will receive £650 paid directly into their bank accounts in two lump sums - one in July, the other in the autumn. There are separate one-off payments of £300 to pensioner households and £150 to individuals receiving disability benefits. The emergency Household Support Fund, which is allocated by councils in England, will also be extended by £500m to £1.5bn and the devolved governments will receive equivalent funding.

These policies have certainly helped but appear to be an ad hoc and expensive way to respond, with relatively little targeting and with little consideration of how to tackle the more fundamental causes of high energy costs in relation to poor insulation. Kwasi Kwarteng’s mini budget in September 2022 as the new Chancellor of the Exchequer signalled a new direction of policy towards growth based on tax cuts targeted at the better off. This approach led to a relative collapse of the pound and suspension of many mortgage deals. With interest rates rising rapidly to tackle inflation, concerns about how people will afford to pay their mortgages is increasing. Writing in November 2022, and with a change of Prime Minister and Chancellor of the Exchequer, many of Kwarteng’s policies have been reversed but we wait to see the new government’s approach from now on.

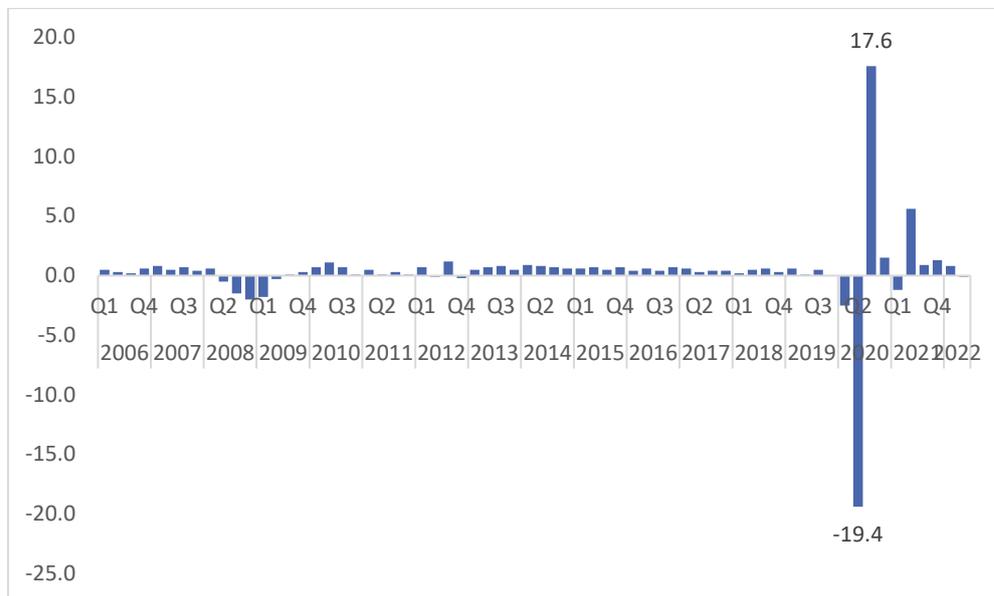
# Detailed findings

## 1 THE ECONOMY

The economic climate provides the backdrop for thinking about financial inclusion. If the economy is in poor health, it is less likely that people will have secure and stable incomes or the resources to manage economic shocks and problem debt.

One of the most widely used indicators of the state of an economy is its level of economic growth, commonly measured as the rate of change of its Gross Domestic Product (GDP), the value of the goods and services an economy produces each year. Figure 1.1 shows how GDP has fluctuated each quarter, starting in 2006. We see that, generally speaking GDP increases by a small percentage, and that it rarely decreases. However, there was a dramatic fall in GDP in the second quarter of 2020 due to lockdown, where the economy shrank by 19.4%, an unprecedented amount in modern times. It then fluctuated dramatically, bouncing back by 17.6% in the third quarter before shrinking again, and then bouncing back again in the second quarter of 2021 by 5.6%. The scale of these changes dwarfed the previous declines in GDP witnessed after the Global Financial Crisis (GFC) in 2008/9. And the dramatic fluctuations have also obscured the fact that, since 2015, GDP growth had been trending downwards and, indeed, was completely stagnant in parts of 2018 and 2019, well before the global pandemic. This pattern has continued this year, and in Q2 of 2022 the economy again shrank by 0.1%.

**Figure 1.1** Gross Domestic Product: Quarter on Quarter % growth. Source: ONS<sup>26</sup>

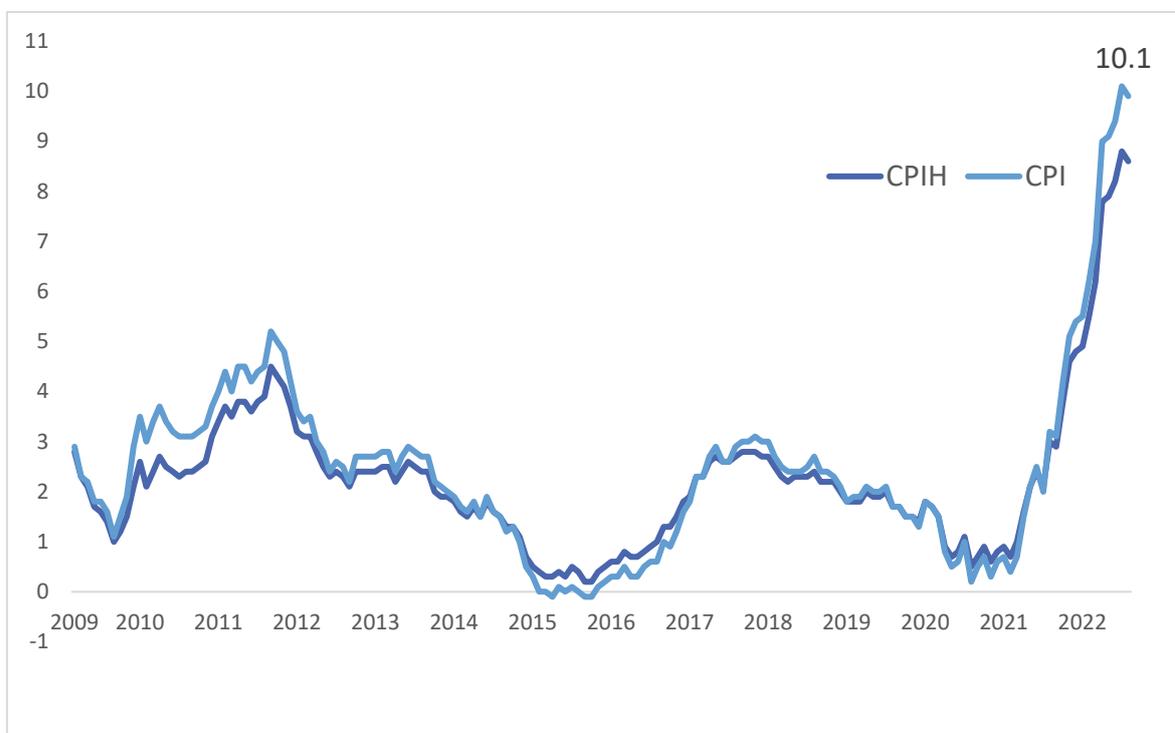


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<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/august2022>

Inflation is another useful economic indicator to monitor in relation to financial inclusion. When inflation is high, people face higher costs and so may struggle to manage money unless their incomes also rise. As we see in Figure 1.2, inflation had been trending down from a relative peak of 2.8 per cent in November 2017 to 0.5 per cent (Consumer Price Index including Housing costs of owner-occupiers – CPIH) in August 2020, but CPIH rose by 3.0% in the 12 months to August 2021. This resulted, in part from a return to normal prices in restaurants, following a temporary reduction in August 2020, caused by the government’s ‘Eat Out to Help Out’ scheme. Since this increase was a one-off, the impact was expected to be temporary. And, indeed, inflation remained low (around 1 per cent) at the end of 2021/beginning of 2022. However, a combination of factors, not least the war in Ukraine (which began in February 2022) and wildly escalating fuel prices, has caused inflation to reach a decade high at over 10% CPI in July 2022.

**Figure 1.2 Annual Consumer Price Inflation (CPI) and CPIH (%; including owner occupiers’ housing costs). Source: ONS<sup>27</sup>**



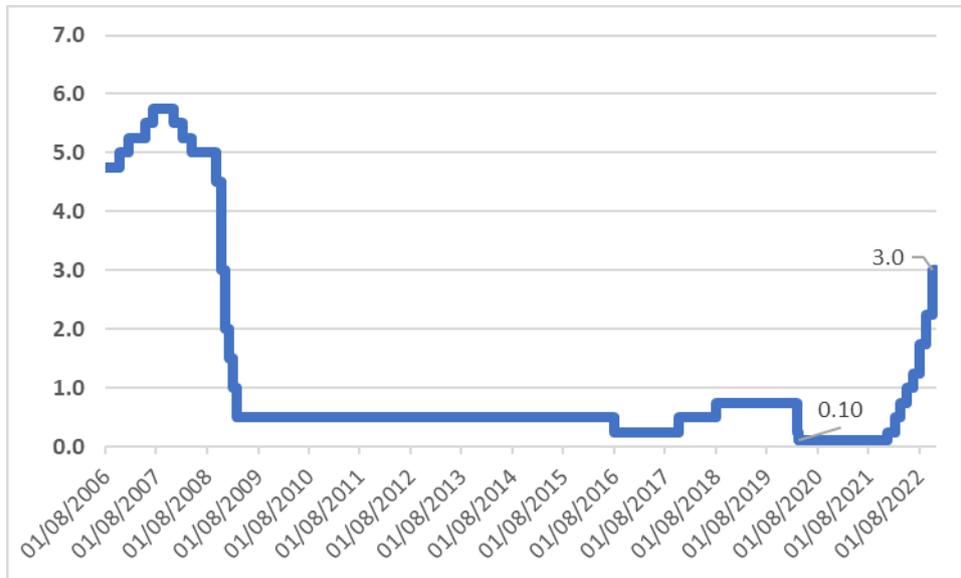
The third economic indicator considered here is the Bank of England Base Interest Rate (typically referred to as the ‘base rate’), which affects the cost of borrowing. Interest rates have been at historic lows since the GFC of 2008/9 (at 0.5 per cent). Minor changes to the base rate occurred between 2016 and 2018 to counter rising inflation and then, in response to the global pandemic, the rate was reduced in March 2020 to the lowest it has ever been in the Bank of England’s 325 years: 0.1 per cent. Over the last year, however, the rate has been increased to the highest it has been since before the GFC – 2.25% in September 2022 - to help bring inflation down. These high levels will have negative implications for many borrowers, and would-be borrowers, including

<sup>27</sup>

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/august2022>

existing mortgage holders when their current fixed term deals come to an end. They will also have (more positive) implications for savers of course.

**Figure 1.3 Bank of England Base Rate; %.** Source: Bank of England<sup>28</sup>



<sup>28</sup> <https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate>

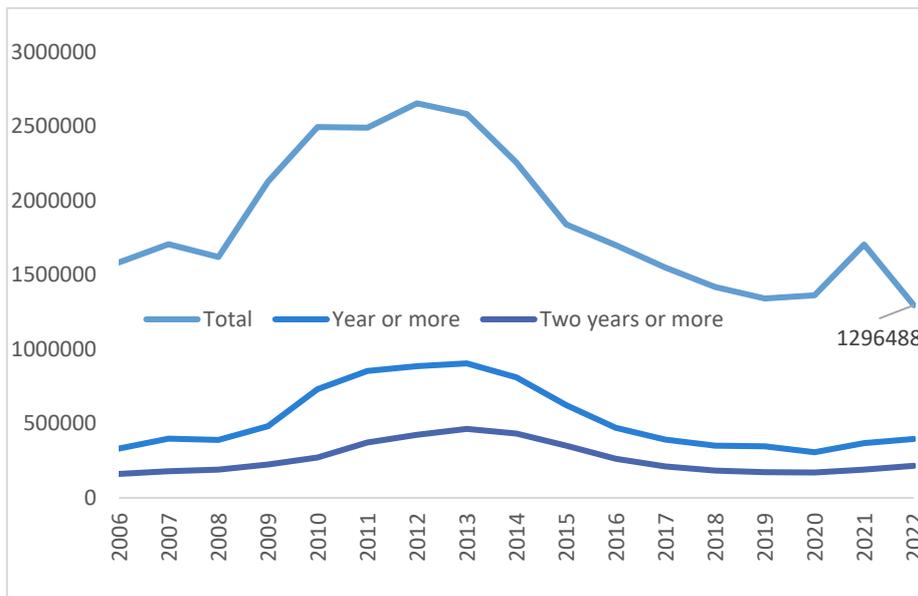
## 2 THE LABOUR MARKET

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The labour market is an essential indicator of the health of the economy. Whilst earnings from paid work are only one of the sources of income that a household may receive, they are the most efficient option for financial inclusion, helping people to reduce the likelihood of facing problem debts and minimising the overall level of government support required.

In recent times, there have been significant changes in the labour market. The lockdown of the economy in 2020/21 would clearly have a major impact on the labour market as we shall see in this chapter, though the impact was tempered by various government interventions such as the Coronavirus Job Retention Scheme (CJRS), commonly referred to as ‘furlough’, which provided financial support to companies that retained staff who could not do their jobs because of lockdown. In Jan-March 2021, nearly 1.7 million people were unemployed, the highest number since 2016 though still well below the peak of 2.7 million in 2012 following the GFC (see Figure 2.1). There had been signs that unemployment was starting to increase before the COVID-19 crisis, possibly in response to Brexit-related developments, but the dramatic rise was no doubt linked to the impact on the economy of the various lockdowns. In the last year, unemployment declined to 1.3m in Q2 of 2022, although recent inflationary pressure may once again subside and eventually reverse this. Furthermore, long-term unemployment (people remaining unemployed for over one year and over two years) continues to increase very slightly, although it remains lower than the recent peak in 2013.

**Figure 2.1 Unemployment has fallen as the COVID-19 crisis passes. Source: ONS Labour Force Survey<sup>29</sup>**



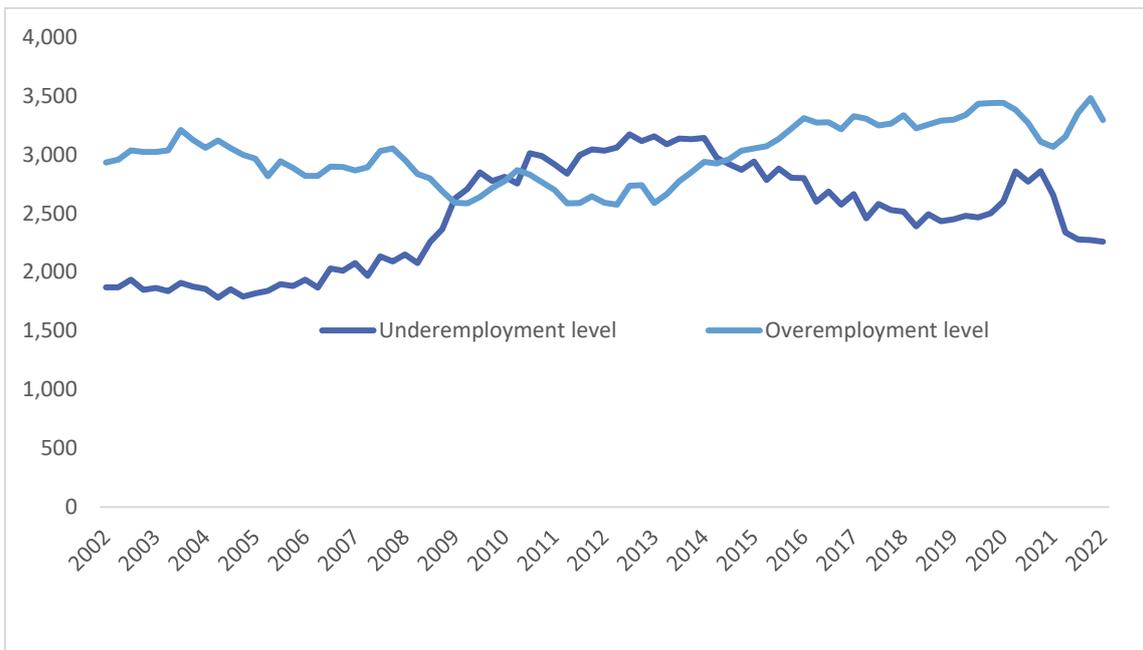
Underemployment<sup>30</sup> has also decreased since 2020 (see Figure 2.2) and there were still more workers who considered themselves to be ‘overemployed’ (in other words they wanted to work fewer hours and would be willing to take a commensurate cut in pay) than underemployed – though this seems to be declining slightly according to the most recent figures in 2022.

<sup>29</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentunemploymentandeconomicinactivitybyagegroupseasonallyadjustedada05sa>

<sup>30</sup> 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 categorised as ‘underemployed’.

**Figure 2.2 Underemployment declines over the last year as overemployment increases. Source: Labour Force Survey<sup>31</sup>**

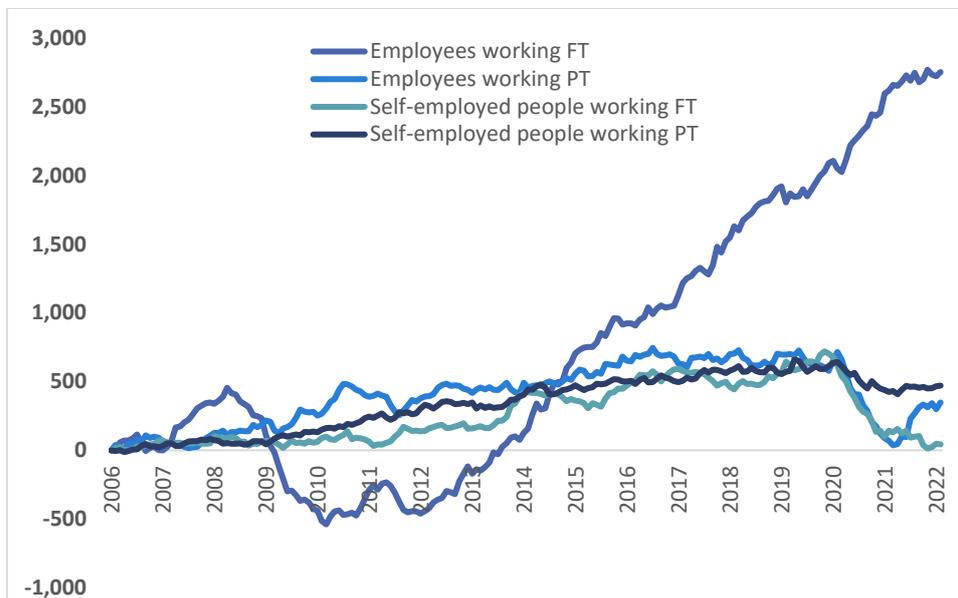


Underemployment is linked to part-time jobs and self-employment, and Figure 2.3 shows that during 2021, there was an increase in part-time employment. Full-time self-employment continued to decline such that very few people now work in this way. There was little change in the numbers of people in full-time employment or part-time self-employment.

<sup>31</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/underemploymentandoveremploymentemp16>

**Figure 2.3 Full-time employment has continued to grow but 2020 saw declines in part-time employment and full-time self-employment (taking 2006 as a baseline).**  
 Source: ONS Labour Force Survey<sup>32</sup>

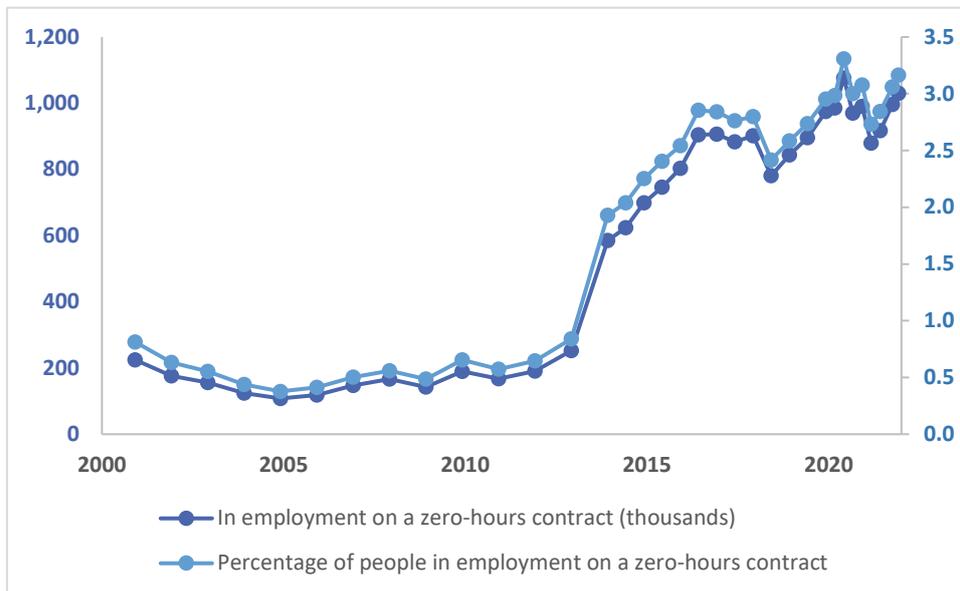


Alongside ‘underemployment’, we have also seen a growth in zero hours contracts. Once again, definitions and measurements of such contracts (also referred to as ‘contracts with no guaranteed minimum number of hours’) vary over time but the Office for National Statistics (ONS) has estimated, from a survey of individuals (the Labour Force Survey), that the number of people with a zero hours contracts rose dramatically to 907,000 or 2.8 per cent of workers at the end of 2016 – see Figure 2.4. The numbers then fell a little by 2018 to 781,000 before picking up again and reaching a record high in May–June 2020 at over 1 million. The first quarter of 2021 (Jan–March) saw a decline to 857,000 or 2.7 per cent on these contracts as a result of the lockdown but there was then an increase in these jobs later in 2021 and into 2022, with more than 1 million people with these contracts by that time. It is worth noting that these numbers are lower than those estimates based on data of the number of ‘actual’ zero hours contracts 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.

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#data>

**Figure 2.4** Percentage and number of workers on "zero hours contracts" reached record high in mid 2020 before declining during lockdown and then rising again by early 2022. Source: ONS<sup>33</sup>

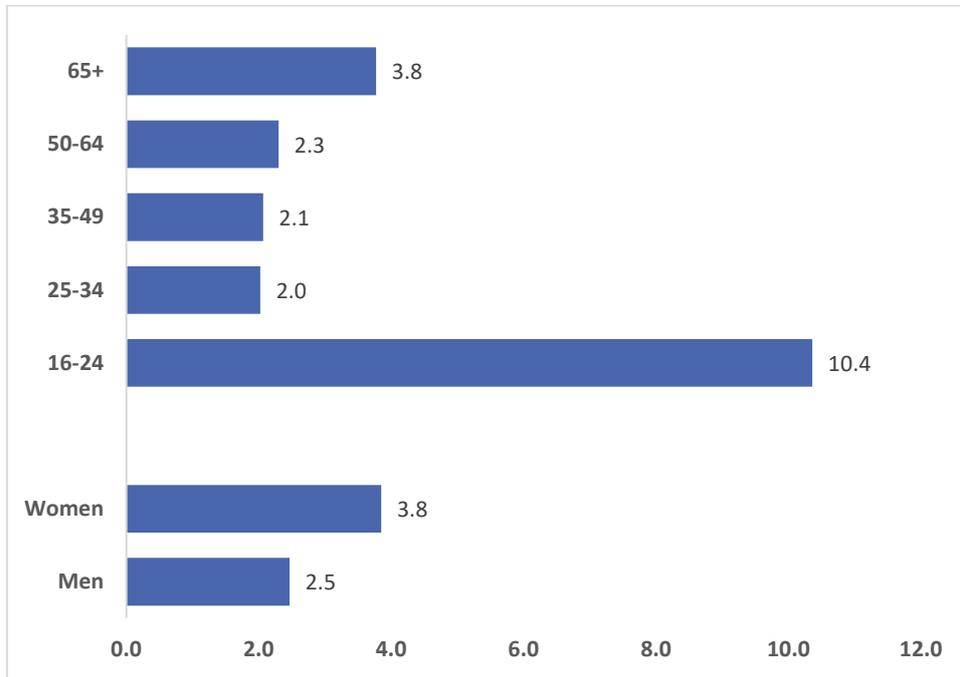


It is often assumed that zero hours contracts are most commonly taken by younger people and it is indeed true that workers aged 16-24 are more likely to have a zero hours contract than any other age group (10.4 per cent) but the second age group most likely to have such a contract are those aged 65 or more (3.8 per cent). These two age groups may be most likely to find the flexibility of such employment contracts an advantage. For example, young people may be combining flexible working with their studies, and those who have retired from their main occupation may appreciate continuing to work limited hours. Women are one and a half times as likely as men to have such contracts (3.8 versus 2.5 per cent) – see Figure 2.5.

33

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts>

**Figure 2.5** Zero hours contracts are most common among 16-24 year-olds and those aged 65 and over, Jan-March 2022; %. Source: ONS Labour Force Survey<sup>34</sup>



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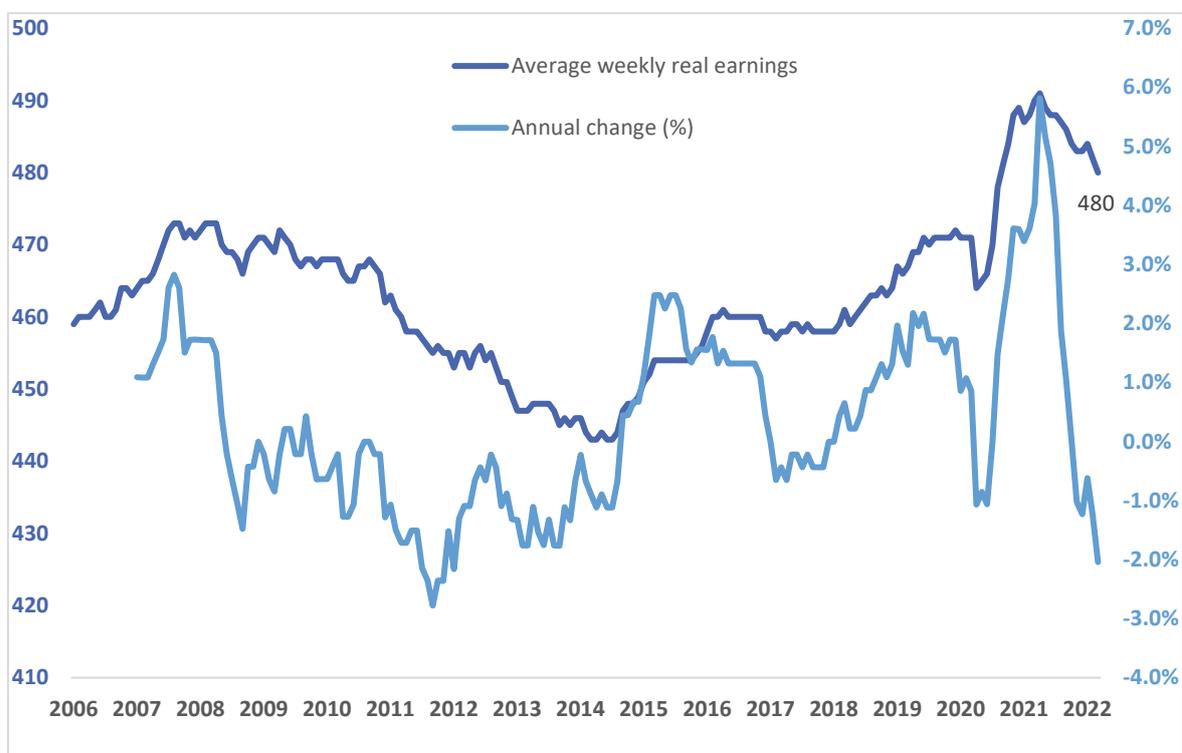
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts>

### 3 INCOMES

As argued in the introduction and 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 stable employment generally have better access to appropriate financial products, such as affordable credit, than those out of work or in insecure jobs.

Maintaining an adequate income is essential to achieving financial security and inclusion. For those in paid work, however, the last year has seen a marked drop in the levels of real weekly pay as a result of rising inflation – to £480 per week.

**Figure 3.1 Levels of average real weekly pay dipped in 2021/22 (adjusted by inflation – Consumer Prices Index). Source: ONS<sup>35</sup>**



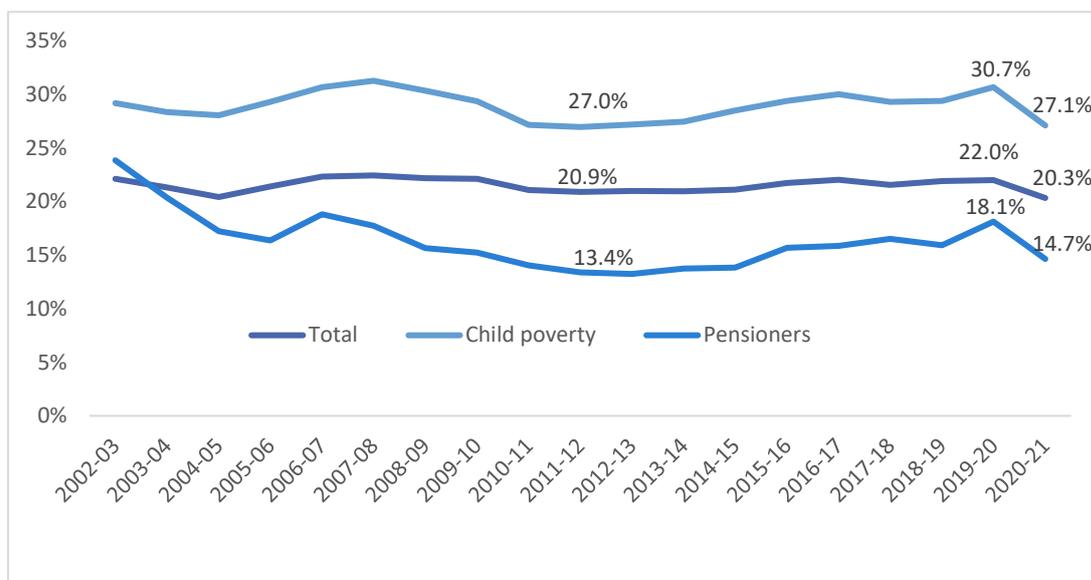
The Labour Force Survey collects and releases data on wages and the labour market frequently, resulting in timely information. Broader data, taking into account income from a much wider range of sources that can be used in measures of poverty, however, derives from a different survey, the Family Resources Survey, and is much less timely. The most recent data, for 2020/21 reflects much of the impact of the COVID-19 pandemic but not the full extent – nor the more recent living-cost crisis.

35

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/a2fc/lms?referrer=search&searchTerm=a2fc>

Analysis of this data by the Institute for Fiscal Studies<sup>36</sup> shows that median (middle) disposable incomes fell by 1.7% in 2020–21 (the first year of the pandemic) compared with the previous year. This is less than we might have expected from the huge disruption witnessed during the pandemic but reflects the very significant government support provided during that time including the furlough scheme, and additional support for people on working-age benefits. The fall in average incomes and the support that was provided to those on benefits also means that the incomes of the poorest households rose relative to that average. This can be seen in Figure 3.2, with relative poverty levels actually falling between 2019/20 and 2020/21. In effect, the safety net worked to provide some protection to those most in need, by providing a temporary uplift to universal credit alongside other types of support. These households were also less likely than those on middle and higher incomes to lose earnings as they had less, if any, to lose. The fall in poverty levels may at first seem surprising given the considerable hardship that people faced but it is an artefact of the way the measure is calculated relative to average (median) incomes, which themselves fell. It also needs to be remembered that the increases to benefits and tax credits in 2020–21 were temporary measures and latest figures suggest that support for those out of work is seriously inadequate in the face of current levels of inflation, as discussed below.

**Figure 3.2** Relative poverty levels have fallen in the last year among pensioners and children (incomes below 60 per cent median AHC). Source: IFS<sup>37</sup>



Poverty is multi-faceted, of course, and the Joseph Rowntree Foundation<sup>38</sup> has drawn attention to data on the ‘depth’ of poverty. According to their research, between 2002/03 and 2019/20 the number of people in very deep poverty (below 40% of median income after housing costs) increased by 1.8 million, from 4.7 million to 6.5 million people. The majority of these live in large families (three or more children), households with a disabled person, or lone-parent families.

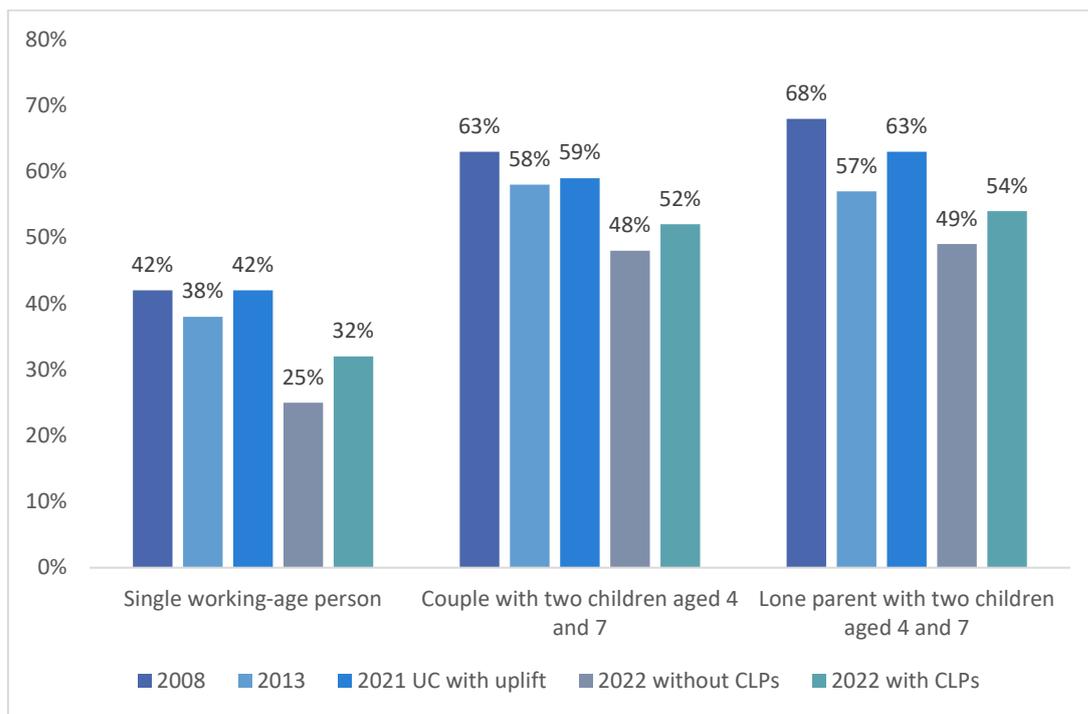
<sup>36</sup> [Living standards, poverty and inequality in the UK - Institute For Fiscal Studies - IFS](#)

<sup>37</sup> [Living standards, poverty and inequality in the UK - Institute For Fiscal Studies - IFS](#)

<sup>38</sup> <https://www.jrf.org.uk/report/going-without-deepening-poverty-uk>

As mentioned above, a vital source of income for many people out of work (as well as in work) is the social security system. Figure 3.3 focuses on people of working-age and shows that, between 2008 to 2013, there was a considerable drop in the adequacy of means-tested benefits to provide a minimum income, as defined by the consensus method (through research carried out by the Minimum Income Standards team at Loughborough University - see introduction)<sup>39</sup>. This trend continued up to 2020 (see previous financial inclusion monitors and Loughborough University reports) but in 2021, in response to the pandemic, the government provided a £20 per week uplift in Universal Credit which increased the adequacy of that benefit for those claiming it. However, that uplift has gone and Figure 3.3 shows a massive drop in adequacy levels. The data provides two figures for 2021 – one figure focuses solely on the amount provided by means-tested benefits. The other takes into account the various cost-of-living payments (CLPs) that the government announced in February 2021 (see introduction to this report above) to help people manage the crisis. However, even with those payments included, a single person of work age will have less than a third of what they need to meet a minimum income standard. And families with children little more than half.

**Figure 3.3 Means-tested, out-of-work benefits as a percentage of Minimum Income Standards. UC = Universal Credit; CLPs = Cost-of-living payments. Source: CRSP, Loughborough University<sup>40</sup>**



As far as pensioners are concerned, we can see in Figure 3.4 that means-tested pensioner benefits (e.g. Pension Credit) also dropped massively in adequacy levels between 2009 and 2022, even with the cost-of-living payments<sup>41</sup>. They do, however, continue to provide incomes much

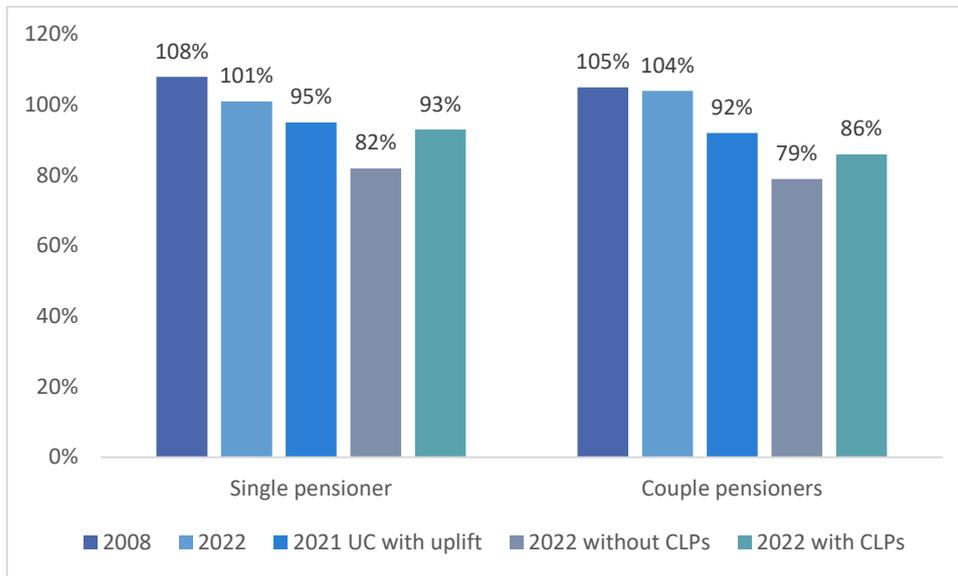
<sup>39</sup> Figures for previous years and methodology can be found here <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/MIS-2015-full.pdf>

<sup>40</sup> <https://www.jrf.org.uk/report/minimum-income-standard-uk-2022>

<sup>41</sup> <https://www.jrf.org.uk/report/minimum-income-standard-uk-2022>

closer to the Minimum Income Standard level than for other groups. For example, single pensioners, if claiming all they are entitled to, will reach 93 per cent of the level they need for a minimum income standard and pensioner couples reach 86 per cent in 2022.

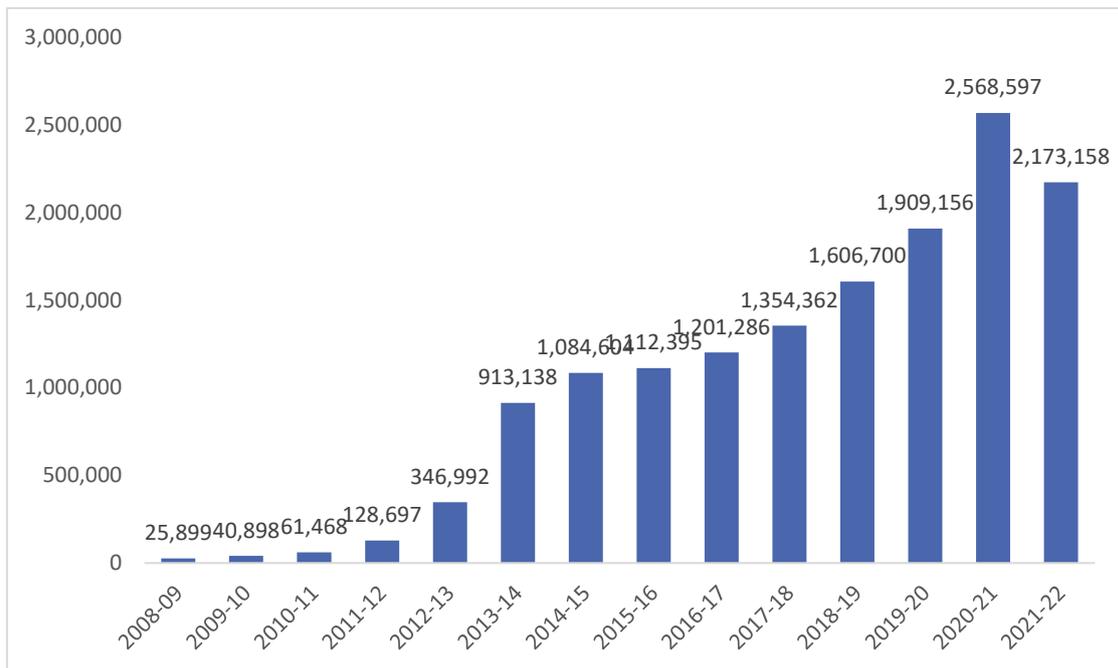
**Figure 3.4 Means-tested benefits for pensioners as a percentage of Minimum Income Standards<sup>42</sup>**



While it is difficult to find very timely official data on income levels, it is nevertheless clear that some groups are suffering particularly severe levels of poverty and thus turning to emergency sources of help, such as foodbanks. Figures from the Trussell Trust, for example, showed a dramatic increase in the number of 3-days emergency food parcels given out over the past few years with an increase from 1.9 million in 2019/20 to a staggering 2.5 million (see Figure 3.5). Most recent data show a small decrease since 2020/21, but given that this was the height of the pandemic we may have expected to see a more significant reduction, and there were still over 2 million emergency food parcels given out by this one charity in 2021/22.

<sup>42</sup> <https://www.jrf.org.uk/report/minimum-income-standard-uk-2022>

**Figure 3.5** Number of people given 3-days emergency food and support by the Trussell Trust remains at over 2 million post-pandemic<sup>43</sup>

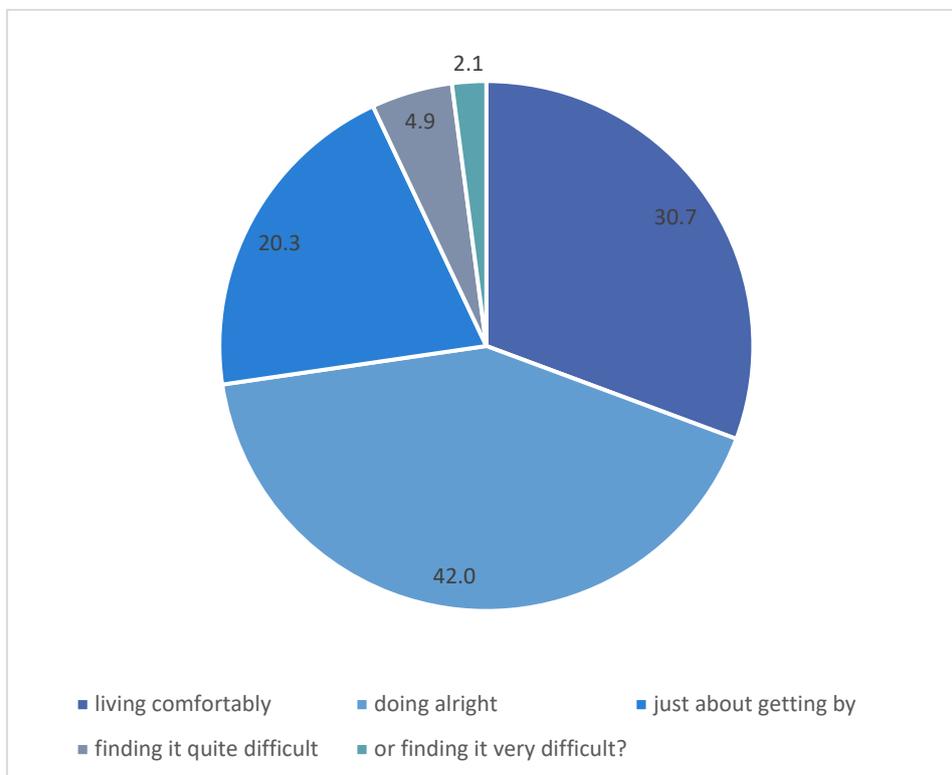


<sup>43</sup> <https://www.trusselltrust.org/news-and-blog/latest-stats/end-year-stats/>

## 4 SUBJECTIVE FINANCIAL WELLBEING

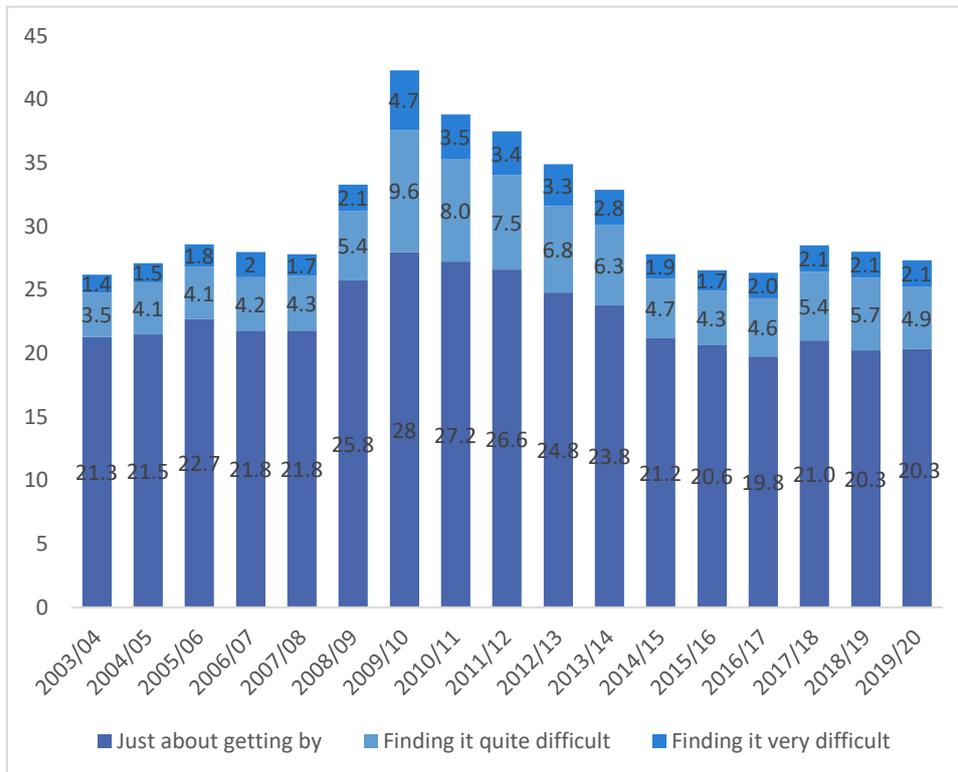
So far in this report, we have looked at the economy overall and objective measures of income and employment. These highlight increasing pressures on families to manage their finances in the face of uncertainty. With this in mind, it is beneficial to look at the extent to which people believe they are coping with such uncertainty. How are they feeling about all of the changes that have occurred and their current financial wellbeing? The Understanding Society survey provides long-term trend data on this, asking people about how they are managing financially. According to the most up-to-date figures (which unfortunately still predate the pandemic), seven per cent of households in 2019/20 were finding it either very or quite difficult to manage financially and a further 20.3 per cent were 'just about getting by' – a combined total of 27.3 per cent (see Figure 4.1).

**Figure 4.1** Subjective financial wellbeing in 2019/20; %. Source: Understanding Society



If we look at trends over time with these figures, we see, in Figure 4.2, that from 2007/8 to 2009/10 there was a major increase in the number of people just getting by or finding it difficult to do so. The following seven years saw a decline in these figures followed by a slight increase to 2017/18 followed by a very slight decline to 2019/20 (see Figure 4.2).

**Figure 4.2 Trends in finding it difficult to manage/just about getting by, financially, %.** Source: Understanding Society<sup>44</sup>



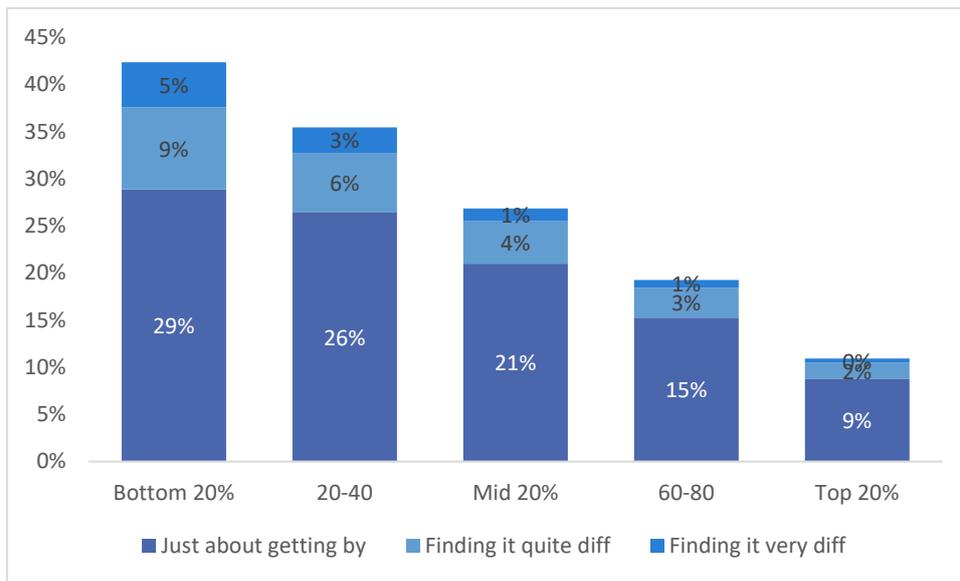
However, as we show in Section 11, more recent data on financial well-being is much less positive. In our Ipsos survey of 1,005 GB adults 18+, interviewed by Ipsos in September/October 2022, when respondents were asked how they are managing, financially, at the moment, 6% were “finding it very difficult”, and 10% said “finding it quite difficult”– in each case, about double the figures shown above. A further 25% regarded themselves as “just about getting by”.<sup>45</sup>

Of course, the Understanding Society research shows some groups are struggling more than others and we see in Figure 4.3 that 43 per cent of those on the lowest incomes (those in the bottom 20 per cent of the income distribution) were finding it very or quite difficult to manage, financially, or were just about getting by in 2019/20.

<sup>44</sup> <https://www.understandingsociety.ac.uk/>

<sup>45</sup> Readers can also access additional information from the Ipsos survey, comprising a summary of key results (<https://www.birmingham.ac.uk/documents/college-social-sciences/social-policy/publications/financial-inclusion-2022-survey-of-adults-in-gb-jan-2023.pdf>) and data tables (<https://www.ipsos.com/en-uk/one-six-adults-say-they-are-finding-it-difficult-manage-financially-new-ipsos-opinion-poll>)

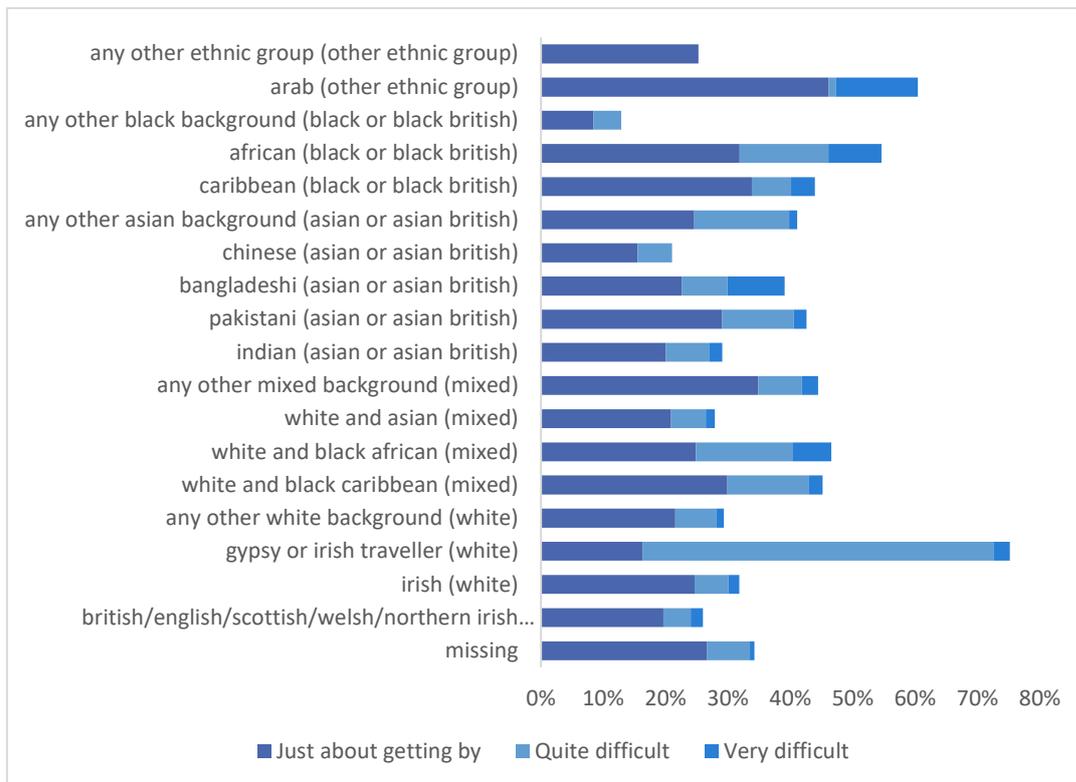
**Figure 4.3 Finding it difficult to manage/just about getting by, financially, by Household income quintile in 2019/20. Source: Understanding Society<sup>46</sup>**



There were also variations by ethnicity here with those who identified as British, Scottish, Welsh, Northern Irish or English tending to report lower levels of difficulties than those with other identities (see Figure 4.4). Levels of difficulty were particularly high for those describing themselves as ‘Gypsy or Irish traveller’, ‘African’, ‘Caribbean’ or ‘Arab’, from the list of options with which they were presented. Similarly, respondents who identified as ‘Pakistani’ or ‘Bangladeshi’ also reported high levels of financial difficulty.

<sup>46</sup> <https://www.understandingsociety.ac.uk/>

**Figure 4.4 Finding it difficult to manage/just about getting by, financially, by ‘ethnic group’.** Source: Understanding Society, 2019/20



Note: groups with <50 cases are excluded.

More recent figures are much more troubling. Data from FCA’s Financial Lives survey shows significant increases in those with low financial resilience. Our own research commissioned from the Ipsos survey shows a higher proportion of GB adults experiencing difficulties (16% reporting they are finding it very or quite difficult to manage, financially, at the moment) and having to cut back in a wide range of areas (e.g. 62% saying that they have cut back on heating, to save on gas, electricity or oil in the past 12 months – being the top mention).

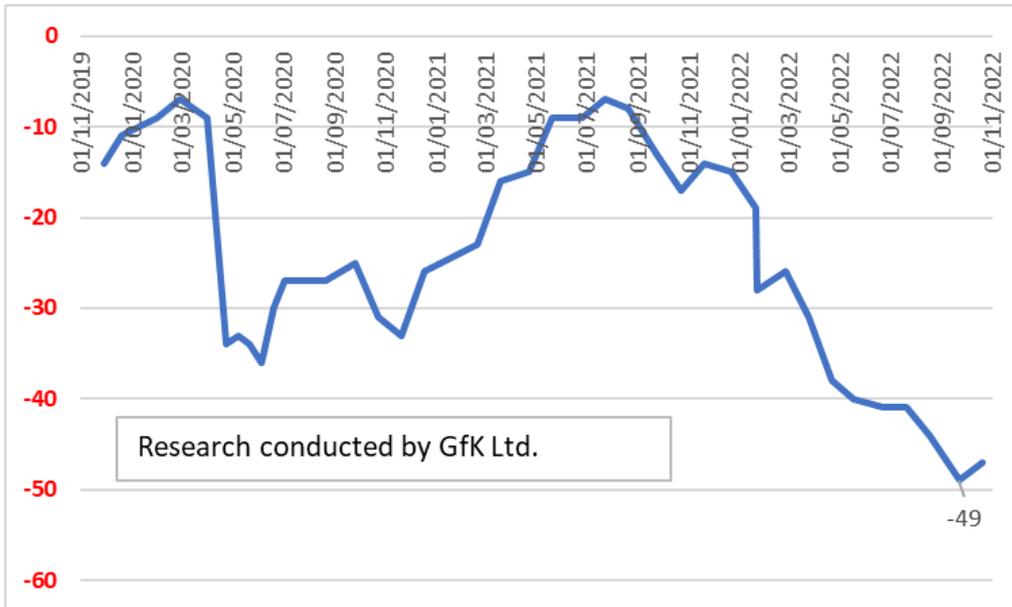
UK Consumer Confidence, as measured by GfK, fell to a new low of -49 in September 2022 (before the mini budget/fiscal event), the worst Overall Index Score since records began in 1974. The index is comprised of a number of individual measures including whether or not people feel confident about their own personal finances in the coming year (which was down nine points to -40) and their confidence in the economy in the next 12 months (which was down eight to -68). These results suggest that people are very concerned about the impact of rising food prices, domestic fuel bills and mortgage payments. They have no real confidence that things will improve any time soon.

The FCA’s Financial Lives Survey, conducted in the first part of 2022 (February-June) found that keeping up with bills was a heavy burden for 7.8 million people. That is an increase of 2.5 million just in the space of a couple of years.<sup>47</sup> In their analysis, the number of people with ‘low financial

<sup>47</sup> See <https://www.fca.org.uk/news/press-releases/millions-britons-struggling-bills-warns-regulator>

resilience', and hence at most risk when circumstances worse, rose from 10.7 million adults in 2020 to reach 12.9 million UK adults in 2022, or around 1 in 4 (24%) of all UK adults.

**Figure 4.5 Consumer confidence – overall index for UK, GfK<sup>48</sup>**



<sup>48</sup> <https://www.gfk.com/en-gb/press/uk-consumer-confidence-claws-back-meagre-two-points-at-47-in-october>

## 5 BANK ACCOUNTS

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Access to a bank account is a core part of financial inclusion as it enables people to undertake day-to-day financial transactions, and is often seen a stepping stone for people wanting to access other services. Such accounts typically provide safe and secure deposit holding (up to a pre-defined limit), electronic/digital payments and receipts, and automated access to cash on deposit. In addition, they may offer an overdraft facility to help with income smoothing, and tools to support budgeting and money management. They are often also a prerequisite for people seeking the most cost-effective tariffs on their regular bills or the best deals and offers on their purchases.

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. The opening question seeks to identify whether the respondent currently holds any accounts or has done so in the last 12 months. Our analysis extends the series of estimates of the unbanked previously produced by the Financial Inclusion Taskforce (set up by HM Treasury)<sup>49</sup> to the latest data for 2020/21.

Figure 5.1 shows the number of adults *living in households* without access to a relevant account. It excludes those who 'did not state' whether or not they have an account, focusing only on those who positively stated that they did not have an account. This group is the most severely excluded. The trend for this group has been downward over the period of study from 2005/6 to 2020/21. In 2018-19, the number of people in this position fell below 500,000 for the first time but in the last two years it has risen slightly above this. This means that there are still half a million adults living in households who positively state that they do not have access to a transactional form of banking.

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<sup>49</sup> HM Treasury, March 2007, *Financial Inclusion: The Way Forward*.

**Figure 5.1 Trends in numbers of people without any access to a bank account in their household to 2021**

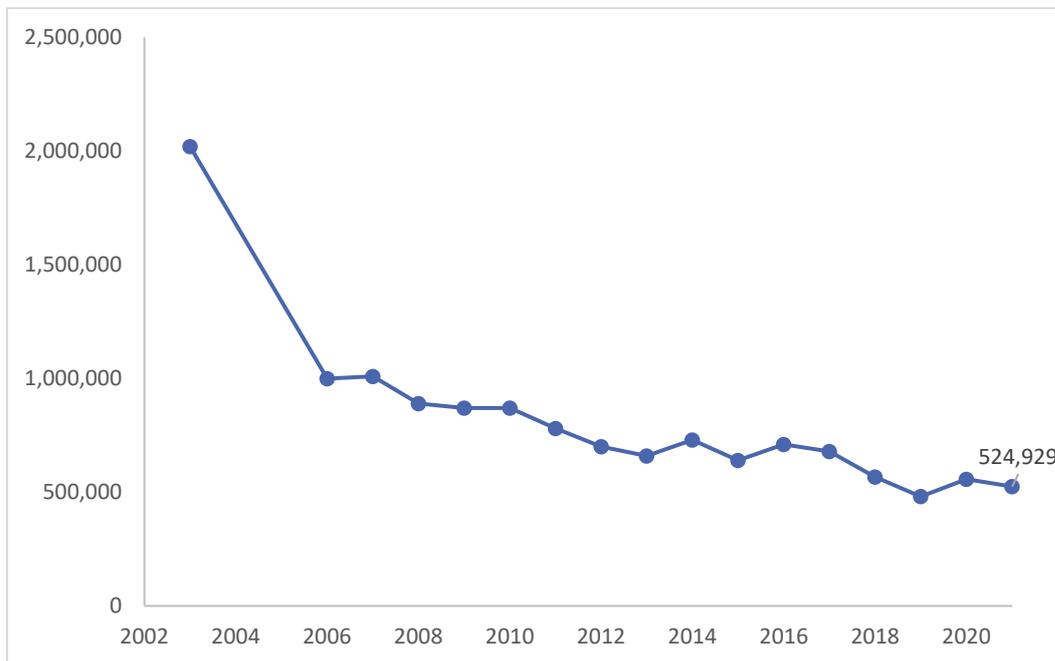


Table 5.1 gives data on other dimensions of access to bank accounts. For example, the first column shows the number of adults without their own current or basic bank account (but who are living in a household where someone else has an account, e.g. a partner or parent). Their own personal lack of access to an account may therefore be less of a concern though it does create a dependency on another adult. This figure also includes people who ‘did not state’ whether they had an account or not. Previous research suggests these are more likely to be without an account but some of these people will have one. The figures in Table 5.1 show that there has been a steady decline in the numbers of unbanked adults according to this measure from 2.85m in 2005/6 to a low just below 1 million (996,000) in 2018-19 and then falling a little more to 935,000 in 2019-20 (the higher of the two lines in Figure 5.1). The figure increased slightly to just over 1 million again in 2020/21.

The second column of Table 5.1 provides a further estimate here which includes those without any access to a bank account in their household. But unlike the final column, this set of data includes those who ‘did not state’ if they had a bank account or not. Again, previous research suggests that most of these do not have an account. The figure in 2020/21 for this group was 758,000, an increase on the last two years.

**Table 5.1 Households and adults without access to a current or basic bank account, or savings account, Family Resources Survey<sup>50</sup>, <sup>51</sup>**

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
2020-21	1.099m	0.758m	0.525m
2019-20	0.935m	0.712m	0.557m
2018-19	0.996m	0.68m	0.48m
2017-18	1.03m	0.77m	0.57m
2016-17	1.23m	0.87m	0.68m
2015-16	1.52m	0.88m	0.71m
2014-15	1.64m	0.89m	0.64m
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	0.78m
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 as they do not provide transaction services).

<sup>50</sup> Source: own analysis of Family Resources Survey for 2008-09 onwards 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](http://www.hm-reasury.gov.uk/d/stats_briefing_101210.pdf)).

<sup>51</sup> Some waves of data have been re-released with new information on weights, so estimates vary slightly from those previously published.

## 6 SAVINGS

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Households with a savings buffer are better able to avoid debt problems or reliance on high-cost credit in the event of unexpected expenses or a fall in income. Such a safety-net is particularly important during periods of economic turmoil. Whilst people save for the future in a variety of ways, from buying physical assets to storing cash in their home, access to a formal savings account is an important component of financial inclusion. Providing people with a secure place to store money for the future can help them to keep their money safe until it is needed and may also offer interest payments to offset some of the negative impact of inflation.

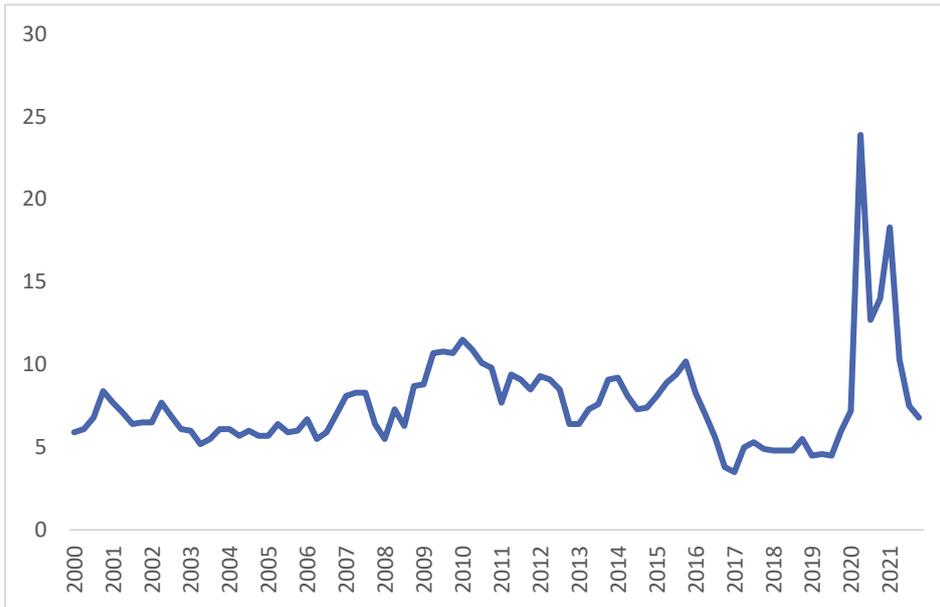
There are many ways to measure actual and potential saving. One approach is the household savings ratio, as measured in the National Accounts<sup>52</sup>. This is a multi-stage measure. The first stage is to work out how much money households have left from their income; the savings measure. It is created by calculating the total amount of household income in the country and subtracting the total amount of household spending. The second stage is to calculate the ratio of savings to income, which can also be described as the percentage of income held as savings. In these measures, household income includes post-tax earnings from employment, benefits and net interest received, and household spending covers goods and services, housing and financial services.

A lower saving ratio is most likely to arise because of a fall in households' income or a rise in expenditure reducing the savings element, or a combination of the two. As shown in Figure 6.1, the savings ratio reached its lowest since the turn of the century at 4.0% in Q1 of 2017. Since then, it changed little before the pandemic led to a huge spike of 25.9% during Q2 of 2020, when opportunities for spending were rather curtailed. Since then, the savings ratio has fallen to 14.3% in Q3 of 2020 before rising to 16.1% in Q4, still substantially higher than at any time this century. In 2021, however, the savings rate returned to pre-pandemic levels.

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<sup>52</sup><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.

**Figure 6.1** The Household Savings Ratio has ‘double peaked’ since the recent low of 2017, returning to ‘normal’ in 2021. Source: Office for National Statistics<sup>53</sup>

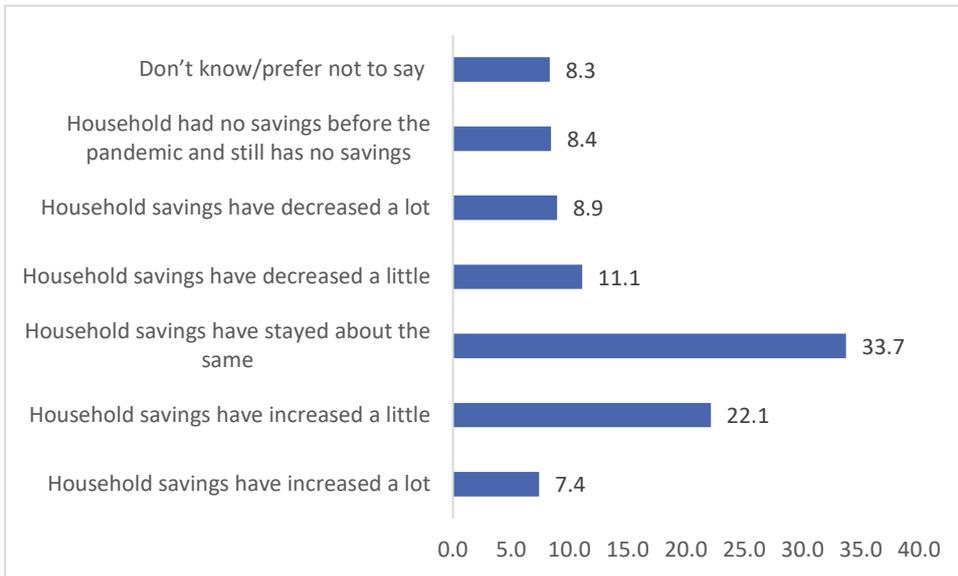


This ratio is an aggregate figure for the population as a whole but we know, from previous data, that the amount people save is highly unequal. Household data on this is sporadic and we have little up-to-date data to share in this report unfortunately. However, the Bank of England/NMG<sup>54</sup> have carried out a series of surveys which shed light on this. In September 2021, 29 per cent of households said that their savings had increased as a result of the pandemic, 34 per cent said that they had stayed the same and 20 per cent said they had decreased. Taking this into account, the spike in savings seen in Figure. 6.1 appears to be the result of a huge increase in saving among a minority of the population.

<sup>53</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea>

<sup>54</sup> <https://www.bankofengland.co.uk/statistics/research-datasets>

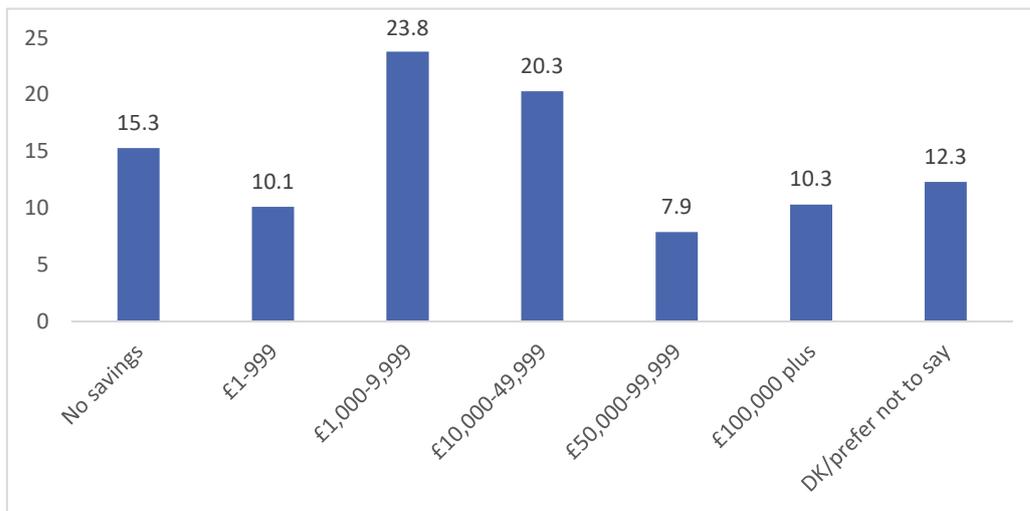
**Figure 6.2** As a result of any changes in income or spending due to the coronavirus pandemic, would you say that your household’s total savings have increased, decreased, or stayed the same (%; September 2021)?<sup>55</sup>



The same survey asked about how much people had saved in a variety of formal financial products from bank or building society accounts to fixed rate savings bonds, current accounts, cash ISAs and National Savings and Investments (NS&I) accounts/bonds. Figure 6.3 shows that 15 per cent of households said they had no such money saved and 10 per cent had less than £1,000. The most common response was to have between £1,000-10,000 saved. One in ten had over £100,000 saved and a further 12 per cent preferred not to say or did not know.

<sup>55</sup> Bank of England/NMG survey, <https://www.bankofengland.co.uk/statistics/research-datasets>

**Figure 6.3 Amount of household savings in savings accounts, % (September 2021)<sup>56</sup>**



In 2018, the government introduced Help to Save accounts to encourage and reward saving among those entitled to Working Tax Credit or receiving Universal Credit. These savers receive, in general terms, a bonus of 50p for every £1 they save over 4 years<sup>57</sup>. Under the scheme, individuals can save up to £50 per month with the 50 per cent bonus payable at the end of the second and fourth years. According to data from HM Treasury<sup>58</sup>, 75,250 Help to Save accounts were opened between April 2021 and March 2022, a reduction of approximately 32,900 accounts compared with the previous 12 months. The total number of accounts opened now stands at 359,200, a 26% increase on the total number of accounts opened by the end of March 2021. In total, around 310,000 individuals had made a deposit into their Help to Save account by March 2022, up 32% compared to the total as of March 2021. For those individuals making deposits, the average deposit per person per month remained at £48 close to the maximum permitted monthly deposit of £50, with 92% of monthly deposits being the maximum. However, there were 48,400 open accounts that have still received no deposit. Total deposits to the scheme in the 12-month period of April 2021 to March 2022 were around £110 million. Take-up of Help to Save is not officially calculated but it is likely that around 3 million people could be eligible.

<sup>56</sup> Bank of England/NMG survey, <https://www.bankofengland.co.uk/statistics/research-datasets>

<sup>57</sup> More specifically, the year 4 bonus will be 50 per cent of the difference between the highest balance saved in the first 2 years and the highest balance saved in the last 2 years.

<sup>58</sup> <https://www.gov.uk/government/statistics/annual-savings-statistics-2022/commentary-for-annual-savings-statistics-june-2022>

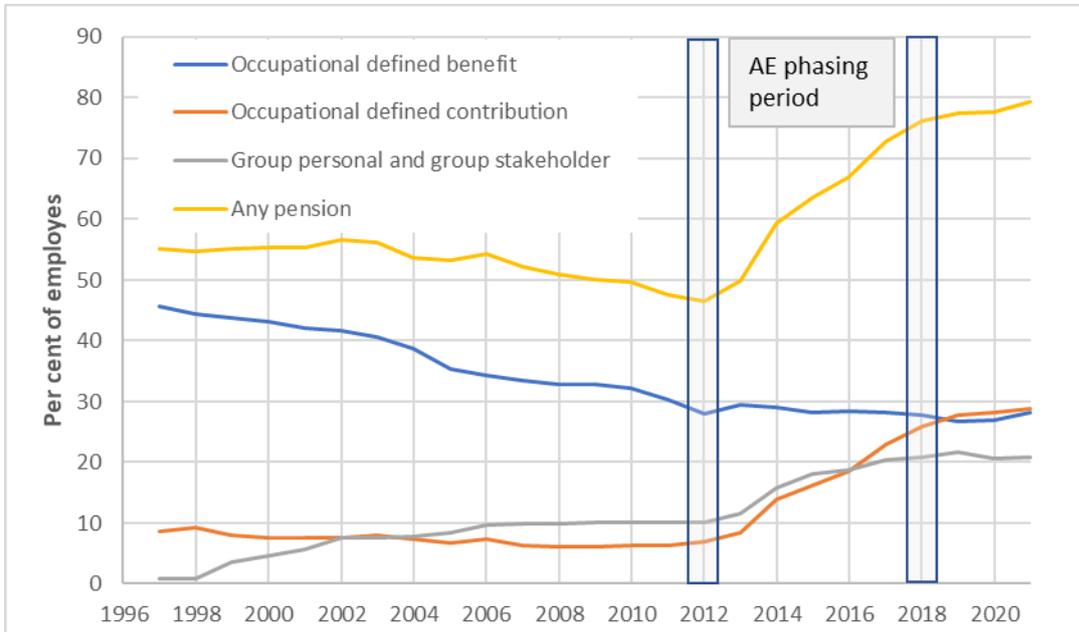
## 7 PENSIONS

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The merging of the Money Advice Service and the two government pension advice services, as well as the previous role of Parliamentary Undersecretary for Pensions and Financial Inclusion, highlight that retirement products are considered to be an important component of financial inclusion and wellbeing, providing financial security and inclusion in later life. Figure 7.1 provides data on the percentage of employees with different kinds of pensions. It shows a massive increase in the percentage with private pensions in defined contribution schemes ('DC' schemes; where the contribution rate is set, but the eventual retirement income varies depending on market conditions). This has been driven by auto enrolment (phased in from 2012 to 2018) into DC and group/personal pensions.

DC schemes are much less 'reliable' (in terms of knowing the likely final pension level) and typically less generous than defined benefit schemes ('DB'; where the contribution rate and the eventual retirement income are known). In both cases, the contributions paid in by the member and their employer are invested, but the risk to the individual is very different. From age 55, members of a DC scheme can access their retirement pot in one of four ways: take a lump sum for the full amount of the pot, purchase a drawdown product and access their money over several years, purchase an annuity (regular income for life), or take an uncrystallised funds pension lump sum (UFPLS) for a proportion of their pot and leave the remainder invested. The amount that will be available is very uncertain, in contrast with a DB schemes where the employer is obliged to pay a set amount for the entire life of the retiree (e.g. half the final or career average salary if someone contributes for 40 years).

**Figure 7.1 Active membership of defined contribution occupational pensions now exceeds the numbers for defined benefit schemes (percentage of employees with workplace pension). Source: Office for National Statistics Annual Survey of Hours and Earnings<sup>59</sup>**

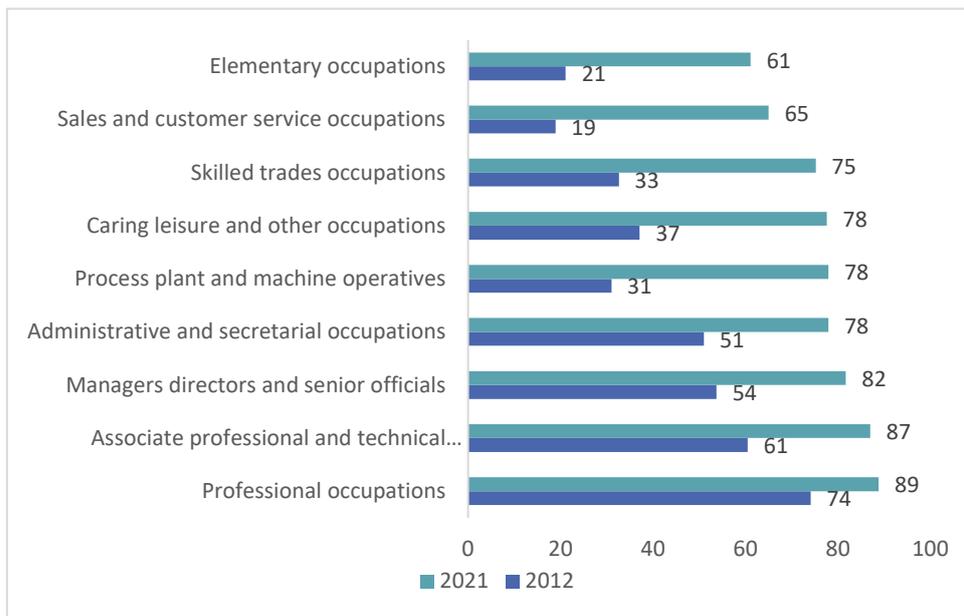


Much of the increase in pension membership has been among employees in sales and customer service and elementary occupations but they nevertheless remain least likely to be members of a workplace pension as shown in Figure 7.2.

59

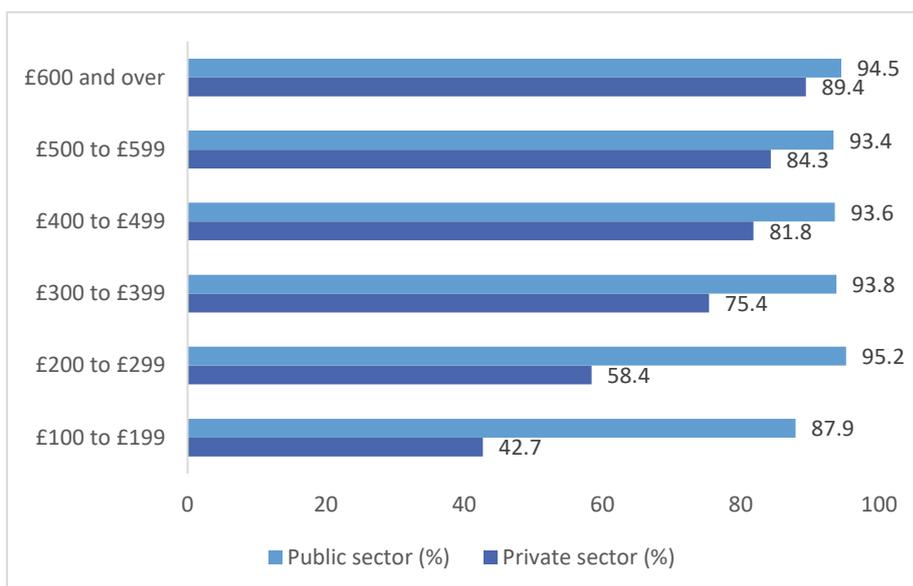
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/latest>

**Figure 7.2 Pension membership change by occupation 2012-2021**



If we focus now on the position in the latest data (2021), we can see that low income public sector workers are far more likely to have a workplace pension than their counterparts in the private sector, as shown in Figure 7.3.

**Figure 7.3 Proportion of full-time employee jobs with workplace pensions: by sector and gross weekly earnings band**



Simple membership of a pension scheme, however, is no guarantee of having an adequate income in retirement of course. There needs to be sufficient contributions going into the scheme to provide an adequate retirement income. This is usually achieved by paying a proportion of earned income every payday. So, while the increasing numbers with an active pension look promising in relation to financial inclusion, there are a couple of important points to bear in mind.

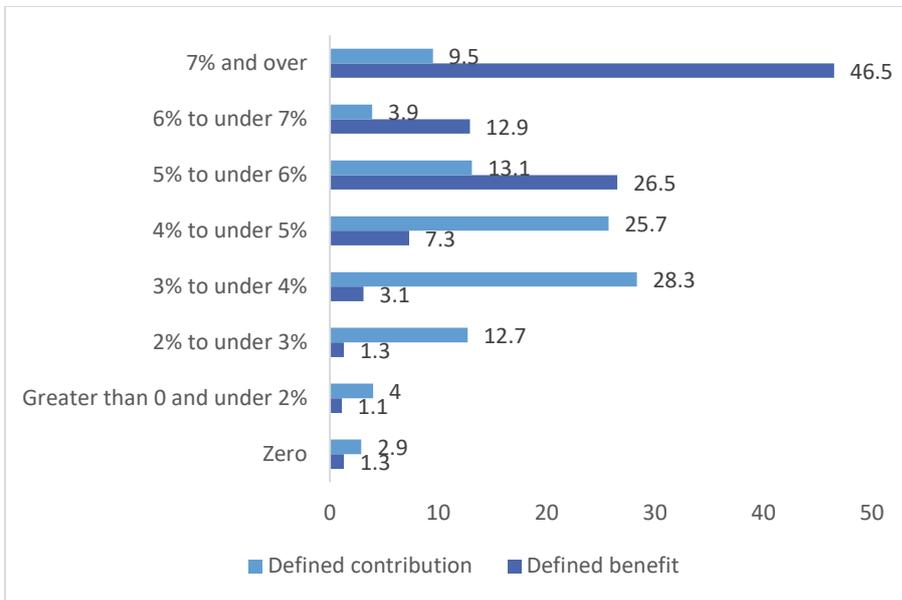
First of all, figures from NEST<sup>60</sup> (who are a key provider of workplace pensions) show that, in 2022, they had 11.1m members but only 4.6m of these were 'active' members and only 3.7m had actually made a contribution in March that year. The majority of their members, 6.5m, were 'inactive'. These were members who had not retired, died or opted out but had either left their employment or chosen to stop contributing, and 7.4m had made no contribution in March 2022.

Once again, among those who do contribute to a pension, the contribution rates of employers are much higher for DB schemes (generally, in the public sector) than for DC schemes (more commonly in the private sector) (see Figure 7.5).

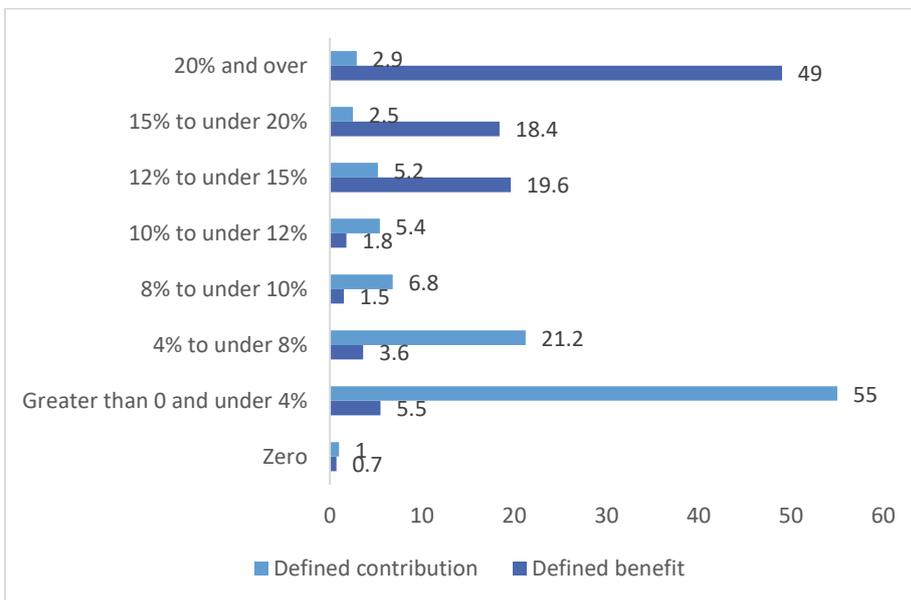
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<sup>60</sup> <https://www.nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html>

**Figure 7.4 Employee average contribution rates in pension schemes are far higher with DB than DC schemes, 2021. Source: Office for National Statistics, Annual Survey of Hours and Earnings**

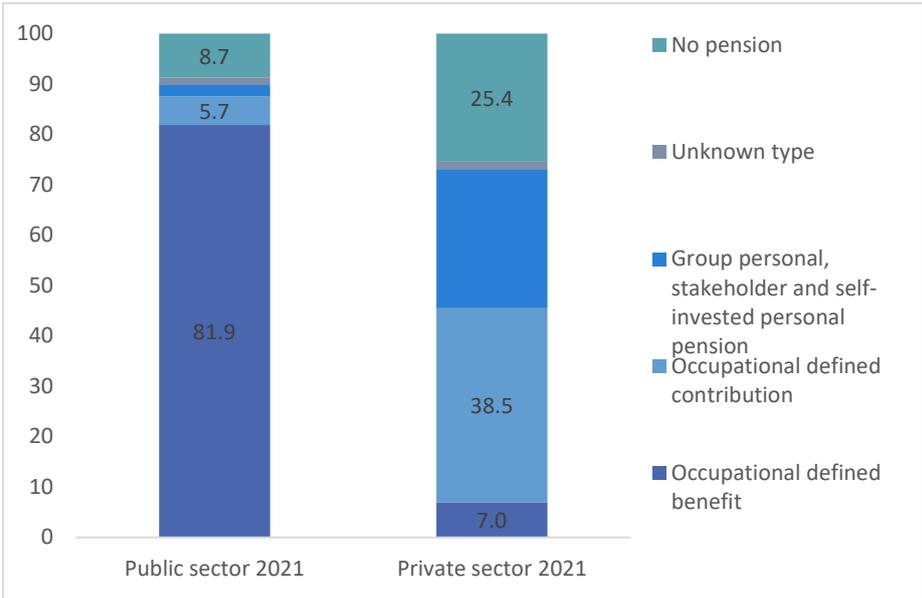


**Figure 7.5 Employer average contribution rates in pension schemes are far higher with DB than DC schemes, 2021. Source: Office for National Statistics, Annual Survey of Hours and Earnings**



Employees in the public sector have more secure and predictable retirement savings, since public sector pensions are overwhelmingly DB schemes, in contrast with private sector schemes where more flexible, but uncertain, DC pensions are the norm (see Figure 7.6)

**Figure 7.6** Public sector workplace pensions are predominantly defined benefit, whereas in the private sector defined contribution pensions are dominant



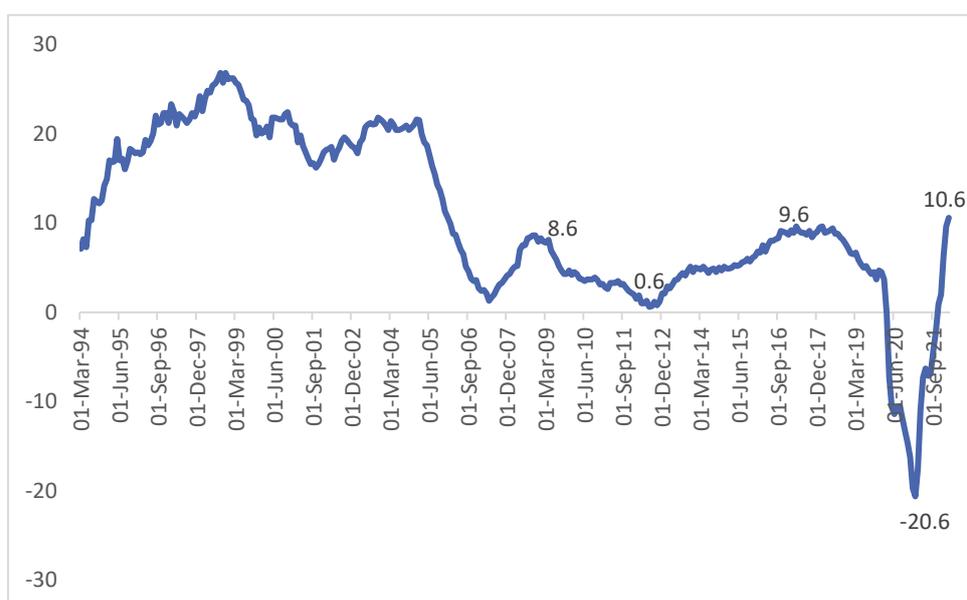
## 8 BORROWING

As we have stressed in previous reports, some forms of borrowing/debt may be very positive in some circumstances, 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 above). Access to regulated forms of credit is therefore also considered to be an aspect of financial inclusion, offering a relatively safe pathway to productive borrowing and reducing possible reliance on informal lenders. However, there are risks and disadvantages with accessing regulated credit too. Those on the lowest incomes are often charged the highest rates for borrowing, as they are considered to be at higher risk of default, and may also be using credit to pay for essentials because of low or fluctuating income, potentially creating a spiralling debt problem.

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'. 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.

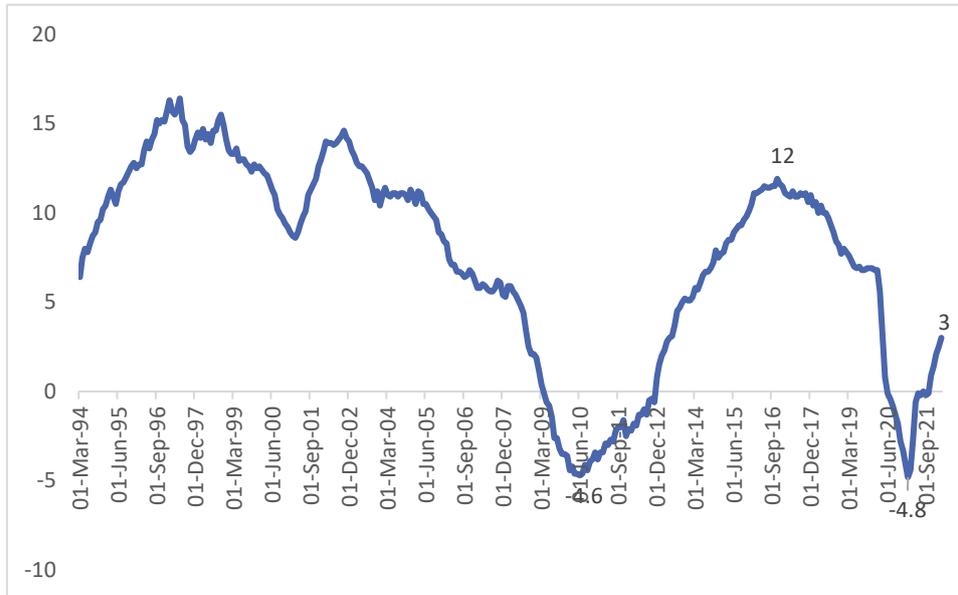
Our analysis shows that the annual rate of growth in credit card lending dropped dramatically in 2020 and the first three months of 2021 (see Figure 8.1). This is linked to the COVID-19 crisis and the 'forced saving' which allowed some people to pay down their debt and others to reduce their consumption and therefore demand for credit. Indeed, from March 2020, the growth rate was actually negative for the first time in recent decades (in other words, the total amount owed on credit cards was reducing each month). In January, February and March 2021 it was around 20 percentage points lower than the same point the previous year. Such falls are unprecedented. But lending recovered quickly 'post-pandemic' and the growth in credit card lending reached 10.6% in March 2022.

**Figure 8.1 Monthly 12-month growth rate of total sterling net credit card lending to individuals falls dramatically from March 2020 but in March 2022 was higher than at any time since the Global Financial Crisis in 2008/9. Source: Bank of England**



If we look at similar figures for consumer credit which exclude credit cards (and student loans), we also see a similarly dramatic fall in lending (see Figure 8.2), decreasing by 4% in each month of the first Quarter of 2021. There was also a similar ‘post-pandemic’ resurgence by March 2022, but not to the same extent as for credit cards.

**Figure 8.2 Monthly 12-month growth rate of total (excluding the Student Loans Company and credit card) sterling net consumer credit lending to individuals (in percent) fell dramatically from March 2020 but has increased since. Source: Bank of England**



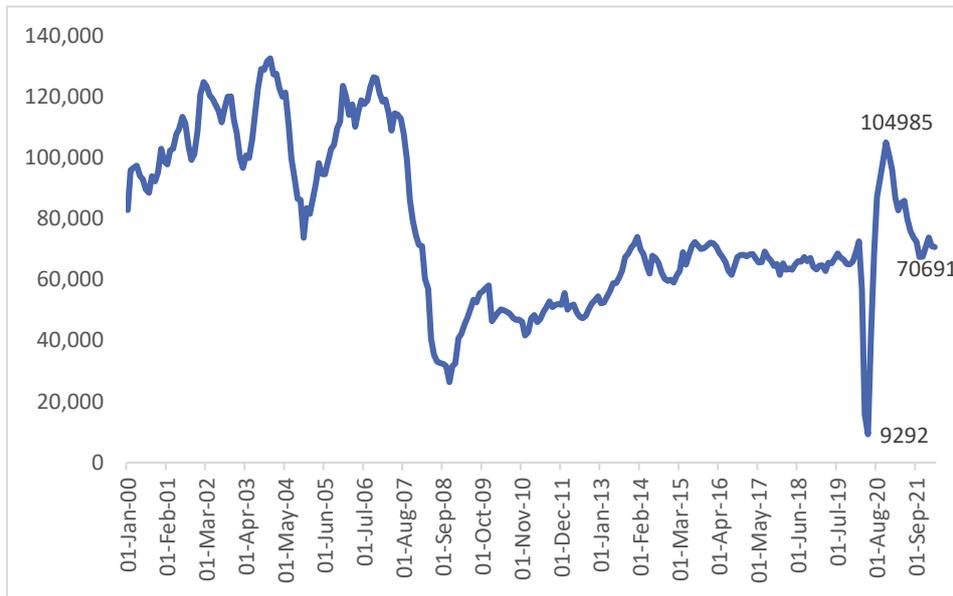
People use credit for different reasons and it can play a positive part in enabling people to smooth income and expenditure. But when it is used to pay for essentials that cannot be afforded through regular income, this can lead to a vicious debt spiral. In October 2021, Stepchange<sup>61</sup> commissioned a national survey to understand the extent to which credit is being used as a safety net in this way. The survey results suggested that 4.4 million people struggling to keep up with household bills and credit commitments had borrowed £13 billion to pay bills and make it through to payday (around £3,000 per person). The survey also suggested that using credit to pay for essentials caused harm, making things worse for people financially and in other ways. Three quarters (71%) of those using credit as a safety net reported a negative impact on their health, relationships or ability to work, five times the proportion of others who hold credit products (15%).

Turning now to mortgage lending, Figure 8.3 reports the total number of mortgages approved by mortgage providers each month (taking into account only those approved in Pounds Sterling, and seasonally adjusted), rather than the rate of growth. It shows another massive drop in mortgage lending in March 2020, with fewer than 10,000 approvals in May 2020, far fewer than the low point following the GFC of 25,000 in November 2008 (though the level of approvals had been much higher prior to this crash). Mortgage approvals then bounced back and, indeed, reached over 100,000 at the end of 2020, prior to the second lockdown, but then fell to just over 70,000 in

<sup>61</sup> <https://www.stepchange.org/Portals/0/assets/credit-safety-nets/Falling-behind-to-keep-up-the-credit-safety-net-and-problem-debt-StepChange.pdf>

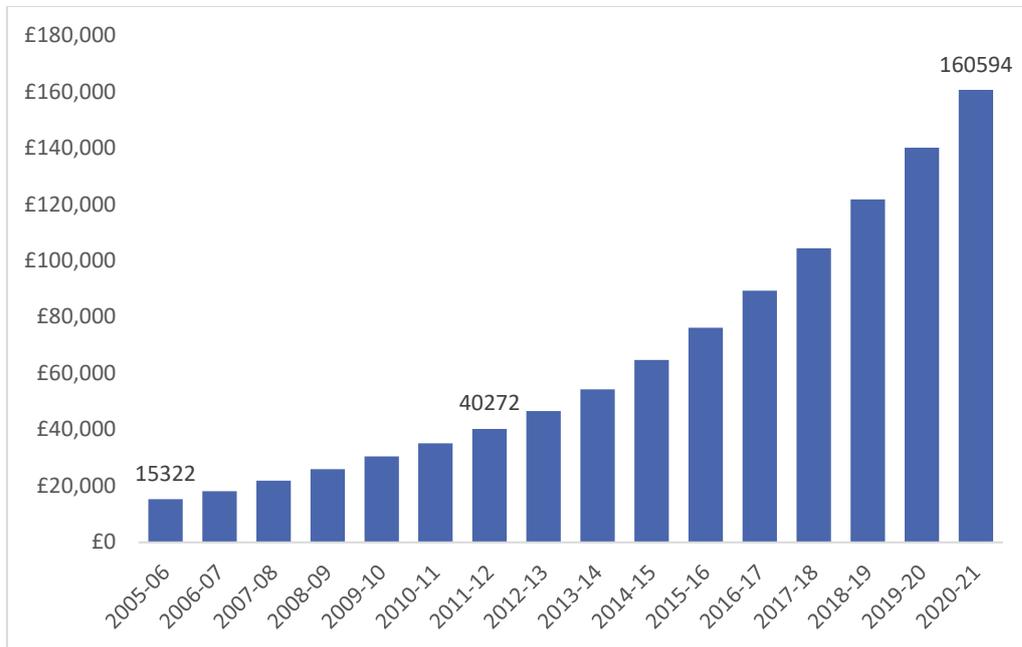
March 2022. Given interest rate rises and economic uncertainty, these look set to decline much further towards the end of 2022.

**Figure 8.3** Monthly number of total sterling approvals for house purchase to individuals seasonally adjusted. Source: Bank of England



A rather different form of borrowing is student loans. These are only paid back once the borrower earns over a certain threshold, although interest continues to accumulate from the moment the funds are received. Nevertheless, it is worth reflecting on the amount borrowed. The value of outstanding loans at the end of March 2021 reached £160.6 billion (see Figure 8.4).

**Figure 8.4** Total amount outstanding at the end of the financial year, including loans not yet due for repayment, £millions. Source: Student Loans Company and House of Commons<sup>62, 63</sup>



The average loan balance for those who finished their courses in 2021 was £45,000 (see Figure 8.6). But the Government expects that (only) 30 per cent of current full-time undergraduates who take out loans will repay them in full<sup>64</sup>.

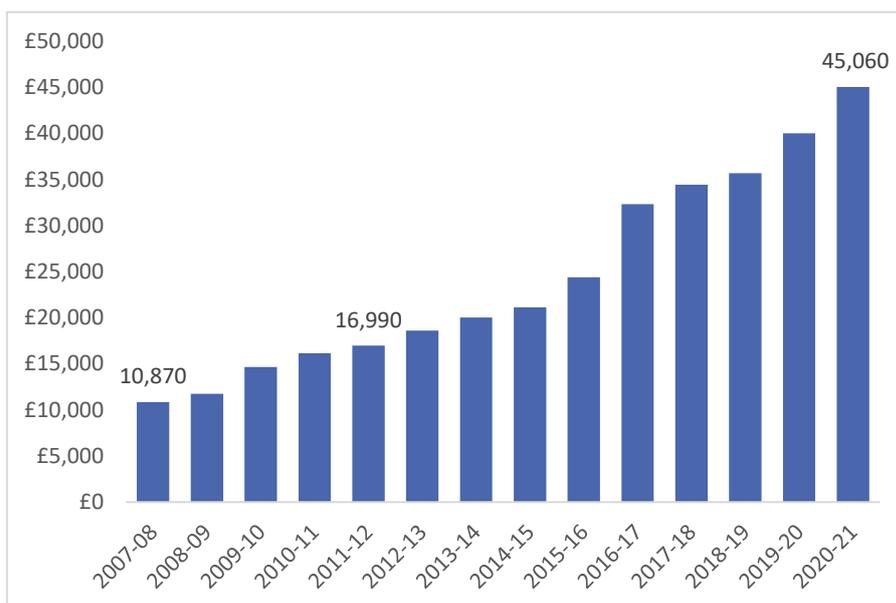
<sup>62</sup> <https://www.slco.uk/official-statistics/student-loans-debt-and-repayment/england.aspx>,  
<https://commonslibrary.parliament.uk/research-briefings/sn01079/>

<sup>63</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/992740/slcp012021.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/992740/slcp012021.pdf)

<sup>64</sup> <https://commonslibrary.parliament.uk/research-briefings/sn01079/>

**Figure 8.5 The average loan balance for those entering into repayment. Source: Student Loans Company<sup>6566</sup>**



In terms of repayments, the data shows that the number of those making scheduled repayments went down by 13,000 (10.3%) in financial year 2020-21 to 112,900 and, consequently, the amount repaid that year reduced by £9.5 million (7.6%) to £115.7 million. This was the first time ever that there had been a reduction in comparison to the previous year in both the number of borrowers who made a scheduled repayment and the amount repaid via this method. Presumably this is another consequence of the pandemic; relating to the ability of new graduates to find paid employment with salaries that trigger repayments. It is worth noting that the interest rate on most student debt has been charged at infl +3% from the point at which the loan is taken out until it is repaid in full. However, the government has introduced a cap on student loan interest rates at 6.3% from September 2022, given the prospect of student loan borrowers facing a double digit interest rate otherwise.

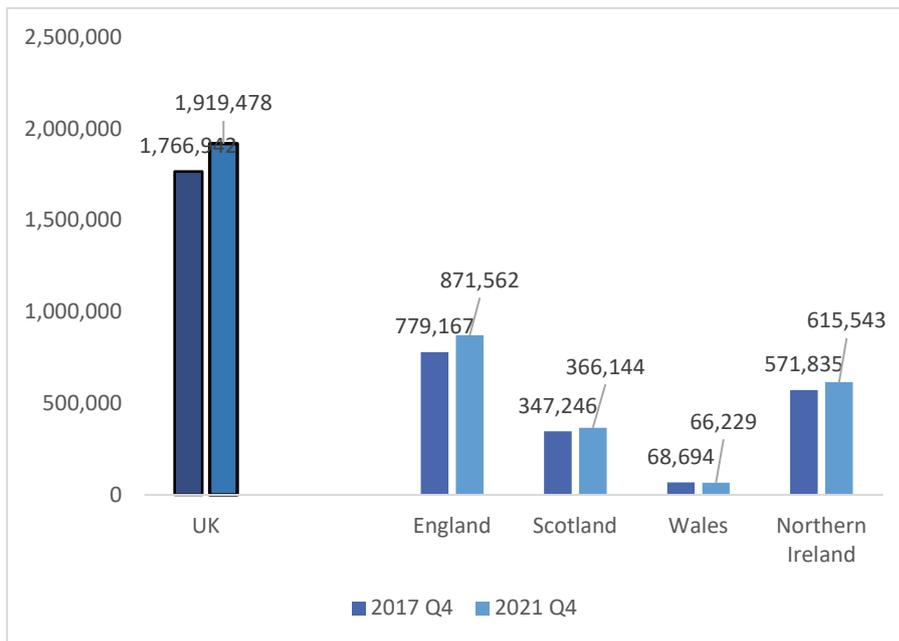
Financial inclusion policies generally aim to increase access to affordable credit through regulated providers, including credit unions – membership-based financial providers who pool members savings in order to offer affordable loans. In 2021, 1.9 million adults were members of a credit union, as well as 200,000 children. There has been a 4.5 per cent increase in adult members over the previous year but a drop of 2.3 per cent of young members (under 16). While most members are based in England (see Figure 8.7) the percentage of the English population who are credit union members is actually very small (about 2 per cent). The percentage of the population in Northern Ireland who are members is much greater, at more than one in three (37 per cent); see Figure 8.6.

<sup>65</sup> <https://www.slco.uk/official-statistics/student-loans-debt-and-repayment/england.aspx>

<sup>66</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/992740/slcp012021.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/992740/slcp012021.pdf)

**Figure 8.6** Total number of adult members of credit unions in the UK in 2021.  
Source: Bank of England Data<sup>67</sup>



<sup>67</sup> <https://www.bankofengland.co.uk/statistics/credit-union/2019/2019-q4>

## 9 PROBLEM DEBT

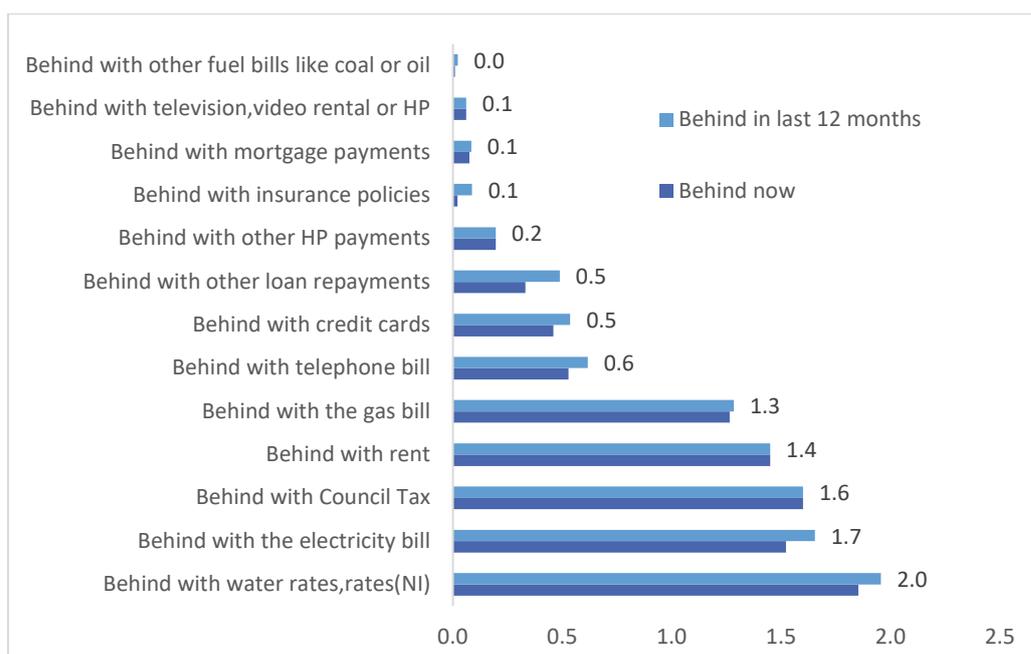
Chapter 8 focused on levels of borrowing, an important indicator of financial inclusion. The definition of financial inclusion presented at the beginning of this report also includes ‘having the ability to’ avoid or manage problem debt, which we interpret to mean ‘managing with the help of professional advice’, if needed.

Many people face difficulties paying everything they owe. They may be behind with credit repayments, utility bills, rent, fees or fines, or any number of other regular bills such as insurance premiums, subscriptions, taxes, training costs or child support. This chapter therefore reviews available data on the difficulties people may have in paying a variety of bills, including any credit commitments. We refer to these difficulties as ‘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. More timely data from other surveys, e.g. the FCA’s *Financial Lives Survey*, is becoming available though, again, definitions, samples and fieldwork methods vary.

According to one of the more established sources of data (though one that was affected by the pandemic and so may be a little less reliable than usual), the Family Resources Survey 2020/21, 5.4 per cent of families said that they could not keep up with bills and regular debt payments. Put another way, 1,754,116 family units containing 2,326,383 adults and 707,469 dependent children were unable to keep up with their financial commitments.

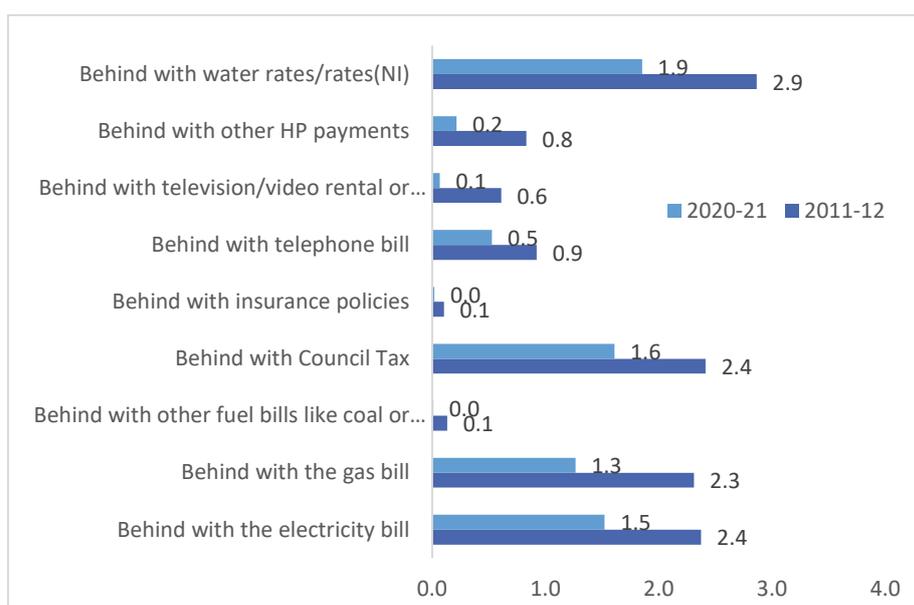
Figure 9.1 breaks these figures down in relation to different types of problem debt and in terms of current debts, with water rates (or rates in Northern Ireland) being the most common type, followed by council tax debt and then electricity and then rent. The numbers here are similar to those for 2019/20.

**Figure 9.1 Problem debt in 2020/21, % of families. Source: Family Resources Survey**



These figures are, of course, concerning. However, they are slightly lower than the figures from a decade ago, as shown in Figure 9.2. This could be for a range of reasons, not least that household finances were still recovering from the impact of the financial crisis a decade ago and the more recent figures here will reflect the various government initiatives to support household finances during the pandemic, when forced saving may have helped people reduce problem debt. The significant reduction in people behind with utilities may also relate to the switch to pre-paid meters and smart meters which could be obscuring the real level of difficulties here.

**Figure 9.2 Problem debt 2011/12 to 2020/21, % of families. Source: Family Resources Survey**



If people are not able to keep on top of their debts there can, of course be serious consequences, across a number of areas of their life, affecting wellbeing, financial and social inclusion. Linked to this, another indicator of serious problem debt is the rate of insolvency<sup>68</sup>. Individual insolvency procedures include bankruptcy, debt relief orders (with effect from 6 April 2009) and individual voluntary arrangements:

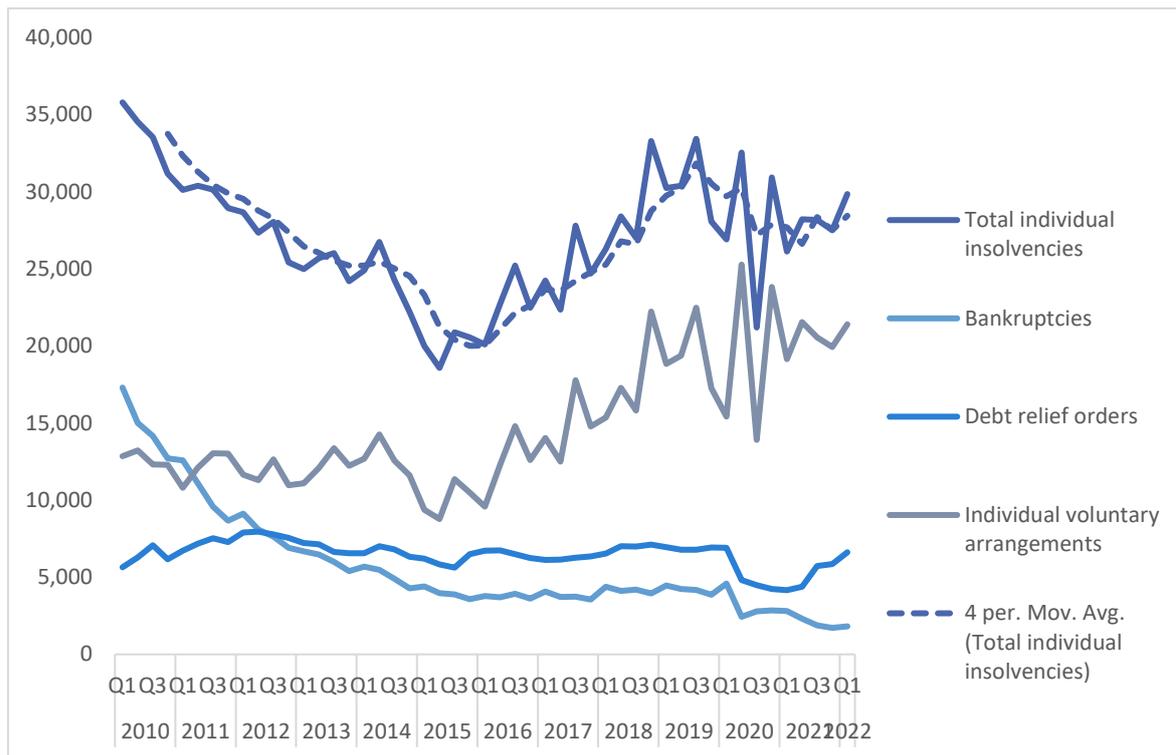
- **Bankruptcy:** a form of debt relief available for anyone who is unable to pay the debts they owe. Any assets owned by the debtor will be transferred (vested) to a trustee (formally referred to as ‘vest in a trustee in bankruptcy’) who will sell them and distribute the proceeds to creditors in accordance with the order laid down by statute.
- **Debt relief order (DRO):** 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 the debtor is no longer liable for the money owed (formally, they are ‘discharged from the debt’) 12 months after the DRO is granted; the lender cannot take any action to reclaim the money.
- **Individual Voluntary Arrangements (IVAs)**– a voluntary, negotiated plan to repay creditors some or all of what they are owed. Once approved by the majority of creditors, the

<sup>68</sup> See the Insolvency Service website: <http://www.bis.gov.uk/insolvency>

arrangement is binding on all. Such arrangements are supervised by a licensed Insolvency Practitioner.

Quarterly data from the Insolvency Service shows that the total numbers of bankruptcies and debt relief orders declined in 2021 but IVAs increased a little. In total, 8,700 people were declared bankrupt in 2021 (down from over 12,000) with over 20,000 signing a Debt Relief order. Individual Voluntary Arrangements (which now form the vast majority of all types of insolvencies) reached a new high of over 81,000 in 2021 (see Figure 9.3).

**Figure 9.3 Individual insolvencies in UK, quarterly data. Source: Insolvency Service<sup>69</sup>**



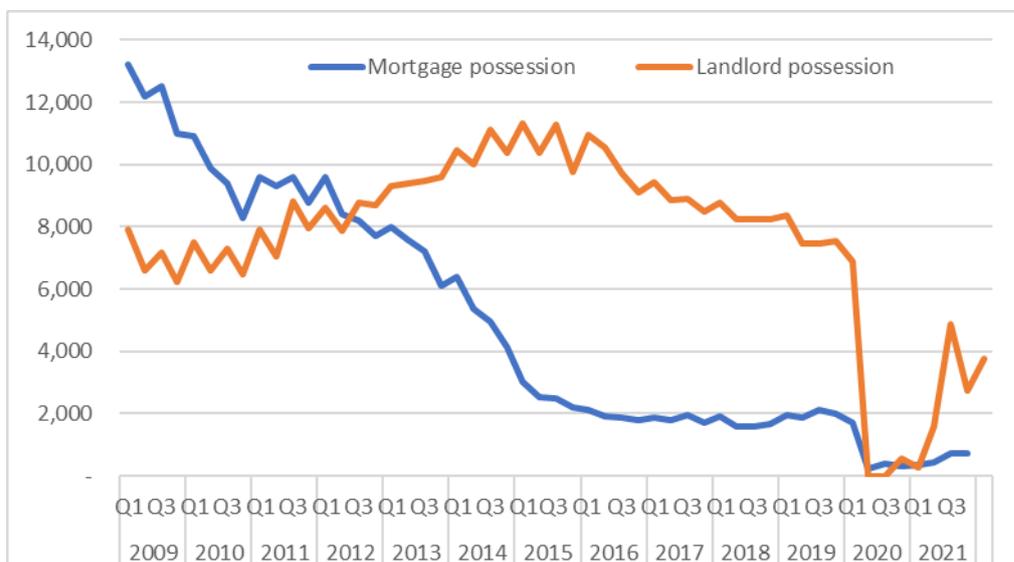
In March 2021, a new government scheme was introduced to give people some respite or ‘Breathing Space’ from debt problems. The organisation Stepchange supported 46,000 of the near 70,000 applications for a Breathing Space in the first year and they have also conducted an evaluation<sup>70</sup> of the scheme to understand how successful it has been in achieving its objectives so far. The evaluation included a mixed client survey of those who took a Breathing Space and those that did not, to compare experiences. The initial findings suggest that the scheme has had a positive impact. For example, those who took a Breathing Space were over three times more likely than those who did not to go through full debt advice and enter into a debt solution. Two in three Breathing Space clients reported improved wellbeing after debt advice compared with one in two among those who did not access the scheme.

<sup>69</sup> <https://www.gov.uk/government/statistics/individual-insolvency-statistics-january-to-march-2019>

<sup>70</sup> <https://www.stepchange.org/Portals/0/assets/impact/Breathing-Space-one-year-on-initial-findings-StepChange.pdf>

Another, extreme, indicator of problem debt is the extent to which people are forced to leave their home due to rent or mortgage arrears. Figure 9.4 shows this trend both for mortgage repossessions and landlord possessions, with both dropping dramatically during the pandemic due to government bans on evictions (enforced by bailiffs) and lender forbearance with mortgage arrears. The government ban has now ended, however, and there has been a considerable increase in landlord possessions from just over 500 throughout the whole of 2020 to nearly 10,000 in 2021. This figure is still considerably lower than the 30,000 evicted in 2019. In terms of mortgage repossessions, there was actually a slight fall, overall, in 2021 from 2,660 in 2020 to 2,240 in 2021, possibly related to the reduction in new mortgage approvals reported above.

**Figure 9.4 Mortgage and landlord possessions 2009-2022. Source: Government Statistics<sup>71</sup>**



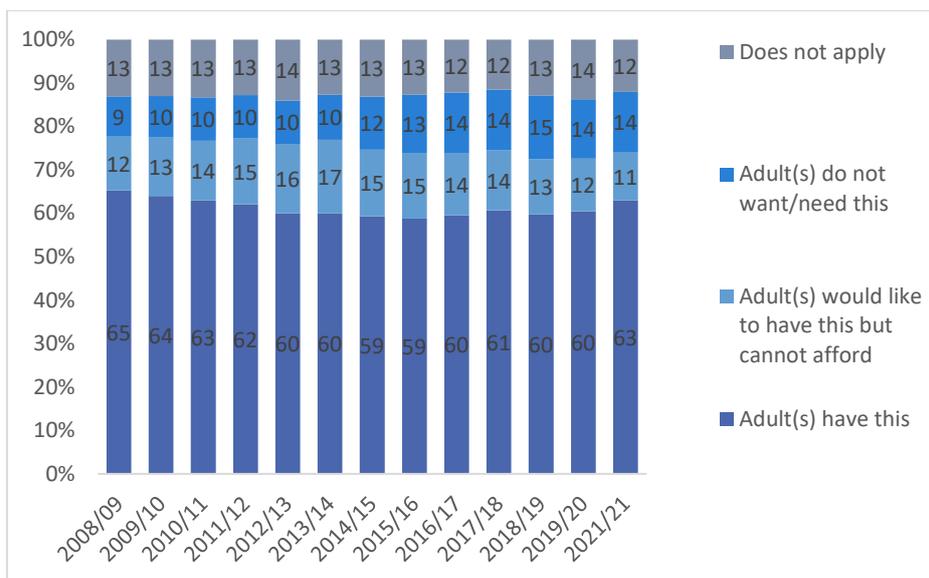
<sup>71</sup> <https://www.gov.uk/government/statistics/mortgage-and-landlord-possession-statistics-october-to-december-2019>

## 10 INSURANCE

When budgets are tight, as they have increasingly become in the last few years and with worse likely to follow, 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. However, those on the lowest incomes are also least likely to be able to afford to replace their personal possessions in the event of an incident such as flooding, fire or theft. Affordable insurance is therefore an important element of financial inclusion, with relevance for financial security and wellbeing.

There have 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 sector<sup>72</sup> 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 very little change in the proportion of households with home contents insurance. Figures from the Family Resources Survey suggest the proportion of working adults who had home contents insurance in 2008/9 and 2020/21 dropped slightly from 65 per cent to 63 per cent (see Figure 10.1). The table excludes those who did not answer the question, saying that it was ‘not applicable’ (about 14 per cent in 2020/21).

**Figure 10.1 Home contents insurance for working-age adults (where this applies) 2008/9 to 2020/21. Source: Family Resources Surveys**



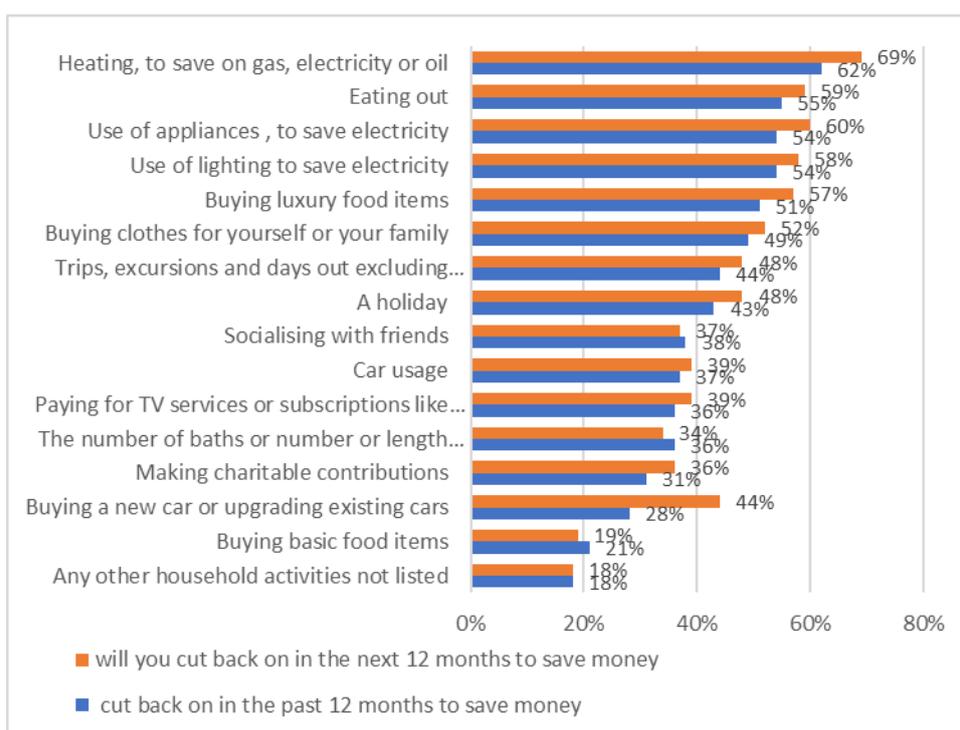
<sup>72</sup> Dayson, K, Vik, P and Ward, A (2009) Developing models for delivering insurance through CDFIs – opportunities and risks, Community Finance Solutions

## 11 WHERE ARE WE NOW?

To bring our figures further up to date, we commissioned Ipsos to collect new data from a representative sample of GB adults aged 18+, with fieldwork running from 28 September to 4 October 2022. This was therefore during a period when the ‘cost of living crisis’ was a key issue, with further price rises looming, and huge economic uncertainty following Kwasi Kwarteng’s mini budget on 23 September, just a few days before fieldwork started.

Our data from the Ipsos survey show many participants have already been cutting back on their purchases over the past 12 months, and many more were planning to do so in the next 12 months (see Figure 11.1). In particular, some 69% were planning to cut back on heating, to save on gas, electricity or oil, in the next 12 months, with 62% saying they had already done so in the previous 12 months. Cutting back on eating out appears to be a common answer, with 55% saying they have done this in the previous 12 months ~~last year~~ and 59% planning to do so in the next 12 months. 28% said they have cut back on buying a new car or upgrading existing cars, and this proportion is even higher when looking at responses around what participants intend to cut back on in the next 12 months, at 44%. And one in five (21%) had been cutting back on basic food items. A similar proportion were planning to cut back on these next year (19%).

**Figure 11.1** Areas of spending where people have cut back, or plan to do so. Source: Ipsos Survey October 2022

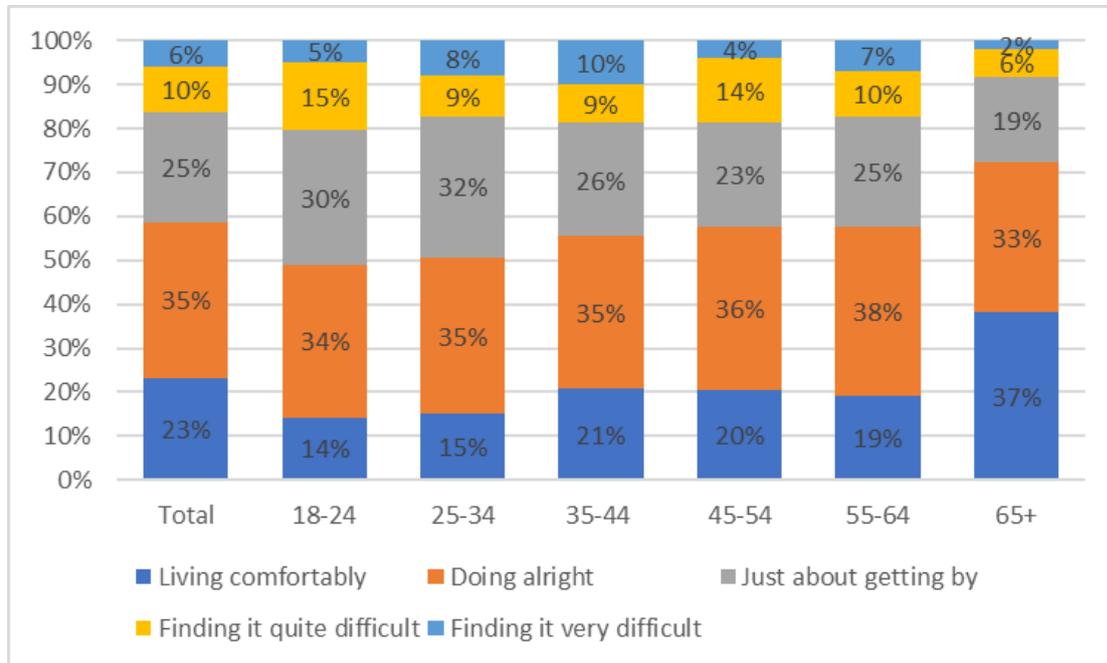


Base: 1,005 GB adults aged 18+, 28<sup>th</sup> September – 04<sup>th</sup> October 2022 Ipsos Telephone survey

The proportion of GB adults (18+) regarding themselves as being in financial difficulties were well above the figures from the 2019/20 Understanding Society report that we reported above, with 41% combined saying they were either just about getting by, or finding it quite or very difficult to

manage financially (compared with 27% in the 2019/20 Understanding Society report) with those in the 35-44 age band most likely to say they are finding it very difficult, at 10% (see Figure 11.2).

**Figure 11.2 How would you say you are managing, financially, at the moment. Would you say you are ... Source: Ipsos Survey October 2022**



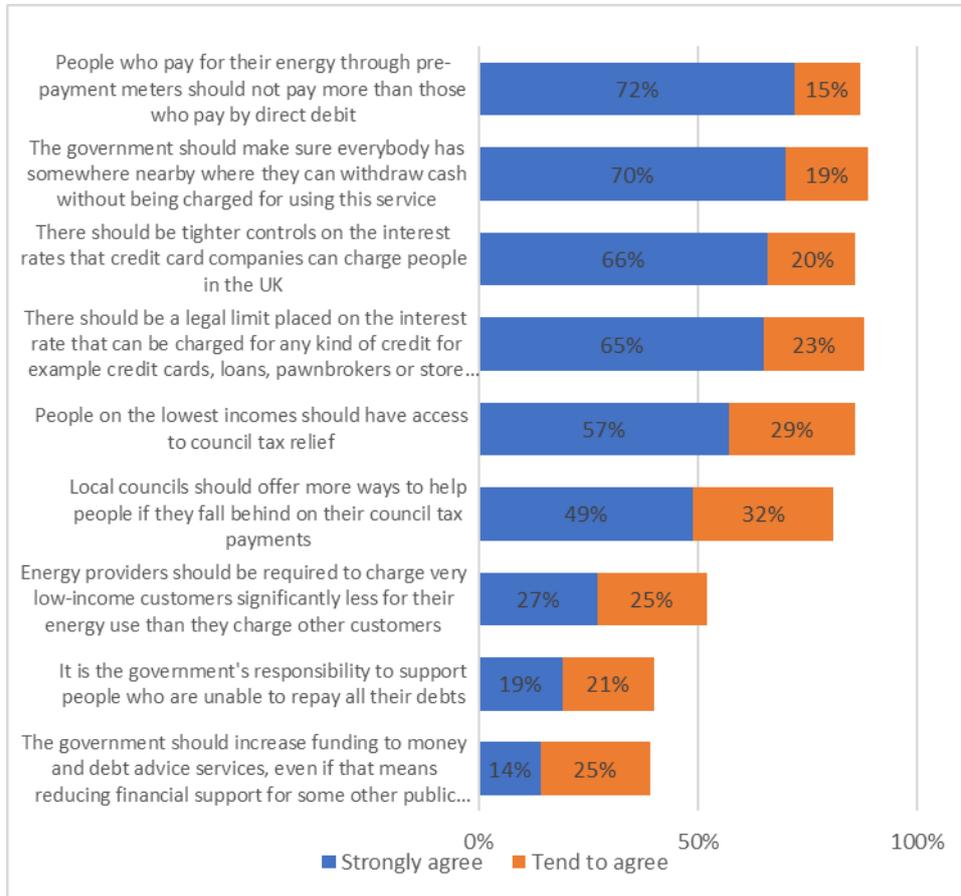
**Base:** 1,005 British adults aged 18+, 28<sup>th</sup> September – 04<sup>th</sup> October 2022 Ipsos Telephone survey

Amongst the 35% of participants to the Ipsos survey who reported that they had experienced some kind of financial difficulty since September 2021, 81% said that this situation affected their health, 54% reported that it affected their relationships and over a third (37%) said it affected their work in some way.

Participants to the Ipsos survey were also presented with a selection of nine ideas that have been put forward to help people to avoid or get out of debt. They were asked the extent to which they agree or disagree with each policy idea. In Figure 11.3 we indicate the results. There are some elements of fairness that may be coming into this – the idea that those on meters should be paying the same as other fuel consumers, for instance, as among the proposals with which respondents were most likely to agree. Tighter controls on the interest rates that could be charged for credit card balances appeared to be a popular proposal, with 86% agreeing with this, 66% strongly so (this is the 3<sup>rd</sup> most likely presented proposal to garner an agree response, with “The government should make sure everybody has somewhere nearby where they can withdraw cash without being charged for using this service” in 2<sup>nd</sup> place with 89% agreement).

Some proposals saw a lower proportion of participants respondents agreeing. For example, “It is the government's responsibility to support people who are unable to repay all their debts” saw 40% of respondents agree (19% selected strongly agree, 21% tend to agree), with 39% stating they disagree (17% strongly disagree, 22% tend to disagree). “The government should increase funding to money and debt advice services, even if that means reducing financial support for some other public services” was the statement of the nine that garnered the lowest proportion of agreement, at 40%.

**Figure 11.3** A number of ideas have been put forward to help people avoid, or get out of, debt. To what extent do you agree or disagree with each of the following proposals?... Source: Ipsos Survey October 2022



**Base:** 1,005 British adults aged 18+, 28<sup>th</sup> September – 04<sup>th</sup> October 2022 Ipsos Telephone survey

## Conclusions

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This report has been developed at a time of unprecedented concern about the economic outlook, an unusually rapid turnover of political leadership, and great uncertainties about peace and security in the world. Indeed, some of the charts in this report make the impact of the Global Financial Crisis in 2008 look like a relatively minor economic blip compared to the pandemic and more recent challenges.

As we state at the beginning of this report, a key driver of financial inclusion is a person's level and security of income. If people have secure incomes at a reasonable level, they are much more likely to be financially included as they will be able to manage everyday financial transactions, meet one-off expenses, borrow at relatively low interest rates and avoid or reduce problem debt. They are also more likely to be able to save and thus manage a loss of income. Our research over the past ten years has shown, however, that while employment has grown and levels of earnings increased (prior to the current 'living cost crisis'), earnings have become increasingly insecure, with a growing number of zero hours contracts. Those out of work have seen their income from social security fall well below the level of a minimum income standard.

More recently, incomes are failing to keep in line with inflation and the current situation reminds us that costs are also a key part of the equation – the cost of energy, rent, mortgages, food, council tax and other essential goods and services. When costs rise so much faster than incomes, people cannot make ends meet and will fall into debt, perhaps using credit to try to manage but then entering a vicious spiral when having to pay interest on debt on top of core costs. As a result, financial inclusion looks set to reduce as incomes are not keeping pace with costs, savings are falling, borrowing is increasing and the numbers turning to (sometimes unhelpful) 'debt solutions' increases.

On an apparently more positive note, our reports document some progress in relation to financial inclusion with fewer people unbanked and more people with private pensions. However, the consequences of being unbanked now, in our increasingly cashless economy, are even more severe than they were, and those 'with' private pensions are often paying nothing – or very little – into them so they will not provide enough in retirement for people to achieve financial security.

Perhaps the key message from this ten year study is to reaffirm the important point that it is the level and security of someone's income which is fundamental to financial security. At the same time, financial services need to be affordable and suitable. The general public certainly agreed with this in our Ipsos survey, calling for tightening controls on the cost of borrowing. Our final suggestion is that it may now be time to move away from monitoring 'financial inclusion' in the UK to focus more on financial security, resilience or wellbeing. Such a shift may help re-focus on the real goal of policy and practice change which should not be access to financial products for their own sake but as a means to a more important end, that is the financial security, resilience and wellbeing of the population.

## Appendix: Data sources and research methods

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This research, supported by the Friends Provident Foundation and Barrow Cadbury Trust, began with stakeholder engagement to help refine the scope of the research. The research then draws on analysis of a range of existing data sources as outlined below. We also review key research studies, and statistics produced, by other organisations as appropriate.

### **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 and 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 two key sources were administrative systems of various kinds, and sample surveys available to the academic community:

#### **Administrative data**

Aggregated data is available from, in particular, the ONS, the Bank of England and various government departments.

ONS data includes summary data from certain surveys, such as the Labour Force Survey and Wealth and Assets Survey (see below) and from administrative systems including numbers receiving benefits of various kinds. They are also responsible for price indices, such as the CPI.

The Bank of England provides data on credit and mortgages.

Various government departments provide data on their area of competence. DWP provides data on numbers receiving benefits, such as universal credit.

#### **Survey data**

Sample surveys are conducted within government on a regular basis, and by some academic bodies. Many of these surveys may be accessed at the UK Data Service<sup>73</sup>, subject to certain conditions. Below we list the main surveys used in this report.

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<sup>73</sup> <https://www.ukdataservice.ac.uk/>.

- Wealth and Assets Survey (WAS)

This is a panel survey of people's assets and general wealth, including pensions, financial assets, property and savings. Six waves/rounds have been produced, covering 2006-08, 2008-10, 2010-12, 2012-14, 2014-16 and 2016-18<sup>74</sup>. Each wave of the survey includes around 20,000 households, or more. 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 bank accounts held<sup>75</sup>, and those in arrears on particular household commitments. These data are Crown Copyright.

- Labour Force Survey

Each quarter around 120,000 individuals are included in the Labour Force Survey. The emphasis is on collecting labour market data, including those who are unemployed<sup>76</sup>. These data are Crown Copyright.

- Understanding Society

This is a very large household panel study, including over 40,000 households each wave. It follows on from a similar panel survey (the British Household Panel Survey)<sup>77</sup>.

- Older surveys

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 MFS) 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 MFS 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

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<sup>74</sup> <https://www.ons.gov.uk/releases/wealthingreatbritainwave62016to2018>.

<sup>75</sup> Department for Work and Pensions, National Centre for Social Research and Office for National Statistics. Social and Vital Statistics Division, Family Resources Survey, 2010-2011 [computer file]. Colchester, Essex: UK Data Archive [distributor], October 2012. SN: 7085 , <http://dx.doi.org/10.5255/UKDA-SN-7085-1>

<sup>76</sup> 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>

<sup>77</sup> <https://www.understandingsociety.ac.uk/>.

published a report on over-indebtedness in Britain<sup>78</sup> based on data from the YouGov DebtTrack survey, a series of on-line 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 2012-2016<sup>79 80</sup>.

- Ipsos

On behalf of University of Birmingham, Ipsos interviewed a representative quota sample of 1,005 adults aged 18 years and over across Great Britain. The survey was carried out using its telephone Omnibus from 28th September – 4th October 2022. Data has been weighted to the known offline population proportions for age within gender, social grade within gender, working status within gender, region, and ethnicity, in Great Britain of adults aged 18+ years.

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<sup>78</sup> 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>

<sup>79</sup> 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>

<sup>80</sup> <http://www.bankofengland.co.uk/research/Pages/onebank/datasets.aspx#2>

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We also wish to thank the UK Data Service for supplying the datasets used in this research project – and thank the funders and data collectors of these surveys. Thanks also to Ipsos for recent polling.

Naturally, none of these individuals or organisations has any responsibility for the analysis conducted or conclusions drawn.