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Beyond the binary of financial in/exclusion: towards a spectrum of unsecured credit use

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There has been a resurgence of interest in financial inclusion over the last year or two, not least with the work of the Financial Inclusion Commission[1]. However, there is still insufficient discussion of the complex nature of financial inclusion. In this briefing paper, we seek to go beyond a simple binary of in/exclusion in relation to unsecured credit use. We suggest that credit use is better understood in terms of a spectrum of in/exclusion.

This briefing paper is based on work supported by the Arts and Humanities Research Council, FinCris project [grant number AH/J001252/2]. As part of this project, in 2014, we carried out 44 semi-structured interviews with people on low and moderate incomes who had accessed alternative forms of credit in the last 12 months.

[1] http://www.financialinclusioncommission.org.uk/

Moving beyond the binaries of financial inclusion/exclusion

Our research found that borrowers could not be simply defined as financially included or excluded through whether they may access or mainstream finance (or not). We therefore developed the following spectrum of unsecured credit use, based not only on our interviewees but also on our broader understanding of financial inclusion and thus covering those who are completely excluded from all forms of credit as well as those who are better off than our sample and so may be considered 'super included'.

Table 1: Financial inclusion spectrum

<table>
<tr><td colspan="3">MOST INCLUDED</td></tr>
<tr><td colspan="3">Super inclusion - middle/high income groups who can use credit on best terms (eg free overdraft facility, low cost bank loans, interest free credit)</td></tr>
<tr><td colspan="3">Mainstream inclusion - mainstream credit use only among low/middle income groups</td></tr>
<tr><td colspan="3">Hybrid inclusion - mainstream and alternative credit use</td></tr>
<tr><td>Lower-cost alternative credit use only (eg credit unions)</td><td>Higher cost doorstep credit only</td><td>Higher cost payday credit only</td></tr>
<tr><td colspan="3">Alternative inclusion - use of a mix of alternative credit including credit unions, payday lenders, doorstep credit and pawnbroking, etc</td></tr>
<tr><td colspan="3">Formal exclusion - no access to legal/formal credit but may borrow from family or friends or illegal lenders</td></tr>
<tr><td colspan="3">Total exclusion from any formal or informal credit – voluntary and involuntary</td></tr>
<tr><td colspan="3">MOST EXCLUDED</td></tr>
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(Source: Author's research)

We make four key points here. First, that there are no simple binaries between exclusion/ inclusion, mainstream/sub-prime or super inclusion/relic forms of unsecured credit[2]. 'Mainstream credit' varies from types of lending which can be extremely favourable (eg free overdraft facilities and low interest bank loans which meet the needs of those on middle and high incomes) to types of lending which can be extremely expensive (including charges and interest on some overdraft facilities both pre-arranged overdrafts and those that are not arranged). Alternative forms of credit also vary substantially from credit unions which are much lower cost than payday lending or doorstep lending but are nevertheless not part of mainstream financial services. Doorstep lending may perhaps be characterised as a 'relic'

[2] Kear M (2013) Governing Homo Subprimicus: Beyond financial citizenship, exclusion, and rights. *Antipode* 45 (4): 926-946.

form of lending with its emphasis on cash and personal interaction, but payday lending is perhaps one of the most innovative and 'modern' forms, relying on mainstream mechanisms such as credit scoring models and online platforms[3].

Second, just as forms of credit do not fit into simple boxes, patterns of credit use are also complex. Some people use a mix of 'mainstream' and 'alternative' sources of credit[4]. We might assume that this is a good sign of people being able to choose from different sources to meet different needs. But we might also wonder why people choose alternative forms of credit over mainstream credit which is generally assumed to be cheaper. Our empirical research shows that some people with financial difficulties are merely accessing as much credit as possible from whichever source they can, often because they are desperate. Others are moving from the mainstream to alternative providers as they lose access to mainstream sources. Others are exercising very 'constrained' choice by electing to use payday lending rather than a more expensive overdraft. Others still are, perhaps, exercising greater choice, for example, borrowing from the credit union in preference to the doorstep lender. Our research therefore highlights the complexities of the situations people find themselves in and the inadequacy of the inclusion/exclusion and mainstream/alternative binaries[5].

Some groups used only 'alternative' sources but preferred one kind of credit to another (at that time). Once again, the reasons given were a mix of choice and constraint. Some people preferred the quick, online anonymity of payday lending while others preferred the personal and cash-based nature of doorstep lending. Some used a mix of alternative forms of lending often, once again, signalling financial difficulties.

[3] Burton D, Knights D Leyshon A et al. (2004) Making a market: the UK retail financial services industry and the rise of the complex sub-prime credit market. *Competition and Change* 8 (1): 3-25.
Leyshon A, Burton D Knights D et al. (2004) Ecologies of retail financial services: understanding the persistence of door-to-door credit and insurance providers. *Environment and Planning A* 36 (4): 625-645.
[4] Coppock S (2013) The everyday geographies of financialization: impacts, subjects and alternatives. *Cambridge Journal of Regions, Economy and Society* 6 (3): 351-357.
[5] Langley P (2008a) *The everyday life of global finance: saving and borrowing in Anglo-America.* Oxford University Press, Oxford.

Third, a key theme running through many of our interviews and, as yet, insufficiently highlighted in the literature is what we have termed the problem of 'precarious-inclusion'. People feared, and sometimes gave good examples of why these fears were very real, that they might borrow more than they wanted to. These fears were linked to both mainstream lenders (eg banks) and alternative lenders (eg doorstep and payday lenders) and we had examples of all these lenders encouraging people to borrow more than they had originally intended. People talked about 'easy money' and often lived to regret how easy it had been to borrow.

A fourth key point is the issue of consumer ‘choice’ and what it means to exercise constrained choice in this market, which was a regular feature in the research. This point highlights problems with the suitability and affordability of loans for many people, particularly those on a low or moderate income. However, our interviewees largely relied on family and friends for the information and experience of different credit sources[6]. But given the nature of products currently available to people, self-exclusion may be the best option and it is one which many of our respondents were trying to practice. However, with the pressures on family budgets, the need to borrow money was often very high and so there is a real need to consider the nature of credit products available to people to ensure they are more appropriate and affordable.

The views expressed in this briefing are the views of the author(s) and do not necessarily represent the views of CHASM as an organisation or other CHASM members.

[6] Leyshon A, Burton D Knights D et al. (2004) Ecologies of retail financial services: understanding the persistence of door-to-door credit and insurance providers. *Environment and Planning A* 36 (4): 625-645. Stenning A, Smith A et al. (2010) Credit, debt, and everyday financial practices: low income households in two postsocialist cities. *Economic Geography* 86 (2): 119-145.