

Impact case study (REF3b)

Institution: University of Bristol
Unit of Assessment: 17 – Geography, Environmental Studies and Archaeology
Title of case study: Improving access to financial services for low-income households
<p>1. Summary of the impact</p> <p>The Personal Finance Research Centre (PFRC) at the University of Bristol conducted a major research programme that shaped UK financial inclusion policy and informed research and policy internationally. PFRC carried out seminal research to measure the level and nature of financial exclusion in the UK. Subsequent studies looked at ways of improving access to banking, credit, insurance and savings that could reduce the 'poverty premium' paid by low-income households. PFRC's research directly informed UK central government policy which resulted in the successful achievement of a shared government-banking industry target to halve the number of adults in households without a bank account (from two million to 890,000) and funding to extend affordable credit union loans and savings products to an additional one million low-income people.</p> <p>2. Underpinning research</p> <p><i>Nature of research insights/findings</i></p> <p>Research in the early 1990s considered financial exclusion primarily as a geographical phenomenon related to bank and building society branches. In a report published in 1999, PFRC established financial exclusion as a more complex phenomenon, grounded in consumer experience, with geographical issues playing only one part in explaining patterns of exclusion. For the first time, the PFRC research described the number and type of households that were excluded from mainstream financial services (not just banking). It showed that households particularly at risk of exclusion were those on low incomes, social tenants, single parents, and certain black and minority ethnic groups. It also identified the costs and other consequences of exclusion for those who made little or no use of mainstream financial services [1].</p> <p>In 2001, PFRC developed a new qualitative research method (called community select committees) to gauge the views of financially excluded people living in a Bristol regeneration area about initiatives to promote financial inclusion. This novel approach saw residents hearing from and then cross-examining representatives from the financial services industry and civil society organisations. The research showed that residents would welcome a 'one-stop shop' facility in their local community where they could access appropriate financial services alongside advice and information [2].</p> <p>PFRC argued that access to affordable credit should be part of the financial inclusion policy agenda, because of the very high cost that people on low incomes have to pay to borrow. In 2005, the PFRC conducted an in-depth empirical examination of the challenges to delivering affordable credit to low-income households, from the perspective of lenders and borrowers [3]. This demonstrated the potential role for larger, professionally run credit unions and regional community-based loan schemes. Later research, published in 2009, brought together consultants and financial inclusion practitioners to examine the feasibility of a not-for-profit home credit service [4]. Notably, this research found that, even with substantial government subsidy, the charge for a non-profit home credit service would be in excess of 100% APR. Because of this, there was very little appetite among not-for-profit lenders to offer such a service.</p> <p>In 2010, PFRC undertook an impact evaluation of the Department for Work & Pensions (DWP) Growth Fund, a scheme that aimed to expand the capacity of credit unions and other not-for-profit lenders to offer low-income borrowers an alternative to high-cost credit. It found that the Growth Fund reduced the interest paid by borrowers, estimating total interest savings to financially excluded individuals in deprived communities of between £119.1m and £135.1m [5].</p> <p>PFRC research also highlighted saving as an important (but overlooked) aspect of financial inclusion, that could provide low-income households with a financial cushion and potentially avert the use of high-cost credit. In 2002, HM Treasury launched a pilot matched savings scheme (Saving Gateway) targeted at low-income people of working age. In 2004/05, PFRC conducted a mixed-methods, quasi-experimental impact evaluation of the pilot, which demonstrated that well-targeted, clear and simple incentives were effective at encouraging people on lower incomes to save [6].</p>

Impact case study (REF3b)*What the underpinning research produced*

PFRC's financial exclusion research programme has produced more than twenty research reports, funded by government, regulatory bodies, charities and private organisations. Many of these reports have focussed on specific aspects of financial exclusion (e.g. access to banking, affordable credit and saving).

Grants

Kempson, E (1998-1999) *Understanding and combating financial exclusion*, Joseph Rowntree Foundation, £42,890.

Kempson, E (1999-2000) *Tackling financial exclusion: an area-based approach*, Joseph Rowntree Foundation, £43,127.

Kempson, E (2002-2005) *The evaluation of the Community Finance and Learning Initiative and the Saving Gateway*, HM Treasury, £542,513.

Kempson, E (2003-2005) *Affordable credit for low-income households*, Joseph Rowntree Foundation, £45,717.

Kempson, E (2007-2008) *Not-for-profit doorstep lending*, Joseph Rowntree Foundation, £51,000.

Collard S (2010-2011) *Evaluation of the DWP Growth Fund*, HM Treasury, £57,930

Dates

The research projects were carried out between 1998 and 2011.

Key researchers

The research was carried out between 1998 and 2011 by the Personal Finance Research Centre, University of Bristol, led by Elaine Kempson (appointed 1998) Sharon Collard (appointed 1998) and Andrea Finney (appointed 2007).

3. References to the research

- [1] Kempson, E. and Whyley, C. (1999) *Kept out or opted out? Understanding and combating financial exclusion*. Bristol: The Policy Press. ISBN: 1 86134 159 8 (60 pages). www.jrf.org.uk/sites/files/jrf/jr060-understanding-financial-exclusion.pdf (251 citations*)
- [2] Collard, S., Kempson, E. and Whyley, C. (2001) *Tackling financial exclusion: an area-based approach*. Bristol: Policy Press. (52 pages) www.jrf.org.uk/sites/files/jrf/jr098-financial-exclusion-area.pdf (69 citations)
- [3] Collard, S. and Kempson, E (2005) *Affordable credit: the way forward*. Bristol: Policy Press (42 pages) www.jrf.org.uk/system/files/1861347480.pdf (63 citations)
- [4] Kempson, E., Ellison, A., Whyley, C. and Jones, P. (2009) *Is a not-for-profit home credit business feasible: building a business case*. York: Joseph Rowntree Foundation. (56 pages) www.jrf.org.uk/sites/files/jrf/home-credit-business-full.pdf (10 citations)
- [5] Collard, S., Hale, C., and Day, L. (2011) *Evaluation of the DWP Growth Fund: Revised final report*. Prepared for Department for Work and Pensions and HM Treasury. www.bristol.ac.uk/geography/research/pfrc/themes/finexc/pfrc1101.pdf (2 citations)
- [6] Kempson, E., McKay, S. and Collard, S. (2005) *Incentives to Save: Encouraging saving among low-income households: Final report on the Saving Gateway pilot project* (94 pages) <http://www.bristol.ac.uk/geography/research/pfrc/themes/psa/pfrc0509.pdf> (55 citations)

*all citation values from Google Scholar as of September 18th, 2013.

4. Details of the impact*Context*

In the late 1990s, the UK government recognised financial exclusion as an important aspect of social exclusion. PFRC research showed that a significant minority of people in the UK - often the most vulnerable people in our society - were outside mainstream financial services and exclusion imposed real costs on them. Households that operate solely on a cash budget are: i) unable to make savings via direct debits on utility bills, ii) more vulnerable to loss or theft if they don't have home contents insurance, and iii) far more likely to use the sub-prime credit market - paying interest many times that of a standard personal loan.

Impact case study (REF3b)*Nature of impact*

PFRC's research described the number and types of UK households that were excluded or self-excluded from mainstream financial services and showed that financial exclusion extended beyond access to bank and building society branches to other aspects of people's financial lives such as credit and saving. This was an important step forward for developing comprehensive financial inclusion policy and interventions to improve financial access.

Low-income households benefit from introduction of basic bank accounts

PFRC's research set out an empirically-based blueprint for a bank account better suited to the needs of people on low incomes than a traditional current account [1]. Evidence of this blueprint (notably no credit facility but ideally a small 'buffer zone') can be seen in the basic bank accounts that were introduced by banks and building societies from 2002-03 and are still available today [a].

Basic bank accounts were instrumental in bringing more people into banking. The proportion of low-income households without a bank account dropped from 20-25% in the late 1990s, to 8% in 2002/03 and 3% in 2010/11 [b].

In a piece of work commissioned by the Financial Inclusion Taskforce in 2009, Finney undertook a quantitative analysis of the unbanked using the Family Resources Survey [c]. This informed changes in how the numbers of unbanked were calculated and demonstrated that a shared government-banking industry target for reducing the number of unbanked had been met. In human terms, this meant that between 2002 and 2009 the number of adults living in households without access to a bank account fell from two million to 890,000 [d, pg 4].

Low-income households benefit from access to affordable credit

The Department for Works & Pensions (DWP) Growth Fund increased access to affordable credit through credit unions and other non-profit lenders between 2006 and 2011. In 2010, PFRC conducted an impact evaluation of this programme [5], which led to a feasibility study by the DWP in 2012 to examine the modernisation and expansion of credit unions [e, pg 7].

In June 2012, DWP announced they would make a further investment of £38 million over the next three years in credit unions, in addition to the £13 million invested in 2011/12. Managed by the main credit union trade association, the expansion project aims to attract up to one million more credit union members. Based on estimates produced in the PFRC evaluation, this credit union expansion could save consumers around £1 billion in loan interest payments.

In addition, research led by Kempson on the feasibility of a non-profit home credit service was repeatedly referred to in parliamentary debates on the *Financial Services Bill* [f, column 561].

HM Treasury benefits from research in developing national savings scheme

Drawing directly on PFRC's evaluation that showed matched saving to be effective among the target group of low-income working age households [6], new legislation was drafted to roll out the Saving Gateway scheme. Kempson was an adviser to HM Treasury on that roll out.

Collard gave oral evidence to the Saving Gateway Accounts Bill Committee in evidence sessions 27 January-5 February 2009 [g, pg 9], and PFRC research is cited in the Committee research paper [h, pg 12] and explanatory notes to the Bill for the House of Commons and the House of Lords [i, pg 2]. The Bill established a government subsidised savings scheme for people of working age on low incomes and was passed on 2nd July 2009. From July 2010, the nationwide 'Saving Gateway' scheme was to be launched, with an estimated 8 million people on low incomes set to benefit [h, pg 15]. The Coalition Government subsequently cancelled the scheme on the basis of cost.

Reach

The approach developed by PFRC to understand and measure financial exclusion led directly to similar research in India [j] and Australia [k] to establish the extent and nature of financial exclusion among their adult populations.

In 2008, PFRC was the scientific lead and expert partner on a European Commission study to identify the most effective policy measures to prevent financial exclusion [i]. In the course of the study, PFRC advised Eurostat (the statistical office of the European Union) on the design of surveys to capture financial exclusion in member states. As a direct result of the study, in February 2009 the European Commission launched a public consultation on ensuring access to basic bank accounts in Member States [m]. Following the consultation, in July 2011 the Commission adopted a Recommendation on access to a basic payment account and more recently in May 2013 a proposal for a Directive on access to a basic payment account [n].

5. Sources to corroborate the impact

- [a] Money Advice Service (2013) Basic Bank Accounts, Available from www.moneyadviceservice.org.uk/en/articles/basic-bank-accounts (Accessed 18.09.13).
- [b] Department for Work and Pensions (2012) *Family Resources Survey – United Kingdom 2010/11*. London: Department for Work and Pensions www.gov.uk/government/uploads/system/uploads/attachment_data/file/222839/frs_2010_11_report.pdf.
- [c] Finney, A. and Kempson, E. (2009) *Regression Analysis of the Unbanked using the 2006-07 Family Resources Survey*. London: HM Treasury www.bristol.ac.uk/geography/research/pfrc/themes/finexc/pfrc0908.pdf.
- [d] Financial Inclusion Taskforce (March 2010) *Mainstreaming financial inclusion: Managing money and access to banking*. London: HM Treasury/Financial Inclusion Taskforce http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/fit_access_to_banking.pdf.
- [e] Purtill, C., Cray, J., and Mitchell, C. (May 2012) *DWP Credit Union Expansion Project. Project Steering Committee Feasibility Study Report*. DWP Credit Union Expansion Project www.dwp.gov.uk/docs/credit-union-feasibility-study-report.pdf.
- [f] HC Deb 25 January 2010, vol 504, cols 555-649, Available from www.publications.parliament.uk/pa/cm200910/cmhansrd/cm100125/debindx/100125-x.htm (Accessed 18 September 2013).
- [g] House of Commons Library (23 February 2009) *Saving Gateway Accounts Bill: Committee Stage Report*. Research paper 09/16 www.parliament.uk/documents/commons/lib/research/rp2009/rp09-016.pdf.
- [h] House of Commons Library (9 January 2009) *Saving Gateway Accounts Bill*. Research Paper 09/02 www.parliament.uk/documents/commons/lib/research/rp2009/rp09-002.pdf.
- [i] Saving Gateway Accounts Bill – Explanatory Notes (26 February 2009) [HL Bill 25] www.publications.parliament.uk/pa/ld200809/ldbills/025/en/2009025en.pdf.
- [j] M Mahadeva (2011) 'Poverty of access to financial services and its alleviation: some lessons to India from the United Kingdom'. In: *Journal of Asian Public Policy*, 4 (2) pages 187-200. DOI: [10.1080/17516234.2011.595911](https://doi.org/10.1080/17516234.2011.595911).
- [k] Connolly, C., Georgouras, M., Hems, L. (2012) *Measuring Financial Exclusion in Australia*, Centre for Social Impact, University of New South Wales. National Australia Bank www.csi.edu.au/assets/assetdoc/67877789328ec931/Measuring%20Financial%20Exclusion%20in%20Australia%20May%202012.pdf.
- [l] European Commission (2008) *Financial Services Provision and the Prevention of Financial Exclusion*. Directorate-General for Employment, Social Affairs and Equal Opportunities Unit E2. www.bristol.ac.uk/geography/research/pfrc/themes/finexc/pfrc0807.pdf
- [m] European Commission (August 2013) Financial Inclusion: Commission launches public consultation on ensuring access to a basic bank account, Available from http://europa.eu/rapid/press-release_IP-09-224_en.htm (Accessed 18 September 2013).
- [n] European Commission (August 2013) Bank accounts: Commission acts to make bank accounts cheaper, more transparent and accessible to all, Available from http://europa.eu/rapid/press-release_IP-13-415_en.htm (Accessed 18 September 2013).