

Financial Inclusion Annual Monitoring Report 2014

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Executive summary

Towards a financially inclusive society

- This report is the second in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain from 2013–17.
- The report presents data on a range of indicators. Where possible, we have shown data from previous years to highlight trends in these indicators. Future reports will show how the picture changes from now until 2017.

The policy context

- Financial inclusion first emerged on the policy scene under the New Labour government from 1997 onwards. In particular, the Financial Inclusion Taskforce (from 2005–11) placed the issue of financial inclusion high on the public and policy agendas. But the success of policies to tackle financial exclusion is currently at great risk of being reversed as the recent economic crash and welfare reforms are placing huge pressures on household budgets.

The economic crisis and the squeeze on incomes

- The recent recession had a major impact on rates of unemployment. At the beginning of 2007, there were just over 1.5 million people unemployed. Unemployment reached its peak in 2011 with nearly 2.7 million people out of work. Since then, unemployment has fallen but there were still more than 2.3 million people unemployed at the end of 2013.
- There is regional variation in rates of economic activity with particularly low rates in Northern Ireland, the North West, North East and West Midlands.
- More than three million workers were 'underemployed' in 2013.
- Around 1.4 million people had 'zero hours contracts' in January 2014.
- The economy has recently experienced a period of growth but the impact of this on wages at different levels is still unclear.
- Means-tested benefits for single people out of work in 2014 gave them only 39 per cent of the income they would need to have an acceptable standard of living. A couple with two children had

only 57 per cent of what they would need and a lone parent with one child only 57 per cent (a drop from 68 per cent in 2008). The percentages for all groups had been declining from 2008 to 2011 but these benefits have, until now, been linked to inflation. The government's recent introduction of a benefit cap of 1 per cent on annual increases will mean that even this basic protection no longer exists for those on the very lowest incomes.

- In order to make ends meet, the majority of the population (57 per cent) were cutting back on their spending in 2014. Much of this economising is on non-essentials such as eating out and luxury food but one in ten manual workers are having to cut back on basic food items.
- There has been a dramatic increase in the number of people given three-days emergency food by the Trussell Trust over the past few years, from just over 61,000 in 2010–11 to just under 1 million in 2013–14.

How are people feeling about their finances?

- In 2011–12, 11 per cent of households were finding it either very or quite difficult to manage financially and a further 27 per cent were 'just about getting by' (a combined total of 38 per cent). These figures are substantially higher than in the early 2000s, when around 6 per cent of the population said they were finding it quite or very difficult to manage, financially and around 22 per cent were 'just about getting by' (a combined total of 28 per cent) but lower than the peak of 2009–10 when 14 per cent were finding things difficult and 28 per cent just about getting by (combined total of 42 per cent).
- The key groups that were finding it difficult to manage are those between the ages of 35–54, and those on the lowest incomes. At least half of those in the bottom thirty per cent of the income distribution were finding it difficult to manage, financially, or are just about getting by in 2011–12.

Bank accounts

- Overall, fewer people are without access to any kind of account in their household than ever before. In 2011–12, 'only' 700,000 people were without access to any account in their household

- However, if we focus solely on whether individual adults have accounts in their own names, then about 1.87 million adults were, personally, unbanked in 2011/12 (down from 1.97 million the previous year).
- In addition to low income being a key factor in lacking a bank account, there was also a strong association with being young. Across all age groups, 0.7% said definitively that they did not hold a bank account. However, that figure rose to around 8% of those aged 18-19, 4% of those aged 20-24, and 3% of those who were 25-29 in 2011-12.

Meeting one-off expenses

- People have very little capacity to meet unexpected expenses, even relatively small ones. More than half of those in paid work in 2013 said they did not have enough money put by for emergencies.
- When asked whether or not they could find £200 at short notice, 16 per cent of the population in 2014 said they would have to borrow money – either through a formal loan (credit card, overdraft, loan etc.) or through an informal loan from family/friends.
- A further 16 per cent said they would not be able to meet this expense or preferred not to answer the question.
- Just over half (56 per cent) said, in 2014, that they would be able to find £200 without cutting back on essentials or dipping into savings (an increase from 47 per cent the previous year).

Savings

- In 2010-11, 41 per cent of the population said they were saving. Those in the top 10 per cent of the income distribution were three times as likely to be saving than those in the bottom 10 per cent. But 20 per cent of those in the bottom 10 per cent were saving, despite being on such low incomes
- Half of all savers in the top 10 per cent of the income distribution were saving at least £300 per month in 2010-11 and the average (mean) figure was £526. By contrast, half of savers in the bottom half of the income distribution were saving £50 per month.

- In terms of the total amounts saved, just under half (45 per cent) of families had less than £1,500 in savings in 2010-11 and there has been very little change in these figures over the last 3 years. A further 28% had saved between £1,500 and £20,000 and one in five (20 per cent) had over £20,000.
- Savings tend to go up in recessions and there are some signs of this in the last few years but average amounts of saving have increased less than we might expect. The richest families, however, do appear to have increased their savings quite substantially, leading to greater inequality here.
- The majority of people have far too little saved to feel financially secure. More than half of the population said, in 2013, that they would need more than £25,000 in liquid savings to feel financially secure but less than one in five of the population have this.
- A quarter of the population in 2010-12 had negative financial wealth (that is, they owed more on unsecured forms of credit than they had in savings). This was the same figure as in 2008/10 but a little higher than in 2006-08.

Pensions

- Data on membership of pension schemes shows some very worrying trends over the long-term but a few more encouraging signs in most recent years.
- The number of people with active membership of occupational pension schemes has declined considerably over the past 40 years, particularly in the private sector and with defined benefit schemes. However, the percentage of employees enrolled in a pension scheme rose from 26 per cent in 2011 to 35 per cent in 2013, the first increase in a decade.
- Auto enrolment into workplace pensions may be contributing to this increase in pension coverage as less than 10 per cent of the population who have been newly enrolled in such schemes have, so far, opted out.
- However, auto enrolment is at an early stage and has so far applied to large employers. Furthermore, the contribution levels to these pension schemes are typically low and will need to be increased if people are to have a minimum standard of living in retirement.

Borrowing

- It is not easy to find data on borrowing which is reliable and comparable over time. Different datasets collect the data using different definitions and in different ways. A new, comprehensive, survey of credit and debt is vital for us to get a clearer picture here.
- According to the Wealth and Assets Survey, total household borrowing in 2008/10 reached £943bn. The vast majority of this (90 per cent) was borrowing in relation to property (ie. mortgages) (up 3.1 per cent on 2006–08). The median amount of property borrowing, for those with any such borrowing was £75,000.
- About 10 per cent of all household borrowing is not related to property and is therefore unsecured credit. The median amount, for those with any unsecured loans, was £3,600 in 2010–12, up from £3,200 in 2008–10 and £2,900 in 2006–08.
- According to another source, a YouGov poll for BIS, almost two-thirds (64 per cent) of households had some form of unsecured credit in 2008–09 and 75 per cent had a loan or credit commitment of some type, including mortgages and secured loans. About one-tenth (11 per cent) of households had four or more different types of unsecured credit commitment.
- Although a quarter (24 per cent) of borrowing households owed less than £1,000 on unsecured credit, more than a quarter (28 per cent) owed in excess of £10,000 in 2008–09. The average amount of credit recorded for this sample was around 20 per cent higher than that recorded for the 2006–08 Wealth and Assets Survey.
- The most common sources of unsecured credit in 2008–09, according to YouGov/BIS in 2008–09, were credit cards (35 per cent of households), bank overdrafts (29 per cent) and personal loans (22 per cent). Non-mainstream sources (doorstep credit, payday loans and pawn-broking) were used by around 3 per cent of the sample.
- Use of unsecured credit was not correlated with household income but those on higher incomes had higher levels of credit overall. Some 38 per cent of households with an annual income of £50,000 or more had unsecured credit of £10,000 or more, compared with 18 per cent of households in the lowest income group in 2008–09.
- According to a survey by NMG for the Bank of England in 2013, 63 per cent of the population owed money on one or more sources of unsecured credit. The most common form of borrowing here was through a credit card (44 per cent).
- A fifth of households (22 per cent) who had some form of borrowing on unsecured credit owed over £10,000, up from 18 per cent in 2012 according to the NMG survey.
- National surveys do not pick up many customers of sub-prime lenders but the Competition Commission has estimated that there were around 90 lenders offering payday loans in the UK in 2012, issuing approximately 10.2 million new loans, with a total value of £2.8 billion.
- Student debt is likely to increase substantially in the next few years as 2012/13 was the first year that the cap on tuition fees was raised to £9,000 per year. Data from 2010–11, showed that, of those with student loans prior to the increase in tuition fees, average (mean) debt was £9,174.

Problem debt

- As with data on credit, it is also difficult to find reliable data on 'problem debt' which can be compared over time.
- Most people with unsecured credit find it manageable but nearly one in five, 18 per cent of individuals with this form of credit considered it a 'heavy burden' in 2008–10, up from 16.2 per cent in 2006–08.
- About one in 12 of all households (8 per cent) were spending more than 30 per cent of their income on repayment of unsecured loans and almost one in ten (9 per cent) of households were in 'structural' arrears (that is, more than three months behind with any payments) in 2008–09, according to a YouGov poll for the Business, Innovation and Skills department.
- It is difficult to compare sources of data over time but there is some evidence of an increase between 2006 and 2008–09 in the proportion of households in 'structural arrears' (from 7 to 9 per cent of households) and in the proportion of households where repayments on unsecured borrowing are more than 25 per cent of income (from 3 to 8 per cent of households). A new survey of 'over-indebtedness would be extremely helpful to monitor trends since 2008–09.

- In 2008–09, around 7 per cent of households had entered into one of the statutory or informal actions on debt (eg, bankruptcy, IVA, DMP). Rates of insolvency rose dramatically between 2008 and 2010. They then fell back somewhat but are still higher than in 2007.
- The number of mortgage (re-)possessions also increased markedly from less than 10,000 in 2003 to a peak just under 50,000 in 2009. But numbers have subsequently fallen to 34,000 in 2012.
- Evictions from rented properties (technically referred to as landlord possession) show a different trend with claims for possession reaching their lowest level around 2010, but increasing since then to around 170,000 in 2013.
- There has been a particular increase in landlord possession claims, particularly in the social rented sector, possibly as a result of the under-occupancy penalty/bedroom tax.
- According to the YouGov poll for BIS some 14 per cent of respondents who had difficulties keeping up with bills and payments had sought professional debt advice in the preceding six months.

Home contents insurance

- Half of all households in the bottom half of the income distribution lacked home contents insurance in 2009 and data suggests an overall decrease in the proportion of working adults with such insurance (from 65 per cent to 62 per cent) between 2008–09 and 2011–12.

Conclusion

- Economic growth has returned to the UK in the last year and we can already see a few positive signs of greater financial security for some. Those in secure jobs and with higher incomes are saving more and have some spare money when in need. But the majority are still having to cut back on spending and many in the lowest income groups are borrowing and struggling more. The recent welfare reforms look set to have a particularly negative impact on the poorest in coming years and we may already be seeing the impact of this with the increase in social landlord claims for possession.



Introduction: towards a financially-inclusive society

This report is the second in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain. We have seen some signs of economic recovery in the last year but has this had an impact on levels of financial security and financial inclusion? This research monitors these levels to highlight key trends here. In order to provide a comprehensive picture, this report takes last year's report as a framework and updates figures, where available, to give the most recent data and trends. It also includes a new chapter on pensions. Where new data is not available some figures are reproduced from last year's report to provide a comprehensive picture.

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

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

There are three key components to achieving financial inclusion in this form. The first is for people to have a secure income which meets a minimum standard. The Minimum Income Standards Team² define a minimum income standard as covering 'more than just food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.'¹ The second key component to financial inclusion,

and the one given greatest attention in debates on this topic, including in this report, is the availability of appropriate and well-regulated financial services, particularly transactional bank accounts, savings accounts, affordable credit and insurance products. Finally, a financially inclusive society would be one with easy access to free and appropriate advice and education, particularly for those with debt problems.

Although pensions are clearly vital for financial security in later life, they have not usually featured in discussions focusing on financial inclusion and did not appear in last year's report but we note that, from October 2012 onwards, employers in the UK had a statutory duty to enrol some or all of their workers into a pension scheme that meets or exceeds certain legal standards. They also need to make a minimum contribution for many of these workers. These minimum requirements are intended to increase access to affordable pension products for those on low and middle incomes and so are relevant to the financial inclusion agenda. We have therefore included data on pension membership in this year's report and will monitor trends in future reports.

The first chapter of this report briefly reviews the policy context to financial inclusion. The remainder of the report presents data on a range of indicators from a number of sources (see the Appendix for further details). The choice of indicators relates to Kempson and Collard's framework and the three key components to achieving financial inclusion outlined above. Where possible, we have shown data from previous years to consider trends in these indicators. Future reports will show how the picture changes from now until 2017.

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

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

The policy context

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

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

The Financial Inclusion Taskforce was set up to advise HM Treasury with a mission to:

- Increase access to banking.
- Improve access to affordable credit, savings and insurance.
- Improve access to appropriate money advice.

Membership of the Taskforce was drawn from industry, the third sector, consumer groups, local government and academia. Its terms of reference were: to track progress on access to banking services; review evidence on bank-use among poorer households; and monitor developments in the way banking services were delivered. The Taskforce was formally wound up, as originally planned, in March 2011. In a review of its work, the Chair of the Taskforce, Brian Pomeroy³, argued that:

- The Taskforce's work programme was a good example of evidence-based policy, with a number of important reports emerging from its work
- Significant funding was provided to particular areas, such as the £120 million Financial Inclusion Fund for 2005–08 and a further £130 million provided for 2008–11.
- The work of the Taskforce had helped to reduce the number of people who were 'unbanked'. It had also helped to increase access to affordable credit.
- The outcomes achieved reflected the strengths and weaknesses of the decision to adopt a voluntarist approach rather than regulatory compulsion.
- More work was needed to better understand the behaviour of low-income groups.
- There was still insufficient transparency on lending as bank lending to low-income groups was still a problem.

- The provision of debt and money advice had been hit by economic recession.
- There had been less progress on take-up of home and life insurance than in other areas.

There is no doubt that the Taskforce placed the issue of financial inclusion high on the public and policy agenda. But the success of policies to reduce financial exclusion is currently at great risk of being reversed as the current economic situation is placing huge pressures on household budgets. The Coalition government retains an interest in this issue but has no overall strategy, and pressures on the public purse have threatened investment in financial inclusion work, particularly in relation to debt advice. Moreover, while the government certainly supports the principle of encouraging savings and self-reliance, one of its first acts was to abandon the introduction of the Saving Gateway, a policy specifically designed to help those on low incomes to save.

In relation to other areas of policy, the government is giving financial support to Credit Unions and the regulation of both unsecured credit and mortgage lending has changed. The Financial Conduct Authority took over responsibility for regulating lending in April 2014 and introduced tighter provisions for regulating unsecured credit. They will also have to introduce a cap on the cost of payday lending by January 2015. Mortgage lenders will also have to change their practices to conform to tighter regulation of affordability checks. There have also been changes this year in ISA arrangements, allowing people to save more in such tax-free accounts (£15,000 from 1st July 2014). And the March 2014 budget also gave people much more freedom about the amount they could take tax-free from their pension pot on retirement. The impact of these changes will be interesting to monitor.

We have seen some signs, this year, of economic recovery but with Universal Credit rolling out, and social security cuts starting to bite, forecasts from the Institute for Fiscal Studies⁵ suggest that the poorest are now set to be hit the hardest. This, and forthcoming, reports will monitor levels of financial inclusion to gauge the impact of economic change and policy reform.

3. The Future of Financial Inclusion – A Valedictory Lecture by Brian Pomeroy, December 2010, Fabian Society

4. See the following website for various reports and details of the Taskforce's work:

www.hm-treasury.gov.uk/fin_consumer_fininclusion_taskforce_research.htm

5. www.ifs.org.uk/publications/6728

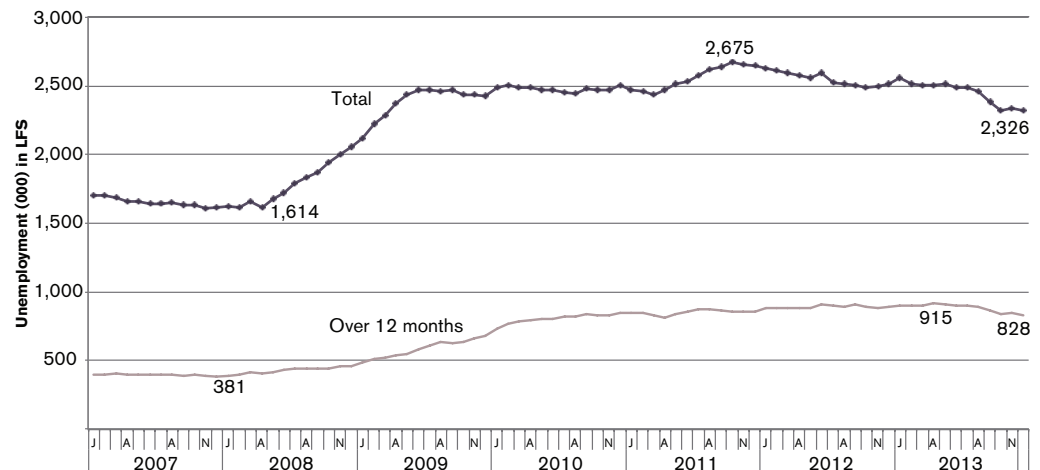
The continuing squeeze on household budgets

The fundamental cornerstone of financial inclusion is for people to have a sufficient level of income to meet basic needs. The source of income is also important as those in employment generally have better access to appropriate financial products, such as affordable credit, than those out of work. But, in 2013, the Institute for Fiscal Studies described the recent economic downturn as the longest and deepest slump in a century⁶. Since then, the UK economy has returned to growth but still has a long way to go before returning to its pre-crash size, let alone get

back on course to where it might have been if there had been no crash⁷.

The recession of 2008–09 had a major impact on rates of unemployment. At the beginning of 2007, there were just over 1.5 million people unemployed. In the space of just over a year another million people had joined the ranks of the unemployed and unemployment then peaked at 2.65 million in 2011. Since then, it has fallen to 2.3 million at the end of 2013 (see figure 1).

Figure 1: Unemployment fell in 2013 but is still high, Labour Force Survey

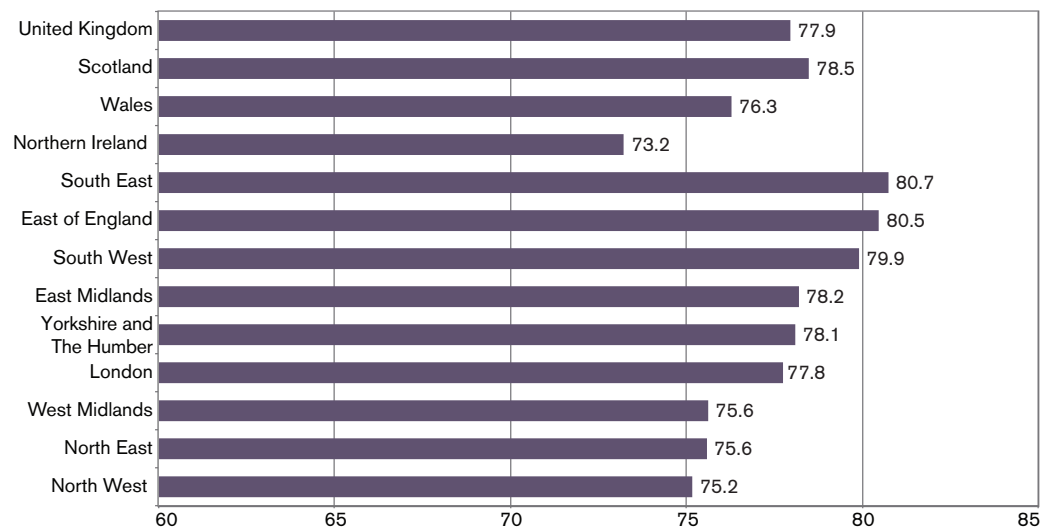


This fall in unemployment is an extremely welcome change in the right direction but there is still a very long way to go for unemployment to fall to its pre-crash levels. Long-term unemployment also more than doubled between 2008 and 2013 from just under 0.4 million people out of work for over a year in 2008 to more than 0.9 million in 2013. By the end of 2013, the figure had also dropped slightly – to just over 0.8 million.

⁶ www.ifs.org.uk/publications/6750, www.ifs.org.uk/publications/6751, www.ifs.org.uk/publications/6728

⁷ Resolution Foundation (2014) *The State of Living Standards*, London: Resolution Foundation

Figure 2: Economically active rate by regions, Headline estimates for November 2013 to January 2014, Labour Force Survey

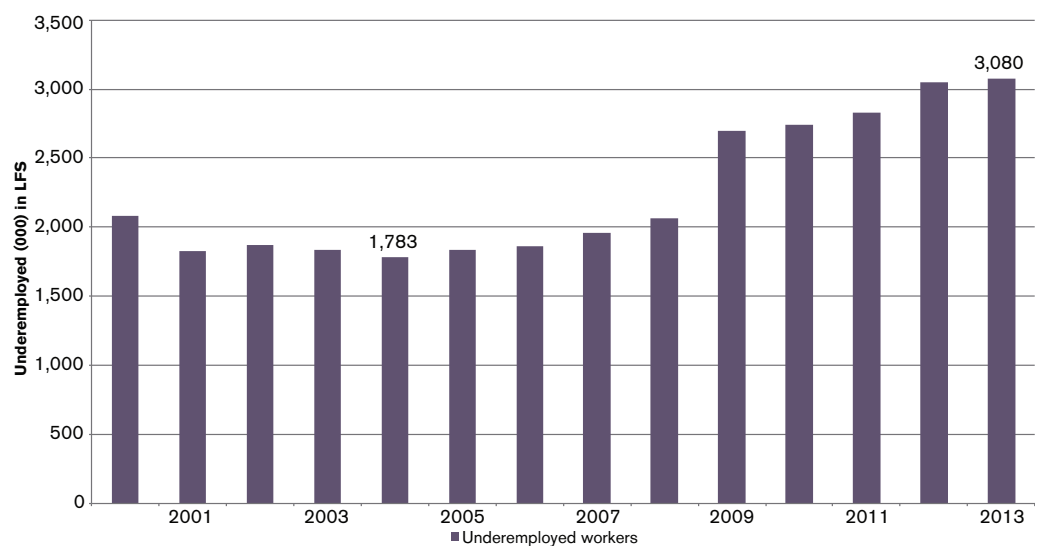


Employment, and economic activity more generally, vary considerably by region (see figure 2), with the South East, East and South West of England having the highest rates (around 80 per cent) whereas Northern Ireland, the North East and North West having the lowest rates (around 75 per cent or lower).

While there appears to have been some recovery in terms of employment rates in 2013, more than one in ten workers are now 'underemployed' (see figure 3).

Underemployed workers are those who are employed but who either wish to work more hours in their current role or who are looking for an additional job or for a replacement job which offers more hours. They must be able to start working extra hours within the next two weeks to be categorized as 'underemployed' in 2013. The number of 'underemployed' workers is now higher than at any point in the last decade, exceeding 3 million people, or around one worker in every ten.

Figure 3: More than one in ten workers (over 3 million) are now 'underemployed', Labour Force Survey



Alongside 'underemployment' we have also seen a growth in zero hours contracts. The Office for National Statistics estimated that there were 1.4 million people with such employment contracts on January 2014⁸.

As well as suffering from 'underemployment' those in work are also experiencing stagnation or even falls in the value of their wages. The Resolution Foundation⁹ has provided a series of reports on living standards, particularly for those on low and middle incomes. They highlight the stagnation in wages that occurred over the last decade. This stagnation began before the recent recession with the wages of ordinary full-time workers barely growing between 2003–08, despite relatively healthy economic growth¹⁰.

Since 2008, however, real-terms wage growth did not just stagnate but started to fall. Data from the Office for National Statistics¹¹ also showed that, in 2012, the real value of UK workers' wages fell back to 2003 levels, following several years of pay freezes and economic restructuring. On average, workers have seen pay drop by 3 per cent annually between 2010 and 2012. The largest fall in real wages has taken place for male full-time employees in the private sector. For example, male full-time employees resident in London earned £15.54 per hour on average in 2012, compared with £16.14 in real terms in 2002 – a drop of 4 per cent. This is likely to be due to a combination of pay freezes for people who remain in the same job and changes in the composition of jobs that people do, with some high-paid jobs being cut and more low-paid jobs being created.

The overall effect of changes in the labour market and the tax/benefit system¹² is that incomes and earnings have fallen. According to the latest official Household Below Average Income dataset (ie, for 2011–12: Chart 1.1), median income after housing costs was £367 in 2011–12, compared with £395 in 2009–10 (in real terms), or a reduction of 7 per cent.

There has been considerable debate about who has suffered most during these challenging economic times, with the Resolution Foundation drawing attention to the 'squeezed middle'¹³ and the Joseph Rowntree Foundation (JRF) highlighting the plight of the 'crushed bottom'¹⁴. The JRF point out that while incomes in the middle have certainly fallen dramatically since 2008, the incomes of the bottom 10 per cent have fallen considerably over a longer period (since 2004). These incomes then stabilised slightly during the crash years of 2008–2010 but have since fallen considerably again until 2012.

The Social Market Foundation¹⁵ has also made a valuable contribution to the debate about the 'squeezed middle', pointing out that household incomes change over time and that middle income households today are not the same households as those who were in the middle in 2007–08. In fact, their analysis of the British Household Panel Survey found that 6 per cent of households in the middle quintile (fifth) of the income distribution in 2007–08 had dropped to the bottom quintile and 10 per cent had climbed to the top quintile. They also show that the bottom two quintiles saw incomes falling during this period but the middle quintile saw stagnation and the fourth quintile actually saw incomes increasing. So the experience of the 'middle' very much depends on which middle we are looking at.

There is certainly some discussion about the long-term trends. There is also considerable debate about whether or not the recent upturn in growth (2013–14) has led to a rise in wages. Different sources of data tell rather different stories so the picture is currently unclear and key data sources often exclude the 4.4 million people in self-employment¹⁶. Growth appears to have come from increased consumer spending rather than increased real income or business investment. With house prices rising again, consumers are feeling better off and lowering their savings rate in order to increase their spending.

⁸ www.ons.gov.uk/ons/rel/lmac/contracts-with-no-guaranteed-hours/zero-hours-contracts/art-zero-hours.html

⁹ See www.resolutionfoundation.org

¹⁰ Resolution Foundation (2013) Squeezed Britain 2013

¹¹ Sarah Levy (2012) Changes in real earnings in the UK and London, 2002 to 2012, Office for National Statistics

¹² See the Institute for Fiscal Studies analyses of the impact of tax and benefit changes: www.ifs.org.uk/budgets/showindex Defined by the Resolution Foundation as those on below median incomes but above the bottom 10 per cent

¹⁴ www.buzzfeed.com/chrisgoulden/all-you-need-to-know-about-uk-poverty-in-10-charts-hjdi

¹⁵ Social Market Foundation (2014) Riders on the Storm: Britain's middle income households since 2007, London: Social Market Foundation.

¹⁶ Resolution Foundation (2014) The State of Living Standards, London: Resolution Foundation

While incomes and earnings have clearly stagnated or even fallen over the last decade or two, living costs have increased. The Resolution Foundation¹⁷ has pointed out the following increases in the cost of key goods between 2007 and 2013:

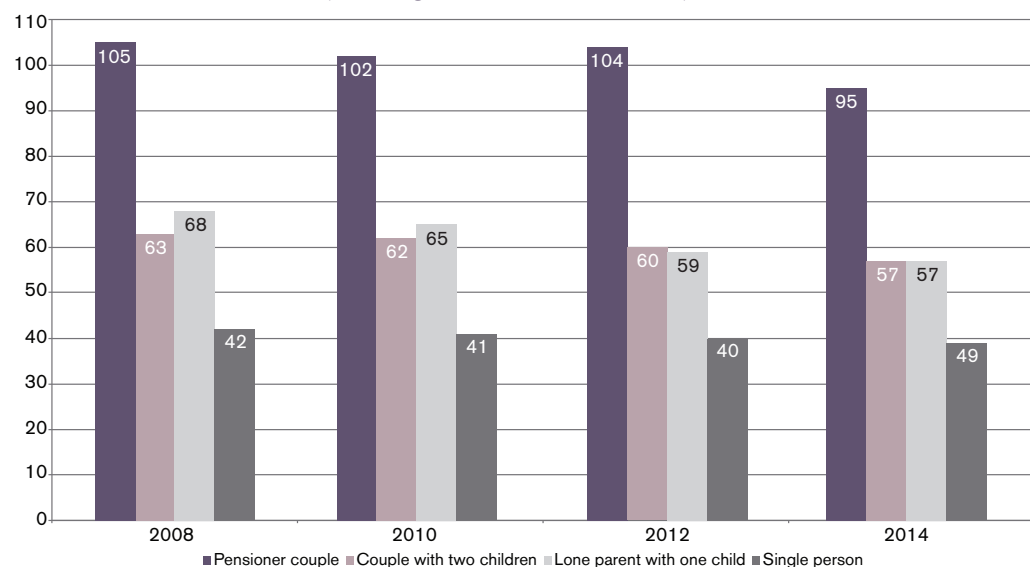
- Housing, water and fuels – increase of 32 per cent (with an increase of 61% for electricity, gas and other fuels).
- Food and non-alcoholic beverages – 31 per cent increase.
- Transport – 25 per cent increase.
- Health – 19 per cent increase.
- Furniture, household equipment and home repair – 18 per cent increase.
- Communication – 16 per cent increase.

The Minimum Income Standards Team at Loughborough University found that families with children have faced particularly high increases in childcare and transport costs in recent years¹⁸. Single people need to earn at least £16,850 a year before tax in 2013 for a minimally acceptable living standard. Couples with two children need to earn

at least £19,400 each. Over the past decade, minimum household budgets have risen by 45 per cent, against the Consumer Price Index's 30 per cent.

People in work are increasingly struggling to meet the minimum income standard from their wages and tax credits. Working-age people without jobs are also increasingly falling very short of a minimum income standard. Figure 4 shows that safety net benefits for single people in 2014¹⁹ gave them only 39 per cent of the income they would need to have an acceptable standard of living. A couple with two children had only 57 per cent of what they would need and a lone parent with one child only 57 per cent (a drop from 68 per cent in 2008). Pensioners, due to the relative generosity of Pension Credit, have generally been able to meet the minimum income standard if they claim all the benefits they are entitled to. The percentages for all groups had been declining from 2008 to 2013 but these benefits have, until now, been linked to inflation. The introduction of a benefit cap of 1 per cent on annual increases from April 2013 will mean that even this basic protection no longer exists for those on the very lowest incomes.

Figure 4: Means-tested, out-of-work benefits (Income Support/Pension Credit) as a percentage of Minimum Income Standards (excluding rent, childcare, council tax)²⁰



¹⁷ Resolution Foundation (2014) *The State of Living Standards*, London: Resolution Foundation

¹⁸ Hirsch, D, (2013) *A minimum income standard for the UK in 2013*, www.jrf.org.uk/sites/files/jrf/income-living-standards-full.pdf

¹⁹ Figures for 2014 were kindly provided to us by Donald Hirsch prior to the publication of the Loughborough University 2014 minimum income standard report which should now be publicly available

²⁰ Hirsch, D (2013) *A minimum income standard for the UK in 2013*, www.jrf.org.uk/sites/files/jrf/mis2001-ebook.pdf and data from previous reports

Economic growth is not, at the moment, necessarily improving people's ability to make ends meet. Our findings show that the majority of the population (57 per cent in 2014 – up from 54 per cent in 2013) were cutting back on their spending (see table 1). The most common items to cut back on are non-essentials such as eating out and luxury food. But around one in ten members of the public were cutting back on each of the following: heating; car usage;

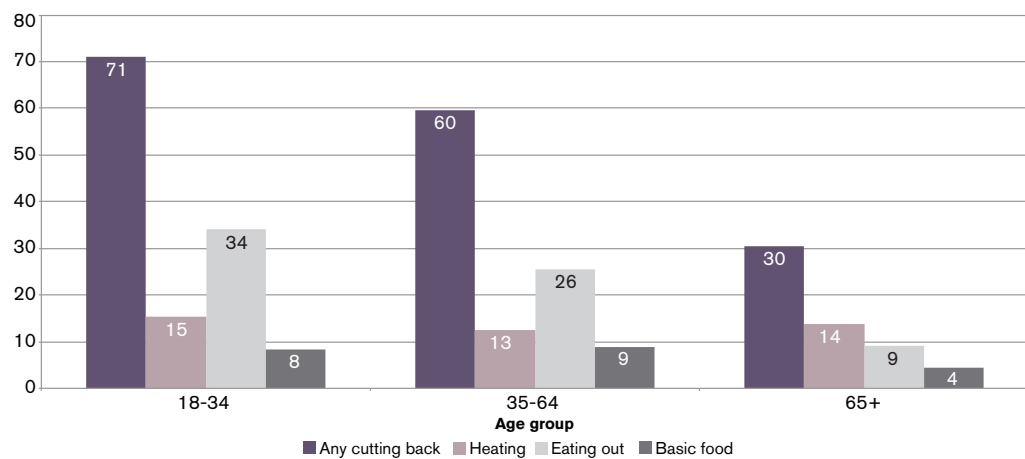
trips/days out with the family; and the use of lighting. One in twenty were even cutting back on basic food items. None of the items has changed by more than three per cent, so it would be wrong to read too much into the apparent individual changes. Even so, in most cases the proportion cutting back has tended to increase, rather than decrease (ten questions worse, three better, four unchanged).

Table 1: Items people in 2013 and 2014 have cut back on in the past 12 months to save money, Ipsos/MORI surveys²¹

	2013	2014	Change
Eating out	22	25	3
Luxury food items	17	18	1
Clothes for myself/family	15	17	2
A holiday	15	18	3
Socialising with friends	13	16	3
Heating, to save on gas/electricity/heating oil	11	14	3
Car usage	10	8	-2
Trips/days out for the family	9	12	3
Using household utilities (gas/electricity/water)	8	9	1
Use of lighting, to save electricity	8	8	0
Use of appliances, to save electricity	7	7	0
Basic food items	6	8	2
Buying a new/upgrading existing car(s)	6	6	0
Cable/satellite TV subscriptions	6	5	-1
Phone/mobile phone bills	5	7	2
Charitable contribution	5	5	0
Number of baths taken (eg, more showers, sharing baths etc.)	3	2	-1
All cutting back	54	57	3
Not cut back on any of these	35	35	0
Prefer not to say	11	8	-3
Base	967	981	14

²¹ Source: Ipsos/MORI survey, May 2014, base = 981.

Figure 5: Items people in 2014 have cut back on in the past 12 months to save money, by age group²²



While people from all backgrounds are economizing, those in younger age groups were the most likely to be cutting back overall. However, both young and old were cutting back on heating to similar degrees (see figure 5).

As well as cutting back on spending, some families are making ends meet by raising extra cash, either through selling general items online (eg, via eBay) or through selling items of gold for cash (see table 2). Of course,

families do not need to be in desperate straits to do this and, indeed, it is only possible for people to sell via eBay if they are connected to the internet and have the skills to do this. However, some people are also turning to more extreme measures to make ends meet, with the number of food banks rising in the last couple of years. Our survey only picked up 1 per cent of the population using food banks in the past 12 months, for both 2013 and 2014 but we will continue to monitor this over the coming years.

Table 2: Activities in last 12 months, Ipsos/MORI 2013 survey²³

	2013	2014	Change
Sold general items online for cash (eg, via eBay)	8	7	1
Sold items of gold for cash	2	2	0
Used a food bank	1	1	0

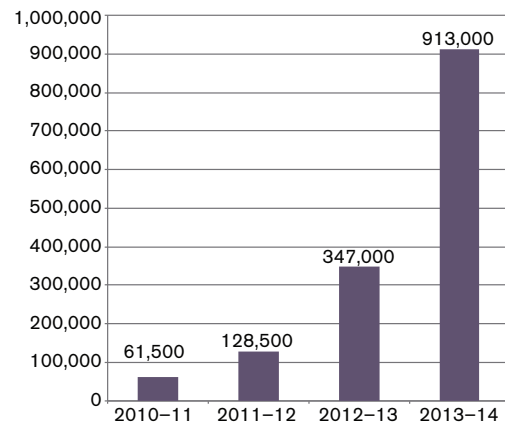
²² Source: Ipsos/MORI survey, May 2014, base = 981.

²³ Source: Ipsos/MORI survey, May 2014, base = 981.

²⁴ www.trusselltrust.org/stats

Figures from the Trussell Trust²⁴ show a dramatic increase in the number of people given 3-days emergency food/support over the past few years, from just over 61,000 in 2010–11 to just under 1 million in 2013/14 (see figure 6).

Figure 6: Number of people given 3-days emergency food/support by the Trussell Trust¹⁸

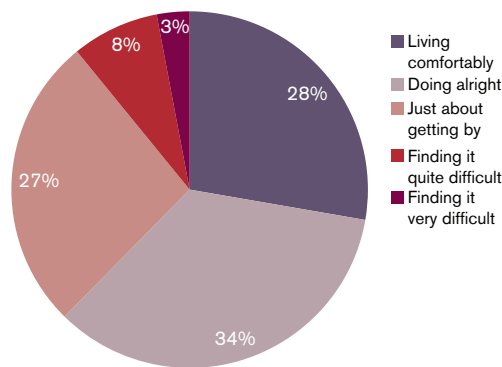




How are people feeling about their finances?

So far in this report we have looked at objective measures of income and employment and shown increasing pressures on families to manage their finances. But how are they feeling about all of this?

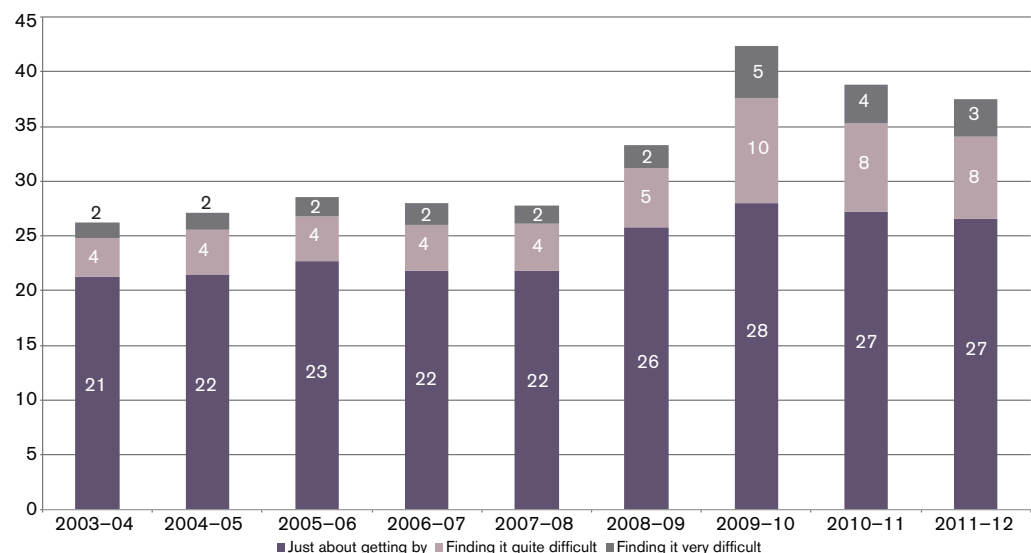
Figure 7: Four in ten households were finding it difficult to manage, financially, or 'just about getting by' in 2011–12, Understanding Society



In 2011–12, 11 per cent of households were finding it either very or quite difficult to manage financially and a further 27 per cent were 'just about getting by' – a combined total of 38 per cent (see figure 7).

Figure 8 shows how these figures have changed in recent years. During the early 2000s, around 6 per cent of the population said they were finding it quite or very difficult to manage, financially and around 22 per cent were 'just about getting by' (a combined total of 28 per cent). The impact of the recession of 2008 was that this proportion grew to a total of 42 per cent in 2009–10. Two years on, households appear to have adjusted slightly to the pressures on their budgets. As we saw in the previous chapter, people are cutting back on luxury foods, eating out, clothing and holidays etc. and so a few are managing better. But 38 per cent of the population – two in five households – are still finding it difficult to manage, financially, or are just about getting by.

Figure 8: Percentage of households finding it difficult to manage, financially, or 'just about getting by', British Household Panel Survey (up to 2008–09)²⁵, Understanding Society (2010–11)



We also saw, in the previous chapter, that young people are particularly suffering in terms of unemployment and most likely to be cutting back. But it is actually middle aged groups that are particularly feeling the squeeze on their budgets. This is due to the wages stagnation and increased living costs mentioned above and may also be the

result of having to support young people who are either unemployed, underemployed or staying on in education. Nearly half of all 35 to 44 year olds in 2011–12 said that they were finding things difficult or just about getting by (see figure 9). Those over pension age have been relatively protected in terms of spending cuts and express less difficulty managing

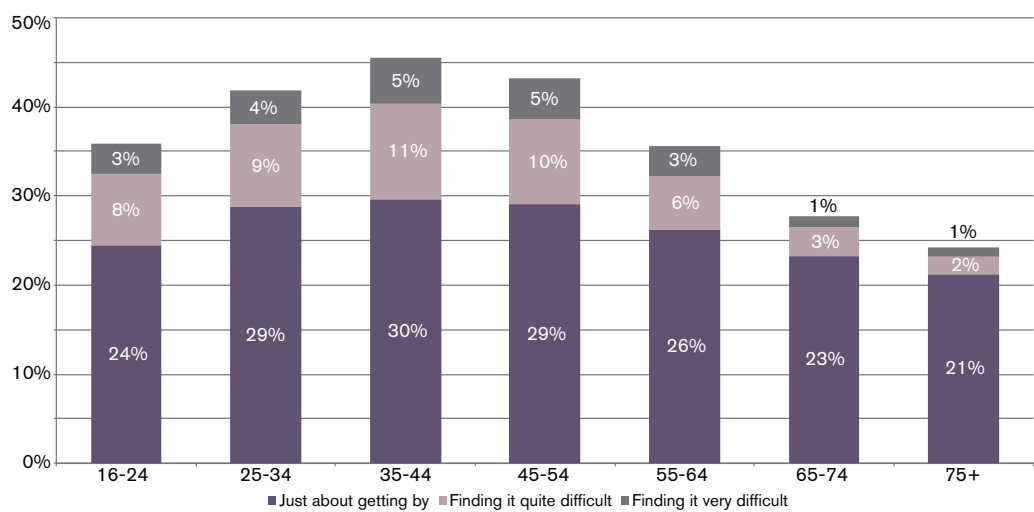
²⁵ Seddon, C (2012) Measuring National Well-being – Personal Finance, 2012, ONS, www.ons.gov.uk/ons/dcp171766_278355.pdf

on their incomes than other age groups. This may also reflect the point made in the previous chapter that means tested support for pensioners is just about high enough to meet the minimum income standard

whereas for other groups it is nowhere near.

Of course, the key groups that are finding it difficult to manage are those on the lowest incomes and figure 10

Figure 9: Middle aged groups are particularly feeling the squeeze in 2011–12, Understanding Society data

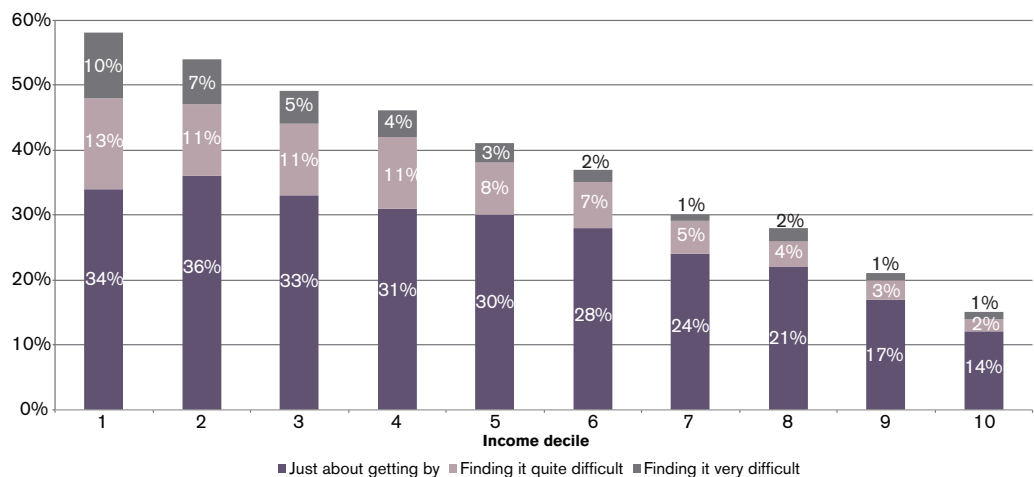


shows that half of those in the bottom thirty per cent of the income distribution are finding it difficult to manage, financially, or are just about getting by in 2011–12.

survey respondents have to say that they 'hardly ever' or 'never' experience financial difficulties and that they expect their financial position over the next 12 months to get better. Twice as many people, however, (22 per cent) were classified as 'financially vulnerable'. These people said that they experienced financial difficulties 'all the time' or 'more often than not' and also expected their financial position to stay the same or get worse over the next 12 months.

Another, more recent, source of data, The Genworth Index²⁵ also provides some useful information here. Based on an Ipsos/MORI survey of 1,000 people aged 15+, it classifies 9 per cent of the UK population in 2014 as 'financial secure'. To be classified as such,

Figure 10: Half of those in the bottom thirty per cent of the income distribution are finding it difficult to manage, financially, or are just about getting by in 2011–12, Understanding Society data



²⁵ Genworth (2014) Genworth Index 2014: Measuring Consumer Financial Security and Vulnerability.

Bank accounts

When incomes are not keeping up with price rises it is even more important for people to be able to manage day-to-day financial transactions and this means having access to an appropriate:

- account or equivalent product into which income can be paid, held securely and accessed easily
- method of paying and spreading the cost of household bills and regular commitments
- method of paying for goods and services, including making remote purchases by telephone and on the internet²⁷

The number of adults without access to an account of any kind is relatively small as a proportion of the

population, and continues to decline. The Family Resources Survey collects a great deal of detail about accounts, but the opening question seeks to identify whether any accounts are either currently held, or have been held in the last 12 months. In Table 3 we extend the series of estimates of the unbanked previously produced by the Treasury. The final column shows the number of adults living in households without access to a relevant account. Overall, fewer people are without access to any kind of account than ever before. From 2009–10 to 2011–12, the number without access to any account in their household fell by around 100,000 people from 870,000 to 700,000. This amounts to about 1 per cent of households.

Table 3: Households and adults without access to a current or basic bank account, or savings account, Family Resources Survey^{28, 29}

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

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

²⁷ See Kempson, E and Collard, S (2012) Developing a vision for financial inclusion, London: Friends Provident Foundation

²⁸ Source: own analysis of Family Resources Survey for 2008–09, 2009–10, 2010–11 and 2011–12. Published HMT figures for 2002–03 (www.hm-treasury.gov.uk/d/stats_briefing_101210.pdf).

²⁹ The last three years of data have been re-released with new information on weights, so estimates vary slightly from those previously published.

However, a number of adults respond that they do not know if they have an account, or refuse to answer. If we include those who 'do not state' whether or not they have an account then there are 1.37 million adults living in households without accounts. And if we focus solely on whether adults, themselves, have accounts, then 1.87 million adults are, personally, unbanked. Of course, this will include people who may be able to make use of their partner's account but they, themselves, have no such account. And some of these adults may be living with older parents or adult children who have accounts and so their own access to banking facilities may be more limited.

Table 4 shows the trends in the numbers of people 'not stating' whether they have an account or not. This number has declined substantially since 2008–09. The FRS did not previously separate out 'don't knows' from 'refuseds' but we can now see that most of the 'not stated's' are indeed people who refuse to say whether or not they have an account. Table 4 also shows a marked increase in the number of people who say they 'do not know' if they have an account or not. There is very little change in the number of people who positively say they do not have an account.

Table 4: Do you have now, or have you had at any time in the last 12 months any accounts? This could be in your own name only, or held jointly with someone else. INCLUDE INTERNET/PHONE ACCOUNTS, Family Resources Survey, adult data [anyacc].

Whether any accounts	2008–09	2009–10	2010–11	2011–12
Yes	44,828,296	45,147,566	45,890,210	46,295,434
No	995,897	1,008,048	871,287	868,038
Don't know	1,600,962*	271,796	242,451	329,949
Refused		1,215,075	1,019,666	1,007,548

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

The data raise the difficult question of how to treat those not providing a definitive Yes or 'No' response. Previous researchers³⁰ have recommended treating the missing data group as being banked rather than unbanked, on the basis that their characteristics look closer to those of the banked group. However, that analysis was done prior to the 2009-2010 and subsequent Family Resources Surveys, which recorded whether a person either refused or said that they did not know whether they had any kind of account. To remain consistent with past

published statistics, we have shown, above, those providing a definitive 'No' response to the question about accounts and have analysed this at the household level.

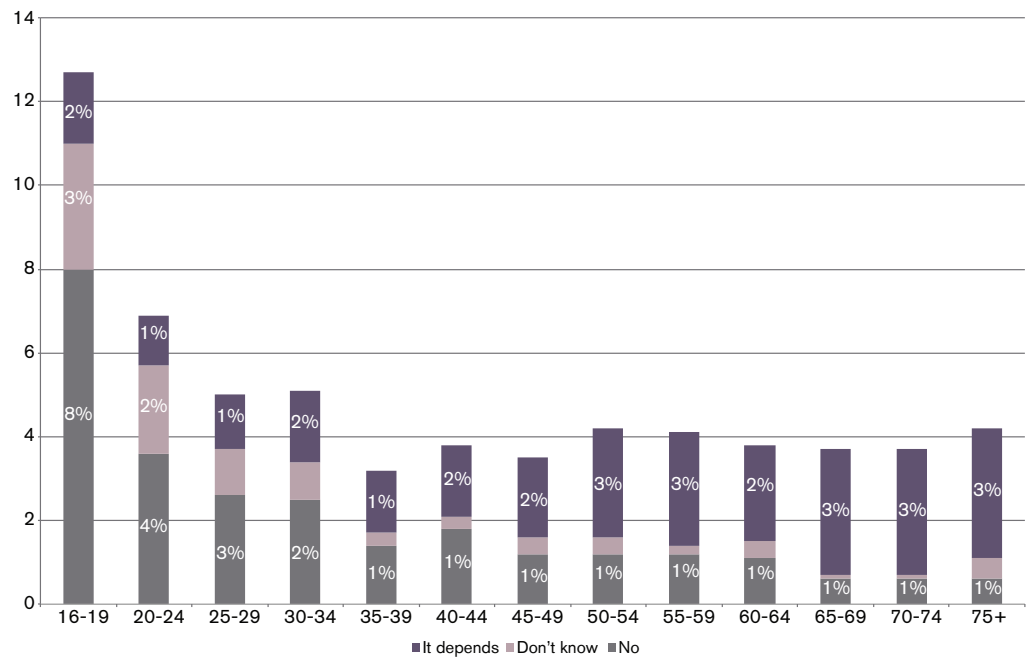
Our analysis in last year's report (Rowlingson and McKay 2013) suggests that the adults who 'do not state' whether they have an account or not are more likely to be in the lowest income decile where people have higher rates of being unbanked.

³⁰ Finney, A. and Kempson, E. (2009) 'Regression analysis of the unbanked using the 2006-07 Family Resources Survey'. Financial Inclusion Taskforce

In addition to low income being a key factor in lacking a bank account, there was also a strong association with being young – see figure 11. Across all age groups, 0.7 per cent said definitively that they did not hold a bank account in 2011–12. However, that was around 8 per cent of those aged 16 to 19, 4 per cent of those aged 20 to 24, and 3 per cent of those who were 25 to 29. The proportion of those without a bank account declined with age.

Having access to some kind of account does not guarantee financial inclusion. A key issue is whether the account is appropriate in providing transactional services (the ability to pay in money and pay bills etc.). Previous research³¹ found that almost two thirds (64 per cent) of the newly banked³² were paying at least one bill by direct debit. Becoming banked had also facilitated the use of new payment mechanisms and channels. Payment cards were relatively widely used (46 per cent) but use of internet and phone

Figure 11: Account-holding by age group, Family Resources Survey 2010–11, adult data [anyacc].



³¹ Ellison, A., Whyley, C. and Forster, R. (2010) Realising banking inclusion: The achievements and challenges, Polcis: HM Treasury/Financial Inclusion Taskforce www.hm-treasury.gov.uk/d/realising_banking_inclusion_report.pdf

³² Defined as those who had opened a bank account in the last five years (where this was their first ever account or they had previously fallen out of banking).

channels was much lower (22 per cent in both cases) and used primarily by the better off. Many of the newly banked, however, some 43 per cent, continued to manage entirely in cash. This was partly due to fear of penalty charges but also a preference for the flexibility provided by (albeit high cost) cash payment mechanisms. The majority of both newly banked and those remaining unbanked had previously been banked but had fallen out of the system. This suggests, again, that the issue is not particularly one of access to bank accounts but access to appropriate banking services. And this was an issue raised by the 2013 report from the Parliamentary Commission on Banking Standards³³.

The Commission argued that:

'the major banks [must] come to a voluntary agreement on minimum standards for the provision of basic bank accounts, including access to the payments system and money management services, and the free use of the ATM network.'

The Commission suggested that this should be done within 12 months or the government should introduce a new statutory duty. The roll-out of Universal Credit is also relevant here as people are expected to claim online and have payments paid into bank accounts. The European Commission/Parliament has also been active in this area with MEPs voting in April 2014 to establish a legal right under which all persons legally residing in the European Union will be entitled to hold a basic bank account. These will allow people to make payments online, withdraw cash from an ATM and go overdrawn. Member states will have to ensure that enough banks offer such accounts, regardless of the applicant's nationality or place of residence.

While access to bank accounts appears to be improving, access to a bank branch is becoming more difficult, particularly for people in disadvantaged areas. Recent research from the University of Nottingham has shown that there was a net loss of around 7,500 bank and building society branches through closures between 1989 and 2012³⁴; more than 40 per cent of all branches. The rate of closures had slowed in the 2000s compared with the 1990s but the rate of closures was highest in economically disadvantaged areas such that the least affluent third of the population suffered two thirds of the net closures between 1995 and 2012.

Physical access to bank branches may not be as important as it was in the pre-digital age but local branches do still provide a sense of financial security to customers and they can also provide the opportunity to withdraw cash without having to pay a fee. In localities without bank branches, fee-charging cash machines are common. In fact, more than 300,000 of Britain's poorest people live at least 1km from a free-to-use cash machine³⁵. People in these 'cash machine deserts' can be charged fees from 75p to £10 take their money out of an ATM. The data shows that half of this group live in south Wales, the north-west and the north-east.

Local branches are therefore particularly important in poorer areas and yet the policy push at the moment is for banks to divest themselves of branches in order to allow 'challenger banks' to take more market share. But this policy may, to some extent, be playing into the hands of the big banks who wish to concentrate on more affluent customers.

³³ Report of the Parliamentary Commission on Banking Standards (2013) *Changing Banking for Good*, Volume 1, HL Paper 27-1, HC 175-1, London: The Stationery Office.

³⁴ French, S, Leyshon, A and Meek, S (2013) *The Changing Geography of British Bank and Building Society Branch Networks*, 2003–12, Nottingham: University of Nottingham

³⁵ Figures obtained by the Guardian from the Link network, the body responsible for running Britain's ATMs, show there are 269 low-income areas lacking a free machine within a 1km radius
www.theguardian.com/society/2014/jan/01/poor-people-free-cash-machines.

Meeting one-off expenses

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

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

In a survey of the general public carried out by NMG for the Bank of England in 2013, respondents were asked if they feel they have enough money set aside for emergencies. Figure 12 shows that only half the population has enough money set aside for emergencies. This is a particular issue for those aged between 25 and 44, where only two in five have the necessary resources for an emergency.

While those out of work are most likely to lack a financial cushion to cope with emergencies even those in paid work would still struggle. Fewer than half of those in paid work say they have enough money put aside for emergencies³⁶ (see figure 13).

This question is interesting but a little vague as to how much people have in mind when asked if they have 'enough' put aside. We therefore asked a more specific question in our 2013 and 2014 Ipsos/MORI surveys. We asked what respondents would do if they had to pay an unexpected expense of £200. In 2013 nearly two in five (39 per cent) said that they would be able to pay this with their own money, without difficulty (see table 5) – but by 2014 this had risen quite a bit, to 46 per cent. For example, they said they could find the money without having to dip into their savings or cut back on essentials. A further 8 per cent said they would be able to pay this from their own money but would have to cut back on essentials (rising to 10 per cent in 2014). But, of course, this a relatively small sum to find and even this group may struggle to find a larger sum.

About one in five, however, said they would have to borrow money to meet this expense – either through a formal loan (credit card, overdraft, loan etc.) or through an informal loan from family/friends.

The remaining one in five either said they would not be able to meet this expense or preferred not to answer the question.

Table 5: Imagine you had to pay an unexpected expense of £200 in one lump sum, within seven days from today. Which, if any of the following would you do to pay this expense?²⁷

	2013	2014	Change
I would pay this with my own money, without dipping into my savings or cutting back on essentials	39	46	7
I would pay this with my own money, without dipping into my savings, but I would have to cut back on essentials	8	10	2
I would have to dip into my savings	17	14	-3
I would use a form of credit (eg, credit card, take out a loan or make use of an authorised overdraft facility)	8	6	2
I would go overdrawn without authorisation	2	1	-1
I would get the money from friends or family as gift or loan	9	8	1
I would have to sell (a) personal/household item(s) to get the money	1	1	0
I would not be able to pay this expense	6	8	2
Prefer not to say	11	8	-4

³⁶ 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 www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130406.pdf.

³⁷ Source: Ipsos/MORI survey, June 2013, base = 967

Figure 12: Percentage of the population who have enough money for emergencies, by age, NMG data 2013, commissioned for the Bank of England

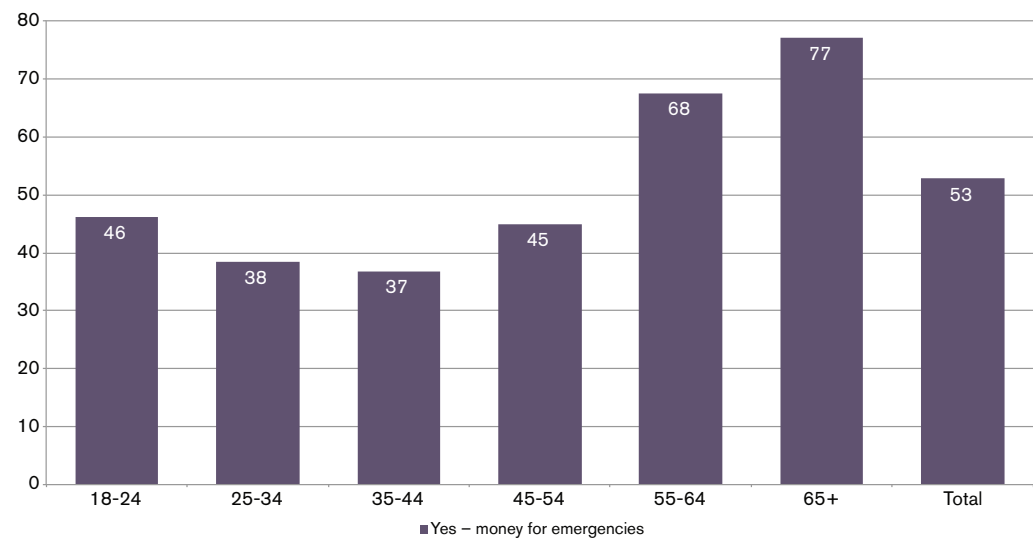
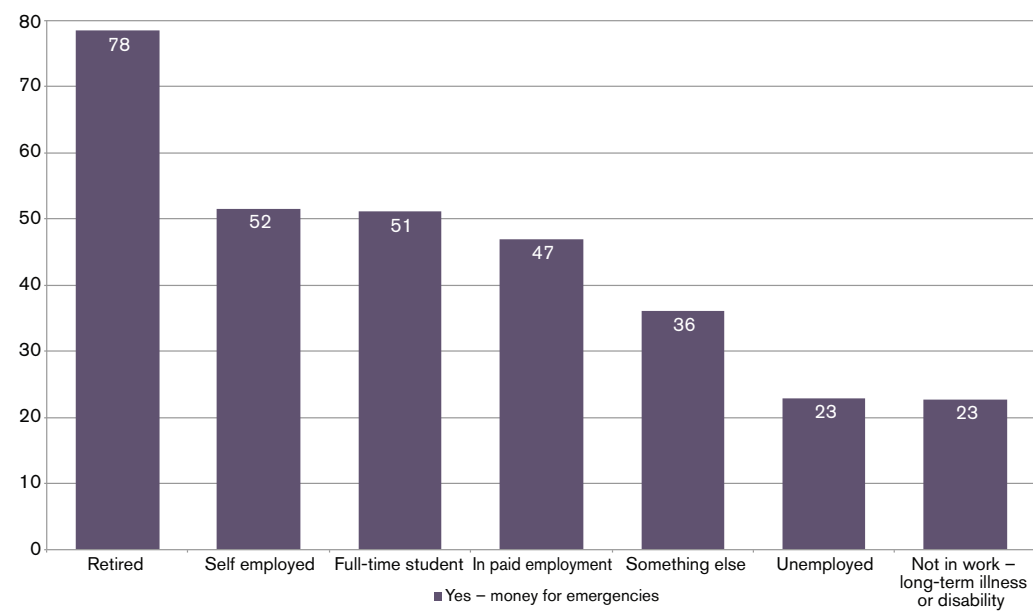


Figure 13: Percentage of the population who have enough money for emergencies, by work status, NMG data 2013, commissioned for the Bank of England

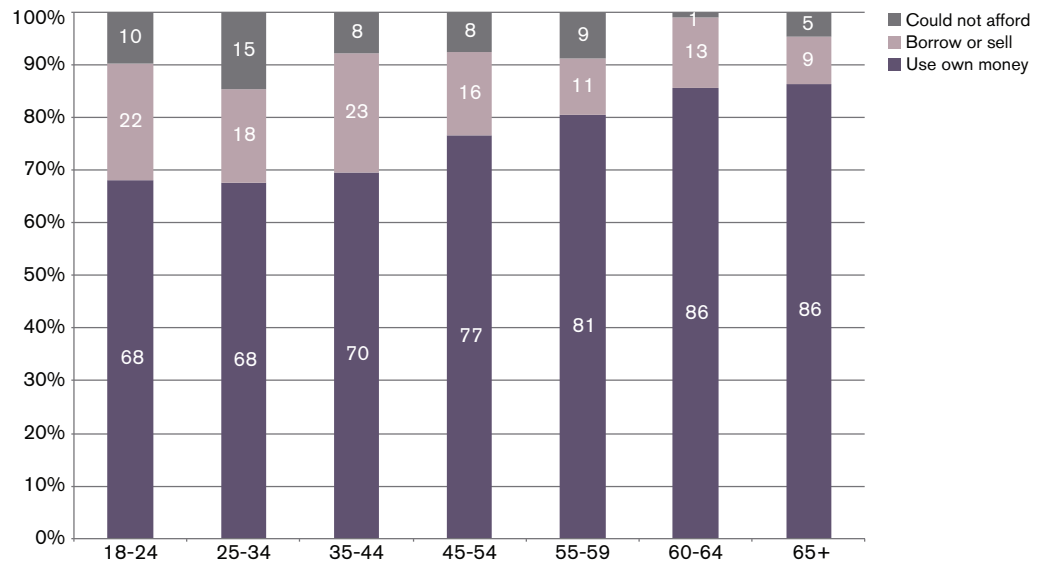


If we remove those who 'prefer not to say' how they would manage an unexpected expense from our analysis and focus on three categories, we get the following figures:

- 75 per cent could find £200 from their own money/savings (71 per cent in 2013)
- 16 per cent would borrow or sell something to find it (22 per cent in 2013)
- 8 per cent would not be able to meet this expense (7 per cent in 2013)

These figures vary substantially by age and social class (see figures 14 and 15). Younger people are much more likely to say that they would have to borrow this money (22 per cent of 18-24 year olds and 18 per cent of 25-34 year olds). Younger people were also the most likely to say they would not be able to find it at all (15 per cent of 25-34 year olds). There is even more variation by social class with 20 per cent of those in the semi- or unskilled occupations saying that they simply would not be able to afford this expense compared with only 4 per cent of those in the professional/senior managerial occupations.

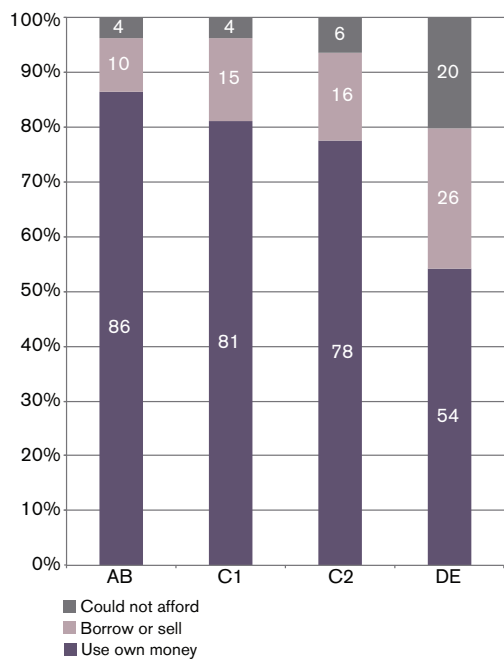
Figure 14: Ability to meet unexpected expense of £200 by age in 2014³⁸



³⁸ Source: Ipsos/MORI survey, May 2014, base = 981.

³⁹ Source: Ipsos/MORI survey, May 2014, base = 981.

Figure 15: Ability to meet unexpected expense of £200 by social class in 2014³⁹



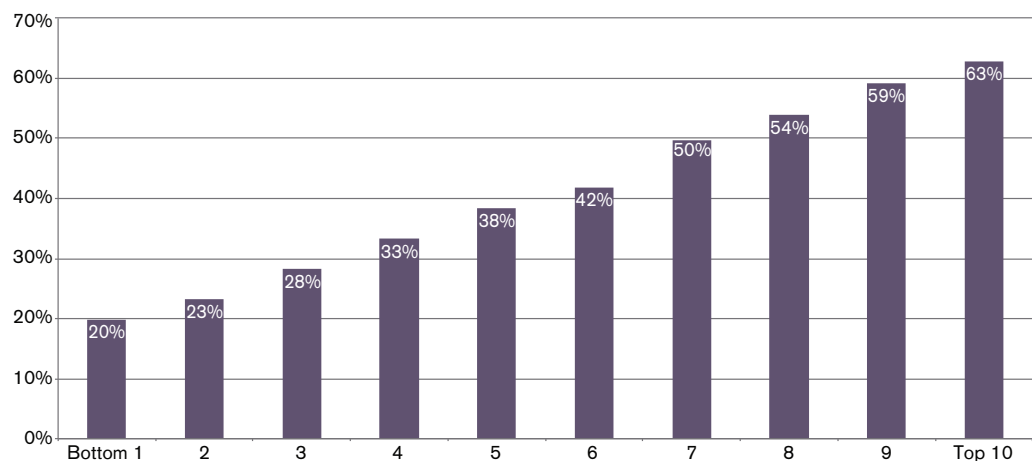
Savings

As we have just seen, savings can be very helpful in meeting one-off expenses (both anticipated and unanticipated expenses). They can also help people to manage a drop in income and avoid problem debt. They are, therefore, a cornerstone of financial inclusion but, as we shall see, levels of saving are low in Britain, particularly among people on low incomes who need them most.

Every few years the British Household Panel Survey/ Understanding Society survey asks people: *Do you save any amount of your income, for example by putting something away now and then in a bank, building society, or Post Office account, other than to meet regular bills? Please include share purchase schemes, ISA's and Tessa accounts.*

In 2010–11, the last time that such questions were asked, 41 per cent of the population said they were saving in this way. Not surprisingly, perhaps, those in the top 10 per cent of the income distribution were three times as likely in 2010/11 to be saving than those in the bottom 10 per cent (see figure 16). But one in five of those in the bottom 10 per cent were saving, despite being on such low incomes, and we might expect that even more of those in the top 10 per cent (given their far greater capacity to save) might be putting money away on a regular basis.

Figure 16: Those in the top 10 per cent of the income distribution are three times as likely to be saving than those in the bottom 10 per cent, Understanding Society, wave 2, 2010–11



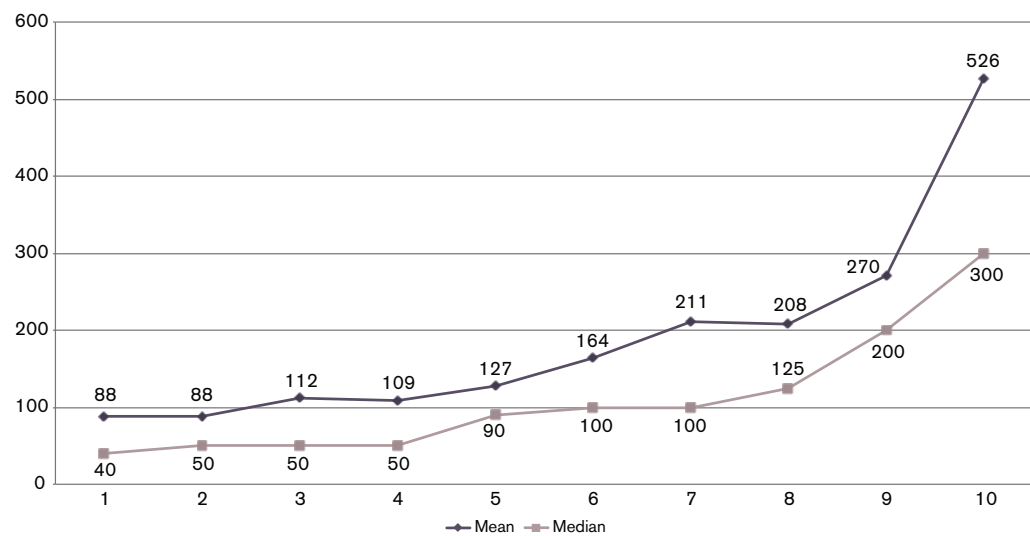
Those at the top of the income distribution were not only more likely to be savers but also more likely to save much more each month than those at the bottom (see figure 17). Half of all savers in the top 10 per cent of the income distribution were saving at least £300 per month and the average (mean) figure is £526. By contrast, half of savers in the bottom half of the income distribution were saving £50 per month in 2010–11.

In terms of the total amounts saved, the Family Resources survey shows that 41 per cent of families had less than £1,500 in savings in 2011/12 and there has been very little change in these figures over the last 3 years. A further 29% had between £1,500

and £20,000 and one in five (24 per cent) had over £20,000. One in twenty (6 per cent) did not wish to answer this question. The figures show some increase in the highest level of saving on previous years.

According to the Wealth and Assets Survey, 97.0 per cent of households had 'gross financial wealth' in 2008–10 up 2.1 percentage points from 94.9 per cent in 2006–08. This is the sum of: formal financial assets (not including current accounts in overdraft), plus informal financial assets held by adults, plus financial assets held by children plus endowments for the purpose of mortgage repayment. Between 2006–08 and 2008–10 the mean value of household

Figure 17: Higher-income savers are saving far more each month than lower-income savers in 2010–11, Understanding Society



gross financial wealth increased from £47,800 to £49,200, for those households who had financial wealth. Half of these households had gross financial wealth of £9,400 or more in 2008–10, up from £8,700 in 2006–08⁴⁰. These patterns were also seen in the mean and median values of gross financial wealth if all households are considered (including those with no positive financial assets). There is therefore some evidence that, for those who have savings, the amount saved increased between 2006–08 and 2008–10. Of course, this was before the main impact of the recession might have been felt but savings often do rise in recessions as people cut back on consumption and borrowing due to concerns

about financial security. But saving levels during the recent recession have actually been lower than we might have expected. This is likely to be due to a number of factors including: low interest rates have made saving less attractive; the squeeze on incomes and increasing cost of living have made it difficult to make ends meet let alone save. However, while average levels of saving have been lower than expected, the richest households do seem to have been able to save even more than before, probably because they have been saving money from lower mortgage interest payments.⁴¹ So while the majority of the population may be suffering in this recession, some groups may actually be better off.

⁴⁰ In other words, this is the median level of gross financial wealth.

⁴¹ Natcen (2013) Mortgage interest rates helping the rich to save more?, London: Natcen

The Wealth and Assets Survey⁴² also gives details on the kinds of accounts that people hold, and how much is in them. Table 6 shows that the percentage of households with any formal financial asset remained at 98 per cent from 2006–08 to 2010–12. General savings accounts were the most common form of financial asset product (after current accounts) with 58 per cent having such an account in 2010–12.

This was closely followed by ISAs which were held by about half of all households (48 per cent in 2010–12). The proportion of households with different kinds of accounts decreased for many types of accounts between 2008–10 and 2010–12 (for example savings accounts fell from 68 to 58 per cent, national savings bonds from 28 to 22 per cent and UK shares from 16 to 12 per cent).

Table 6: Percentage of households with formal financial asset products, according to Wealth and Assets Survey³⁰

	Percentages		
	2006–08	2008–10	2010–12
All current accounts	95	96	96
Current accounts in credit	85	90	90
Savings accounts	62	68	58
ISAs	42	49	48
National savings certificates and bonds, including premium bonds	24	28	22
UK shares	15	16	12
Insurance products*	10	10	7
Fixed term bonds	8	12	11
Employee shares and share options	7	8	6
Unit/investment trusts	6	6	5
Overseas shares	2	2	2
UK bonds/gilts	1	1	1
Any formal financial asset**	98	98	98

*excluding life insurance policies which only pay out on death

**does not include any financial liabilities (eg, current accounts in overdraft)

⁴². Some data from the third wave of the Wealth and Assets Survey, carried out in 2010/2012, was released in May 2014 and so is included in this report where available. On releasing this data, the Office for National Statistics also revised some of the figures from previous waves of the Wealth and Assets Survey. The figures in this report have also, therefore, been updated on last year's report.

⁴³. www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/report--chapter-5--financial-wealth.html#tab-Financial-assets

⁴⁴. Office for National Statistics (2014) Wealth and Assets Survey, Chapter 5: Financial Wealth 2010–12
www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/report--chapter-5--financial-wealth.html#tab-Financial-assets

The amount held in most of these accounts, however, have increased rather than decreased between 2008–10 and 2010–12 (see table 7). This suggests increasing inequality with some people closing their accounts and other able to increase the amounts they are saving. For example, there has been an increase

in the amounts held in ISAs (from £7,000 to £9,000), UK shares (from £17,000 to nearly £20,000), employee shares and share options (from just under £14,000 to £20,000) and overseas shares (from £12,000 to £16,000).

Table 7: Median amounts held in formal financial asset products, excluding households without each type of asset, according to Wealth and Assets Survey⁴⁵

	(Non-zero) median		
	2006–8	2008–10	2010–12
All current accounts	800	900	1,000
Current accounts in credit	1,000	1,000	1,200
Savings accounts	3,500	3,000	4,000
ISAs	7,500	7,000	9,000
National savings certificates and bonds, including premium bonds	300	300	600
UK shares	4,000	2,000	4,000
Insurance products*	15,000	17,000	19,700
Fixed term bonds	17,000	20,000	20,000
Employee shares and share options	4,000	3,000	3,600
Unit/investment trusts	15,000	13,700	20,000
Overseas shares	3,000	2,000	3,000
UK bonds/gilts	15,000	12,000	16,200
Any formal financial asset**	7,000	7,900	8,000

*excluding life insurance policies which only pay out on death

**does not include any financial liabilities (eg, current accounts in overdraft)

The figures above relate to formal financial assets but about 10 per cent of households have informal financial assets. The median amount saved informally, among those who have any such assets, was £800 in 2008–10, up very slightly from £700 in 2008–10.

There is considerable variation in levels of savings but do people have enough to provide financial security? In September 2013, we placed a question on an Ipsos/MORI general public omnibus survey⁴⁶,

as follows: *How much money would you, personally, need to have saved in an easily accessible place (for example a current account or savings account) to feel financially secure?* Just under one in five (18 per cent) of the population said they would need up to £5,000. About a quarter (27 per cent) said they would need between £5,000 and £25,000. About a third (32 per cent) said they would need between £25,000 and £100,000 and the final fifth (22 per cent) of the population said they would need more than £100,000. These desired levels of saving are clearly far higher

⁴⁵ Office for National Statistics (2014) Wealth and Assets Survey, Chapter 5: Financial Wealth 2010–12 www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/report--chapter-5--financial-wealth.html#tab-Financial-assets

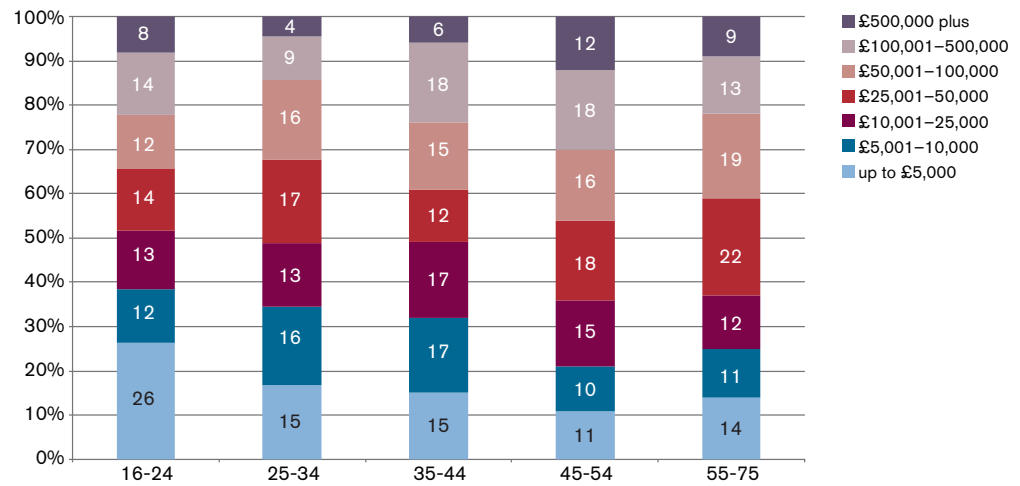
⁴⁶ Ipsos/MORI interviewed 1,016 adults aged 16-75 in Great Britain online between 23rd and 24th 2013

than actual savings levels and, surprisingly, perhaps, the amount considered necessary varies relatively little by the respondent's income level though there is some indication that those on the lowest incomes would feel more secure with lower amounts of savings than those on higher incomes. There are major variations, however, by age group. About half of those under 45 would feel secure with less than £25,000

compared with just over a third of those aged over 45-75 (see figure 18).

According to the Wealth and Assets Survey, a quarter of the population in 2010-12 had negative financial wealth (that is, they owed more on unsecured forms of credit than they had in savings). This was the same figure as in 2008-10 but a little higher than in 2006-8.

Figure 18: Amount needed in liquid savings to feel financially secure, by age, Ipsos/MORI general public survey 2013



Pensions

Pensions are rarely included in discussions about financial inclusion but they are clearly important in relation to security and inclusion in later life. We therefore include a new chapter on pensions in this year's report and the data show some worrying long-term trends but some encouraging recent changes.

Figure 19 shows that, despite continual exhortation to save for retirement by various governments since

the 1980s, the number of active members of occupational pension schemes has actually fallen substantially from 11.1 million in the early 1980s to 7.8 million in 2013.

This decline in number has been entirely within the private sector where there has been a fall from 6.5 million to 2.7 million members of occupational pensions. The public sector has actually seen an increase from 4.2 million to 5.1 million (see figure 20).

Figure 19: Number of active members of occupational pension schemes (in millions), Office for National Statistics Occupational Pension Schemes Surveys

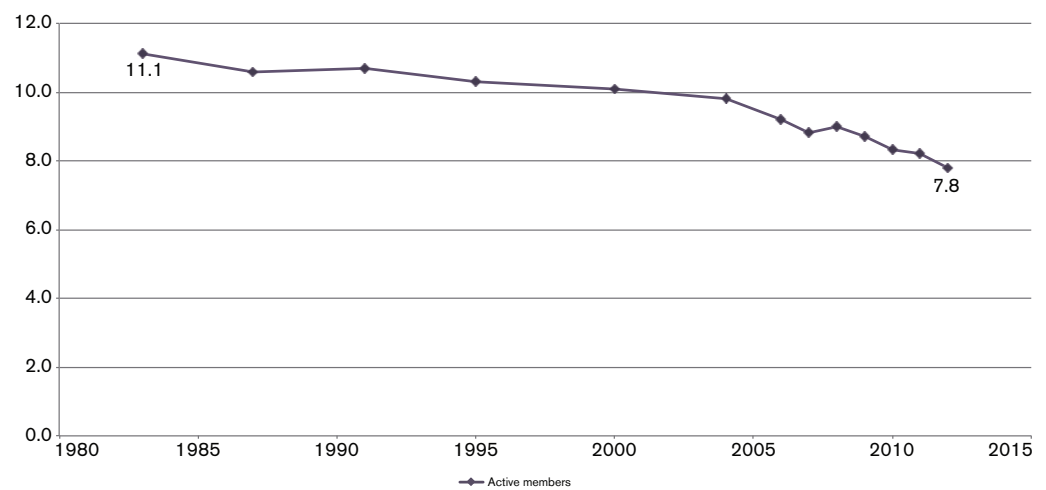
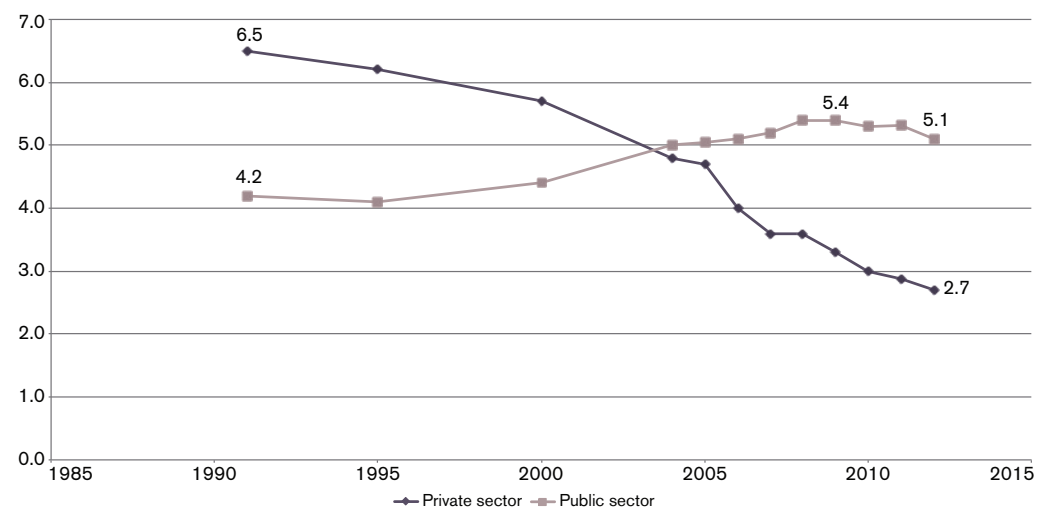


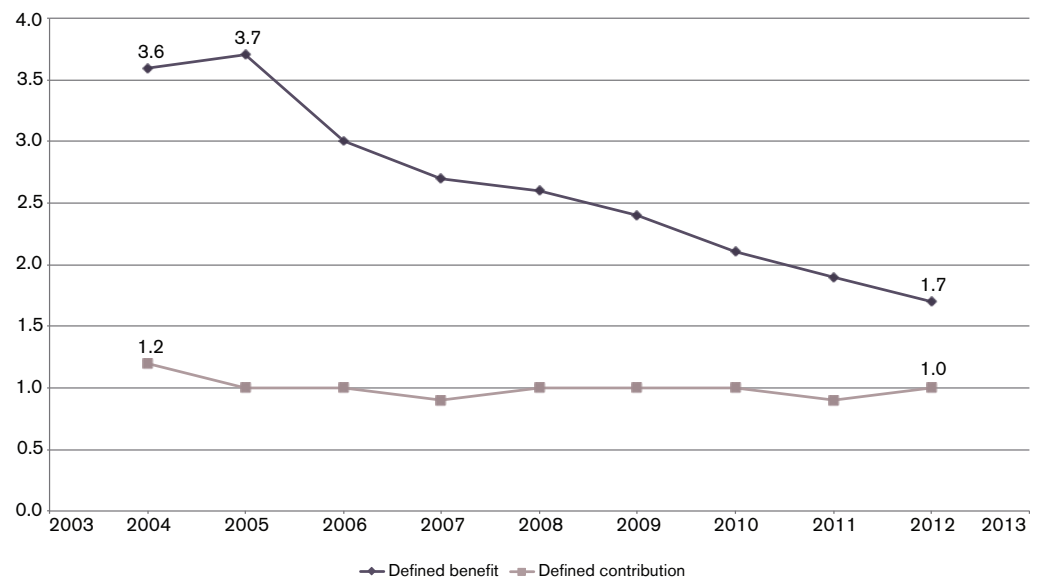
Figure 20: Active membership of occupational pension schemes (in millions) by public and private sector, Office for National Statistics Occupational Pension Schemes Survey



And the decline in private sector occupational membership has been almost entirely in relation to the decline of Defined Benefit schemes. These schemes provide guarantees about the amount that people will receive when they retire, for example, as a proportion of their final salary depending on the number of years

in the scheme. Other schemes, known as Defined Contribution, give no such guarantee, with the amount received in retirement typically depending on performance in the stock market. The number of members of Defined Contribution schemes has remained fairly constant (see figure 21).

Figure 21: Active membership of occupational pension schemes in the private sector (in millions) by type of scheme (Defined Benefit and Defined Contribution), Office for National Statistics Occupational Pension Schemes Survey



So membership of private sector occupational Defined Benefit pension schemes has fallen dramatically and it is precisely these schemes which provide people with most security about retirement income. However, in recognition of these trends and following on from the Pensions Commission of 2005–06, major pension reforms have introduced auto enrolment into workplace pensions. The percentage of private sector employees who are members of a pension scheme has subsequently risen, for the first time in a decade, from 26 per cent in 2011 to 35 per cent in 2013⁴⁷. This suggests that the workplace pension reforms have already had some effect. The Employers Pension Provision Survey 2013 also suggests that only around 9 to 10 per cent of all automatically enrolled employees chose to opt out, a much lower opt out than the government had originally assumed, although so far this is based on larger employers rather than across the whole distribution of size of firms.

Following on from this, the Department for Work and Pensions halved its forecast for the number of people likely to opt out of workplace pensions from 30 per cent to 15 per cent over the lifetime of the automatic enrolment programme. Tim Jones, Chief Executive Officer of NEST⁴⁸, commented⁴⁹:

'If these predictions are correct it's very promising news for future generations of pensioners, who'll be better off as a result. A workplace pension is a great helping hand for the future and it's encouraging to see this message getting through. Our current opt out figures are around 7 per cent and hopefully they'll continue to stay low. With a million people already saving with NEST, we look forward to helping many more save for a brighter future.'

NEST has an opt-out rate of only 8 per cent to date and these low levels of opt-out have so far been the norm. DWP research published in October based on information from large employers (the Employer Pension Provision Survey) showed average opt-out rates of only around 10 per cent for people enrolled between October 2012 and July 2013.

These are all positive signs for the reforms but the challenge for government now will be to ensure that the amount that members contribute to their workplace pension will be enough to give them a sufficient income in retirement. Contribution levels have been kept relatively low to minimise opt out rates but they are not necessarily high enough at the moment to secure a minimum income standard in later life.

⁴⁷ Preliminary results from the Employers Pension Provision Survey 2013 www.gov.uk/government/uploads/system/uploads/attachment_data/file/301938/employers-pension-provision-survey-2013-infographic.pdf or the full report. www.gov.uk/government/uploads/system/uploads/attachment_data/file/301934/employers-pension-provision-survey-2013.pdf.

³³ NEST is the National Employment Savings Trust. It was set up in 2010 to provide an option for employers seeing a workplace pension scheme to meet government minimum standards

³⁴ www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-insight-2014.PDF.pdf

Borrowing

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

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

It is also important to point out that our data on borrowing comes from different sources, using different definitions and methods of data collection. It is therefore difficult to get a consistent picture of trends over time and some of the most useful data sets have not been updated since 2008/9 and so cannot show the impact

of the recession on borrowing. A new national survey of 'credit and debt' is urgently needed.

One key data source for information about borrowing is the Wealth and Assets Survey. Some data from the third wave (2010–12) has now been published (in 2014) by the Office for National Statistics (ONS) but this does not cover all the issues we highlighted in last year's report. Where data from the third wave has been published ONS have also revised figures for previous waves and so we have also revised figures given in last year's report.

According to the Wealth and Assets Survey, total household borrowing in 2008–10 reached £943b⁵⁰. The vast majority of this (90 per cent or £848b) was property borrowing (ie mortgages/secured credit)⁵¹ up 3.1 per cent on 2006–08. The median property borrowing, for those with any secured credit was £75,000. About 10 per cent of all household borrowing is non-property borrowing, ie unsecured loans (£95b – up 10.3 per cent on 2006/8). The median amount, for those with any non-property borrowing, was £3,700.

Unsecured credit is therefore a small proportion of total household borrowing in terms of the amount owed but it is actually more widespread than secured credit, with 51 per cent of households having this form of credit compared with 37 per cent having property loans in 2008–10.

⁵⁰ www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-2/the-burden-of-property-debt-in-great-britain/sty-household-debt--for-theme-page-.html

⁵¹ Note – property debt in these figures includes liabilities against the household's main residence only

Table 8 breaks this down into the different types of borrowing that people have and shows trends over time. It shows that credit/charge cards are the most common type with 25 per cent of households having outstanding balances on a credit or charge card

in 2010–12. One in five (18 per cent) had an overdraft. There has been very little change in this over the last few years though the proportion with formal loans increased between 2006–08 and 2008–10 before falling back in 2010–12.

Table 8: Household non-mortgage borrowing: by type of borrowing, Wealth and Assets Survey⁵²

	(Non-zero) median		
	2006–08	2008–10	2010–12
Formal loans	15	20	18
Informal loans	1	2	2
Loans from the student loan company	3	4	5
Hire purchase	14	13	14
Credit and charge cards	26	25	25
Overdrafts	17	18	18
Store cards and charge accounts	5	5	4
Mail order	9	8	7
Any non-mortgage borrowing	50	50	49

Table 9 shows that the amount outstanding on unsecured loans (for those with any such borrowing) has increased from £2,900 in 2006–08 to £3,600 in 2010–12. So while the proportion with a formal loan

fell between 2008–10 and 2010–12, the amount owed on formal loans increased. There was also a substantial increase in the amount borrowed informally (from £1,300 in 2008–10 to £2,300 in 2010–12).

Table 9: Amounts outstanding on non-mortgage borrowing: by type of borrowing, Wealth and Assets Survey⁵³

	(Non-zero) median		
	2006–8	2008–10	2010–12
Formal loans	4,500	4,800	5,200
Informal loans	1,500	1,300	2,300
Loans from the student loan company	8,000	9,000	9,000
Hire purchase	2,600	2,100	2,300
Credit and charge cards	1,500	1,600	1,900
Overdrafts	500	500	600
Store cards and charge accounts	200	200	300
Mail order	100	200	200
Any non-mortgage borrowing	2,900	3,200	3,600

The Wealth and Assets Survey is a useful source of data on credit use but other sources provide rather different estimates. For example, the Department

of Business Innovation and Skills (BIS) published a report on over-indebtedness in Britain⁵⁴ based on data from the YouGov DebtTrack survey, a series

⁵² Office for National Statistics (2014) Wealth and Assets Survey, Chapter 5: Financial Wealth 2010–12 www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/report--chapter-5--financial-wealth.html#tab-Financial-liabilities

⁵³ Office for National Statistics (2012) Wealth and Assets Survey, Chapter 3: Financial Wealth 2008–10 www.ons.gov.uk/ons/dcp171776_271544.pdf

⁵⁴ BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf

of on-line surveys carried out between July 2008 and July 2009. The report explored the extent of consumer indebtedness and the use of unsecured credit in Britain. The most common sources of unsecured credit in the survey were: credit cards (35 per cent of households); bank overdrafts (29 per cent); and personal loans (22 per cent). Non-mainstream sources (doorstep credit, payday loans and pawn-broking) were used by around 3 per cent of the sample.

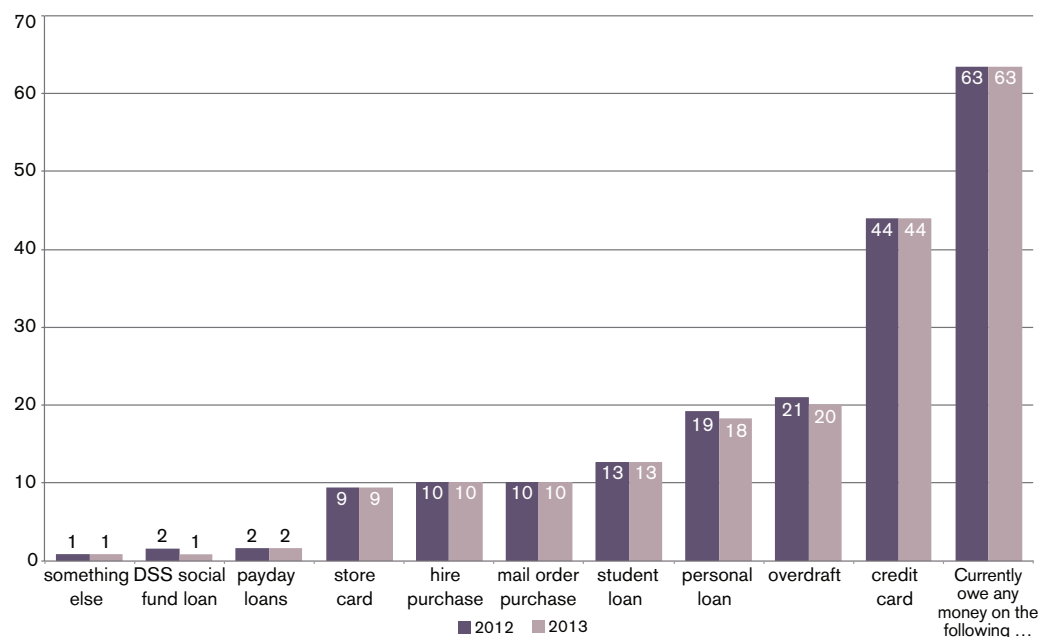
Almost two-thirds (64 per cent) of households had some form of unsecured credit and 75 per cent had a loan or credit commitment of some type, including mortgages and secured loans. About one-tenth (11 per cent) of households had four or more different types of unsecured credit commitment. Although a quarter (24 per cent) of borrowing households owed less than £1,000 on unsecured credit, more than a quarter (28 per cent) owed in excess of £10,000. The average amount of borrowing recorded for this 2008–09 sample was around 20 per cent higher than that recorded for the 2006–08 Wealth and Assets Survey. This could be due to differences in methodology and/or to a real increase in borrowing. And, indeed, the BIS/Yougov credit commitments indicator shows a clear increase between 2002 and 2006 in the proportion of households with four or more unsecured credit

commitments (from 7 per cent to 11 per cent) and this is consistent with macroeconomic data on increasing credit use over this period.

Use of unsecured credit was not correlated with household income in the BIS/YouGov survey but those on higher incomes had higher levels of debt overall. Some 38 per cent of households with an annual income of £50,000 or more had unsecured debts of £10,000 or more, compared with 18 per cent of households in the lowest income group. Levels of debt were also high for households with zero savings (36 per cent owed £10,000 or more). As we might expect, debt-to-income ratios were associated with household income. Some 42 per cent of low-income households with unsecured credit had a debt-to-income ratio of 60 per cent or more, compared with 19 per cent of the population overall.

Another source of data here is the NMG survey for the Bank of England. This found similar levels of borrowing to the BIS levels with 63 per cent of households borrowing money from one or more source of unsecured credit (see figure 22). There had been very little change in the proportion borrowing from different sources between 2012 and 2013.

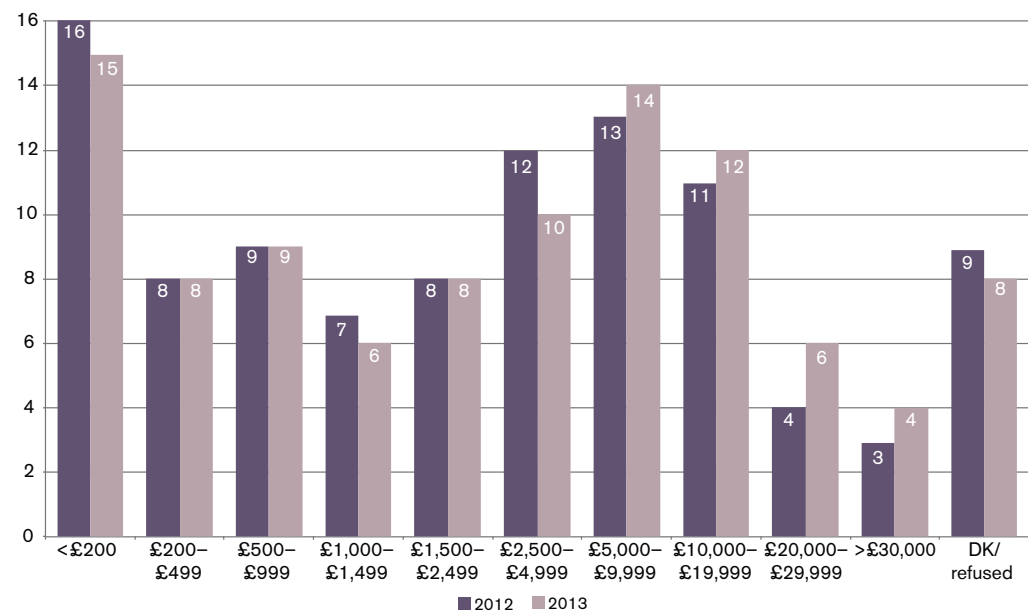
Figure 22: Unsecured borrowing from different sources in 2012 and 2013, NMG data for Bank of England



⁵⁵ 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: www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130406.pdf

Figure 23 also shows the amount borrowed with about 30 per cent of households borrowing less than £1,000. But 22 per cent of households were borrowing £10,000 or more in 2013, up from 18 per cent in 2012 (see figure 24).

Figure 23: Amount borrowed from different unsecured sources in 2012 and 2013, NMG data for Bank of England, online survey of 6,000 households in 2013, 4,003 in 2012



Mainstream loans and credit or store cards were much more common in higher income households. Lower-income households were much more likely than other households to use non-mainstream credit such as Payday loans, doorstep credit, the Social Fund and Credit Union loans. Our Ipsos/MORI survey asked about borrowing from such sources and found that 1 per cent of the public had borrowed from a Payday lender and 1 per cent from doorstep lenders. Given margins of error around survey statistics, we must be cautious about generalising from these statistics but these forms of credit are more likely to be used by those on lower incomes and are extremely expensive.

We have seen significant changes around the regulation of payday lending over the past year. In November 2013, the UK government announced

that the FCA (Financial Conduct Authority) must introduce some limitation on the cost of credit by January 2015. The FCA, which took over responsibility for regulating payday lending in April 2014, is currently consulting on what this cap might be. The FCA has also gained tougher powers than the previous regulator, the Office of Fair Trading, including unlimited fines, ordering refunds and banning misleading advertisements. It has also announced that it will: limit, to two, the number of times a customer can rollover a loan; improve affordability checks; and control the practice of lenders taking automatic repayments from borrowers' bank accounts. While this change in regulation is occurring, the payday lending industry is also subject to a Competition Commission inquiry which is due to report in the summer of 2014⁵⁶.

⁵⁶ Office of Fair Trading (2013) OFT refers payday lending industry to Competition Commission www.offt.gov.uk/news-and-updates/press/2013/45-13#.UdFlvflaxxc

As part of their inquiry, the Competition Commission has carried out major research⁵⁷ into the industry, finding that there were around 90 lenders offering payday loans in the UK in 2012, issuing approximately 10.2 million new loans, with a total value of £2.8 billion⁵⁸. Compared with the population as a whole, payday customers are more likely to be male, younger, working, living in rented accommodation and in deprived areas. There is quite a variety in terms of the incomes of customers with a third living in households with incomes below £18,000 per year and three in ten in households with over £36,000 per year. Eight in ten customers pay their loans back on time, but some only do so by taking out another loan. A survey by Which?⁵⁹ revealed that the top three uses of payday loans were: essentials (eg, food and fuel); emergencies/unexpected expenses; and regular household bills.

Credit unions and Community Development Finance Institutions could provide a more affordable alternative and, indeed, the Archbishop of Canterbury has made very public statements about the need to support credit unions so that they can 'compete Wonga out of business'⁶⁰. But credit unions would require significantly greater scale to begin to address demand. Just over 1 million people (including young people) were members of credit unions in 2012 in Britain (see figure 24). The total figure for 2012 increases to 1.6 million if Northern Ireland is included. While the number of credit union members has risen every year since 2004, the number of credit unions has fallen from 569 to 390 over the same period (2004 to 2012) as credit unions have merged to lower the costs of administration.

Figure 24: Total number of members of credit unions in Britain⁶¹ (excluding Northern Ireland) (including 'Juvenile Depositors'), Bank of England Data



⁵⁷ Competition Commission (2014) Research into the Payday lending market, London: Competition Commission and TNS BMRB

⁵⁸ Competition Commission (2013) The size and concentration of the payday lending sector, https://assets.digital.cabinet-office.gov.uk/media/5329df8640f0b60a76000330/140217_the_size_and_concentration_of_the_payday_lending_sector_.pdf

⁵⁹ Which? (2013) Credit Britain, London: Which?

⁶⁰ www.theguardian.com/money/2013/jul/25/church-england-wonga

⁶¹ www.bankofengland.co.uk/pr/Pages/regulatorydata/creditunionsstatistics.aspx

In April 2012, the government announced the credit union expansion project investing £38 million into the industry to help it modernise and grow. However, this is unlikely to be enough to expand 4.5 times their current size to lend approximately £2 billion per year to meet current levels of demand⁶². There is therefore still great potential in joining up various government initiatives to develop the capacity of credit unions and support Universal Credit claimants to ensure that third sector financial providers are fully engaged in the delivery of local welfare schemes.

Alongside credit unions, another potential source of low-cost (actually no-cost) credit has, traditionally, been the Social Fund. Until 2013, this provided grants and interest-free loans to those on means-tested benefits in certain situations. However, this system has been fundamentally reformed as Community Care Grants (CCGs) and Crisis Loans were replaced with locally based support^{63,64}. The Budgeting Loan scheme will stay in place until the full rollout of Universal Credit to help those still receiving the current income-related benefits. The programme budget has been allocated to the devolved administrations in Scotland and Wales, and to upper-tier local authorities in England. Total expenditure on CCGs and Crisis Loans is currently falling at a time when need is increasing:

- 2010–11 actual – £293.9 million
- 2011–12 actual – £215.3 million
- 2012–13 allocation – £178 million
- 2013–14 allocation – £172.1 million

It then seems that funding for such spending will end altogether, as a DWP commitment, from 2014–15⁶⁵.

Local welfare assistance schemes were set up in 152 local authorities in England in April 2013, comprising

of two elements – crisis support to help with vital short-term expenses such as food or clothes; and community care grants to help people get basic living essentials such as beds and cooking equipment. However, the Guardian reported in January 2014⁶⁶ that the DWP will no longer provide the resources (currently £180 million) to fund the schemes after 2014–15, saying that future arrangements were a matter for the Department for Communities and Local Government (DCLG). With increasing pressures on local authority budgets the likelihood is that many will scrap their welfare provision and, indeed, Nottinghamshire county council has already scrapped its £2.1m welfare scheme as part of a £151m cuts programme.

The current localised system of welfare assistance has created great confusion about what is covered, and many councils have set strict eligibility criteria meaning that many applicants have been turned away. Indeed, research by the Housing Network⁶⁷ suggests that many councils have underspent their funds despite evidence of huge demand.

Turning now to secured forms of credit, the form of mortgage borrowing. The total number of loans advanced to home-owners for house purchase was 48,400 loans in February 2014 an increase in volume of 33 per cent compared to February 2013⁶⁸. Overall, the value of the loans advanced in February 2014 totalled £7.8bn, a substantial increase of 47 per cent compared to February 2013. This increase is believed to have been fuelled by the Help to Buy scheme. More than 27,000 households bought homes under the government's Help to Buy scheme in its first 13 months⁶⁹, with 85 per cent of these homes bought by first-time buyers.

⁶² Gibbons, D, Vaid, L and Gardiner, L (2011) Can consumer credit be affordable to households on low incomes? Friends Provident Foundation/Centre for Responsible Credit

⁶³ Department for Work and Pensions (2012) Annual Report on the Social Fund by the Secretary of State for Work and Pensions 2011/12, London: TSO

⁶⁴ Gibbons, D (2013) Local Welfare Provision, Low-Income Households, and Third Sector Financial Services Provision, London: Friends Provident Foundation

⁶⁵ www.gov.uk/government/publications/change-in-spending-power

⁶⁶ www.theguardian.com/society/2014/jan/03/government-stops-emergency-funds-low-income-families

⁶⁷ www.theguardian.com/housing-network/2014/mar/13/council-discretionary-housing-payments-underspend

⁶⁸ According to data from the Council of Mortgage Lenders, www.cml.org.uk/cml/media/press/3874

⁶⁹ www.gov.uk/government/news/help-to-buy-opening-up-home-ownership-and-boosting-housing-supply

There are two parts to the Help to Buy scheme – the equity loan and the mortgage guarantee. With the equity loan, which was launched in England and Scotland in 2013 and in Wales in January 2014, buyers can put down a deposit of just 5 per cent. This has to be on a new build, and it enables buyers to take out a mortgage of up to 75 per cent of the property's value. The difference is made up with an equity loan of up to 20 per cent from the government. The mortgage guarantee, which began across the UK in October 2013 and will run until the end of 2016, offers a government guarantee against losses for lenders who are prepared to offer mortgages to people with only a small deposit. More than 80 per cent of the homes bought through Help to Buy made use of the mortgage guarantee.

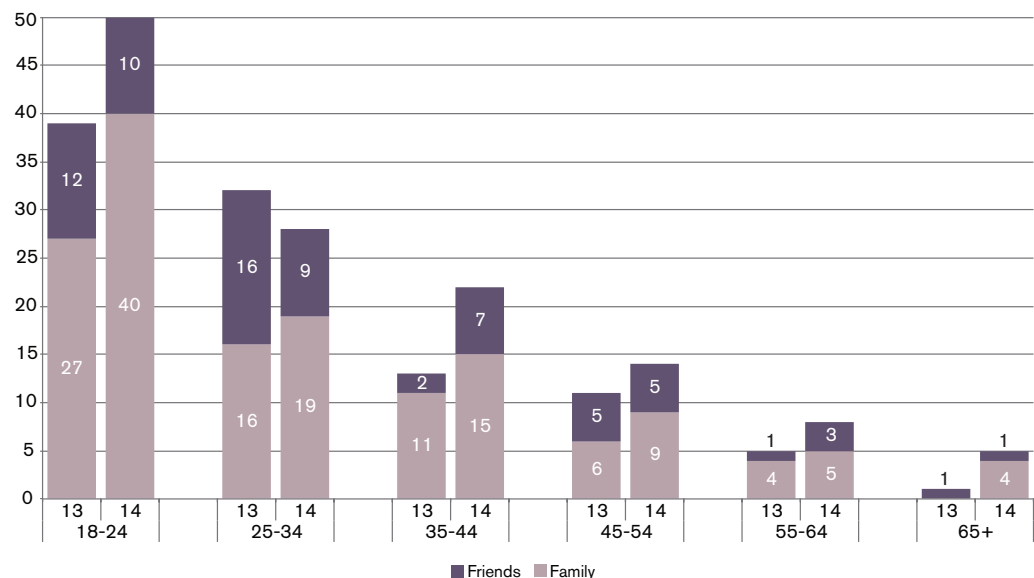
Help to Buy has certainly enabled more people to borrow and stimulated the housing market but this has also, it seems, led to an increase in house prices which then makes it difficult for some people to buy so there is the potential for a vicious circle. Most recent figures, however, show a drop in mortgage

approvals by 10 per cent between January and March 2014.⁷⁰ This could be due to changes in the regulation of mortgage lending by the Financial Conduct Authority, not least stricter rules on affordability checks which came fully into force in April 2014.

A rather different form of borrowing which is likely to increase substantially in the next few years is student debt. The cap on tuition fees was raised to £9,000 per year in 2012–13 but data from 2010–11 already showed that, of those with student loans prior to the increase in tuition fees, average (mean) debt was £9,174.

This report has concentrated so far on formal lending but families and friends often help each other when they are in need. Younger people, in particular, were likely to borrow from a family member or friend in 2013 (see figure 25). Over a quarter of 18 to 24 year olds have borrowed from a family member and 12 per cent have borrowed from a friend. The figures for 25 to 34 year olds are 16 per cent and 6 per cent respectively.

Figure 25: Total number of members of credit unions in Britain⁷¹ (excluding Northern Ireland) (including 'Juvenile Depositors'), Bank of England Data



⁷⁰ www.bankofengland.co.uk/statistics/documents/mc/2014/mar/moneyandcredit.pdf

⁷¹ Source: Ipsos/MORI survey, June 2013, base = 967 and Ipsos/MORI survey, May 2014, base = 981.



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. This chapter provides information from a range of sources and draws out key trends. These indicate a rise in problem debt over recent years no doubt linked to the economic patterns mentioned above.

One type of 'problem debt' is a credit commitment which has become unmanageable, often due to losing a job or having a reduced income compared with when the credit commitment was taken on. According to the Wealth and Assets Survey (WAS)⁷², most of those with property loans in 2008–10 could manage repayments without difficulty but 13.6 per cent of households with this form of loan considered it a heavy burden. This figure was, however, down from 15.2 per cent in 2006–08, possibly reflecting low interest rates on mortgages. Turning to non-property credit, most people find these commitments manageable but nearly one in five, 18.0 per cent of individuals with this form of borrowing considered is a 'heavy burden' in 2008–10, up from 16.2 per cent in 2006–08. Some data from the third wave of this survey has been publicly released but not yet, unfortunately, in relation to this particular question so we cannot look at more recent trends here.

Another type of problem debt is when people fall behind with bills or regular payments. The Family Resources Surveys of 2010–11 and 2011–12 have asked people about this and one in ten households said they could not manage to keep up with such payments (10 per cent in 2010–11 and 9 per cent in 2011–12).

Another key source of data on problem debt comes from a series of surveys by the Department for Trade and Industry/Business Innovation and Skills⁷³.

The latest report in this series draws 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. It is therefore considerably out of date and a new survey is urgently needed. However, it is still one of the best sources of data on this topic and so we repeat some of its findings here. The survey found that:

- Almost one-tenth (9 per cent) of households were in 'structural' arrears (that is, more than three months behind with any payments) in 2008/9.
- About one in 12 of all households (8 per cent) were spending more than 30 per cent of their income on repayment of unsecured loans.
- More than a quarter (28 per cent) of households breached one or more of the five over-indebtedness indicators⁷⁴ and 11 per cent breached two or more. Households with zero savings (31 per cent), lone-parent households (27 per cent) and households with an unemployed adult (24 per cent) were most likely to have breached two or more of the indicators.

There are considerable difficulties in trying to compare indicators derived from a range of different surveys in order to determine trends over time. The DTI/BIS series of studies on over-indebtedness began 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.

⁷² www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-2/the-burden-of-property-debt-in-great-britain/sty-household-debt--for-theme-page-.html

⁷³ See latest survey in BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf

⁷⁴ The five indicators were as follows: Arrears Indicator – Individuals/Households in arrears on a credit commitment and/or a domestic bill for more than 3 months; Burden Indicators – Those spending more than 25 per cent of their gross monthly income on repayments of unsecured debt – Those spending more than 50% of gross monthly income on repayments of all debt (unsecured and secured) – Those saying that their commitments are a 'heavy burden'. Credit Commitments Indicator – Those with four or more separate credit commitments.

Taking all this into account, however, there is some evidence of an increase between 2006 and 2008–09 in the proportion of households in 'structural arrears' (from 7 to 9 per cent of households) and in the proportion of households where repayments on unsecured borrowing are more than 25 per cent of income (from 3 to 8 per cent of households). The trends from 2002 to 2006 are more difficult to determine, although it looks likely that there was a decrease in the proportion of households with high levels of repayments.

One indicator of problem debt is the rate of insolvency⁷⁵. Individual insolvency procedures include bankruptcy, debt relief orders (with effect from 6 April 2009) and individual voluntary arrangements:

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

According to the YouGov poll for BIS⁷⁶, in 2008/9, around 7 per cent of households had entered into one of the statutory or informal actions on debt (eg, bankruptcy, IVA, DMP). Bankruptcies and IVAs accounted for a small proportion (1 per cent of households for each), while around 5 per cent of households were paying debts through a Debt Management Plan.

Data from the Insolvency Service⁷⁷ shows that:

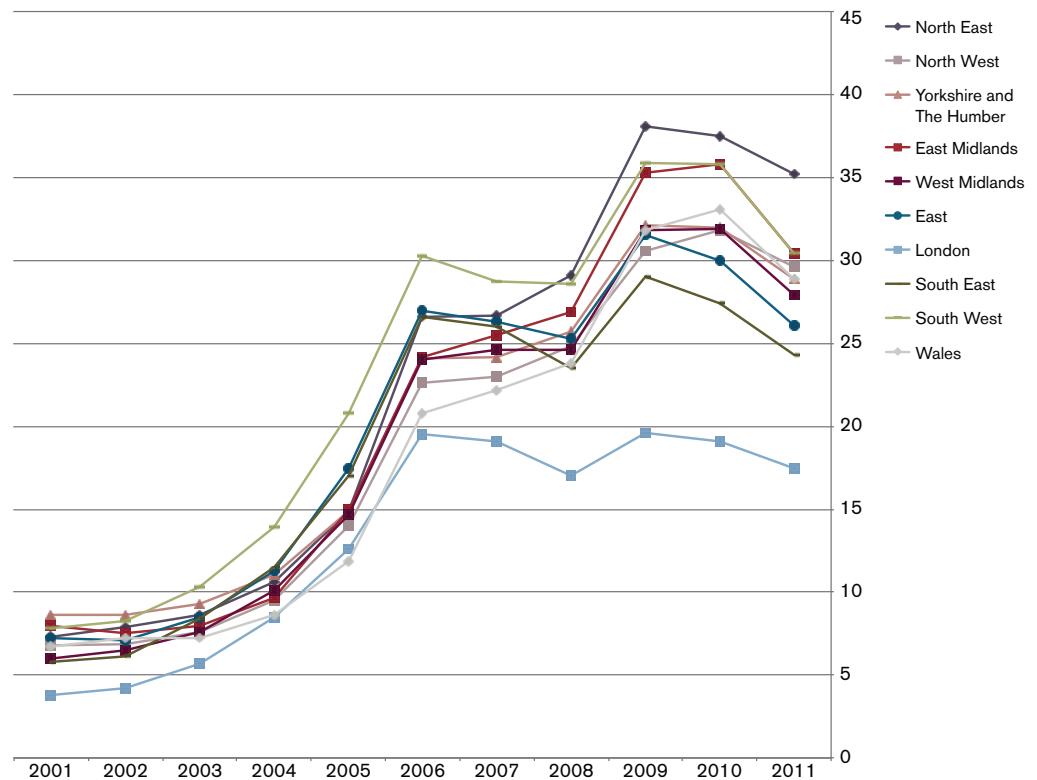
- In 2011 the North East was the region with the highest total individual insolvency rate at 35.2 total individual insolvencies per 10,000 adults, twice that of London which has the lowest individual insolvency rate at 17.5 total individual insolvencies per 10,000 adults (see figure 26).
- Total individual insolvency rates rose across the English regions and Wales between 2001 and 2011, increasing five-fold in the North East, where total individual insolvencies per 10,000 adults rose from 7.3 to 35.2.
- Total individual insolvency rates generally peaked in 2009, while the number of individual insolvencies peaked in 2010.
- Total individual insolvency rates began to rise dramatically from 2004, following the implementation of the Enterprise Act 2002 and then again in 2008, coinciding with the start of the recession.

⁷⁵ See the Insolvency Service website: www.bis.gov.uk/insolvency

⁷⁶ See latest survey in BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf

⁷⁷ Humby, P (2012) Individual Insolvencies including Bankruptcies, England and Wales, 2001–11

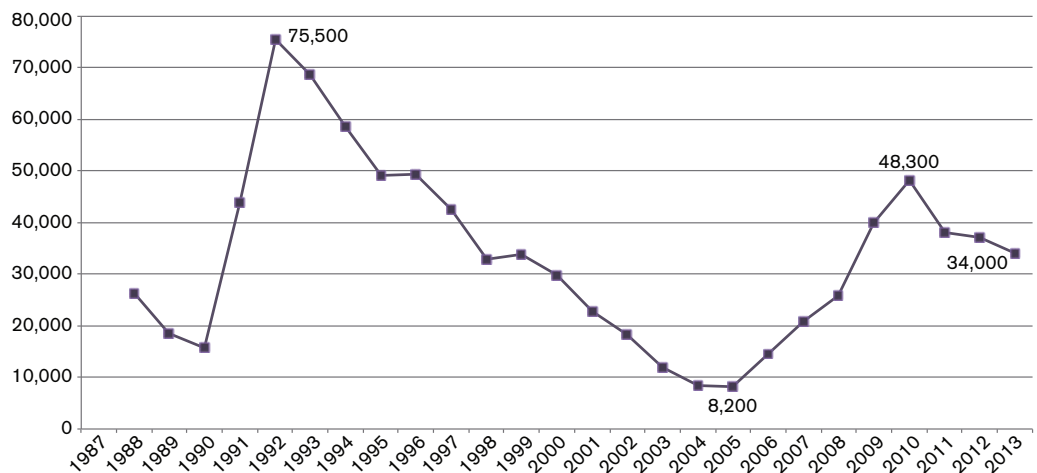
Figure 26: Total individual insolvency rates are the number of individual insolvencies per 10,000 adults⁷⁸



Another, quite extreme, indicator of problem debt is the number of properties taken into possession over time. As figure 27 shows, this increased markedly from less than 10,000 in 2003 to a peak just under

50,000 in 2009. But numbers have subsequently fallen to 34,000 in 2012 and never reached the peak of the previous housing crisis in the early 1990s.

Figure 27: Properties taken into possession in England and Wales, 1987–2013⁷⁹



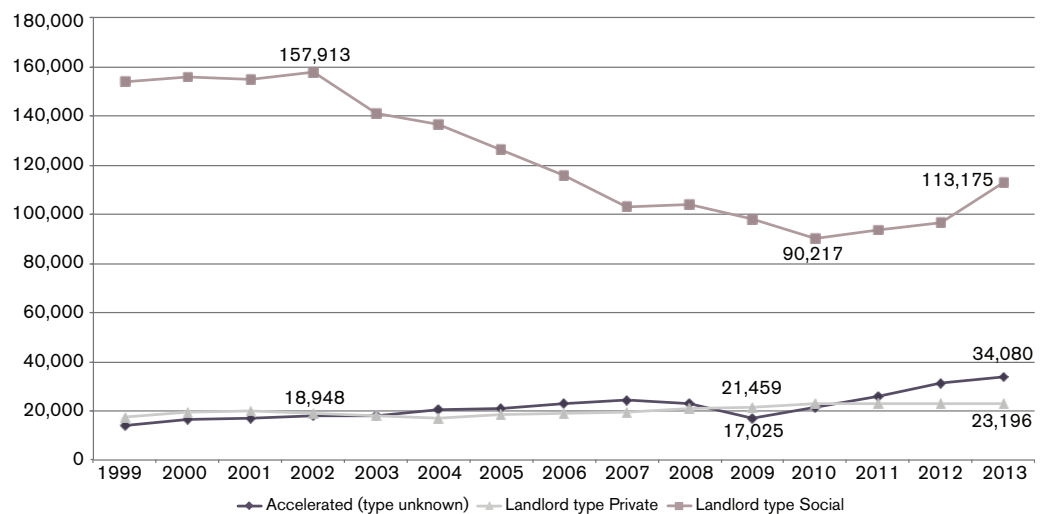
⁷⁸ Humby, P (2012) Individual Insolvencies including Bankruptcies, England and Wales, 2001–11

⁷⁹ Source: HM Courts and Tribunals Service CaseMan, Possession Claim OnLine (PCOL) and Council of Mortgage Lenders (CML)

We see a different trend with evictions from rented properties (technically referred to as landlord possession)⁸⁰. Claims leading to repossession have decreased since 2003, reaching their lowest level around 2010, but have increased since then to around 10,000 in 2013. The upward trend in recent years coincides with an increase in the number of renters. The likelihood of a tenant being repossessed since 2010 has been increasing for two reasons: because possession claims have risen and because the proportion of those claims that lead to repossession has also risen slightly. Figure 28 reports on landlord

possession claims (which may not necessarily lead to evictions). These have increased quite dramatically since 2009–10, particularly among social landlords. In 2010, social landlords issued just over 90,000 possession claims. By 2013 this had increased to 113,000, possibly a result of the under-occupancy penalty/bedroom tax. Accelerated possession claims are used when the tenant is near the end of their lease. It is not possible to split this into private and social landlords. They reached just over 34,000 in 2013.

Figure 28: Landlord possession claims in the county courts of England and Wales by type of procedure and landlord, 1999–2013⁸¹



⁸⁰ Ministry of Justice (2013) Mortgage and landlord possession statistics quarterly, January to March 2013, Ministry of Justice Statistics bulletin

⁸¹ HM Courts and Tribunals Service CaseMan and Possession Claim OnLine (PCOL)

When people are experiencing problem debt, they have an urgent need for free-to-client budgeting and debt advice services. According to the YouGov poll for BIS⁸² some 14 per cent of respondents who had difficulties keeping up with bills and payments had sought professional debt advice in the preceding six months. Two-fifths (40%) of those who were behind with bills or credit payments had contacted their creditors about their financial difficulties. Government funding for money and, in particular, debt advice has been under threat since 2010. The Money Advice Service provides mainly online advice and other third sector agencies, eg Citizens Advice, Money Advice Trust, housing associations, credit unions etc. continue to provide face-to-face advice but recent cuts (not least the end of funding for civil legal aid in relation to debt) will mean that fewer people receive the support they sometimes desperately need.

Another way of looking at 'problem debt' is to consider the harm that occurs when people have difficulty paying their bills or credit commitments. This is the approach taken by Demos in their report on 'The Borrowers.'⁸³ They developed a 'harm index'

which included 10 indicators. Some of these relate to the nature of the debt itself (eg, the affordability and legal consequences of non-payment) and some to the characteristics of the person with the debt (eg, the impact on mental wellbeing and relationships). In a survey of 2,000 members of the general public they found that the top five debts which did most harm were (in order):

- illegal loans
- payday loans
- council tax arrears
- rent arrears
- utility bills

While there are some issues with how members of the public made their assessments (for example they rated the potential legal consequences of not paying an illegal loan as higher than not paying a mortgage) and the sample size was relatively small to reliably measure the harm caused by some types of loans, the focus on harm is very welcome and merits further attention.

⁸² See latest survey in BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf

⁸³ Salter, J (2014) The Borrowers, London: Demos

Home contents insurance

When budgets are tight, as they have increasingly become in the last few years, home contents insurance may seem like an expensive luxury. In particular, people on the lowest incomes may have relatively few possessions to insure and may find that the products available are designed for those with more. There have therefore been a number of attempts to increase the proportion of households covered by home contents insurance, not least by investigating ways of involving the third sector⁸⁴ and making the products more appropriate to low-income households in terms of the minimum amount that needs to be covered. But there appears to have been little change here. According to the Family Expenditures Survey and Living Costs and Food Survey, the proportion of those in the poorest quintile who had home contents insurance increased from 52 per cent to 56 per cent from 1999–2000 to 2009–10 but more recent figures from the Family Resources Survey suggest an overall decrease in the proportion of working adults who have home contents insurance between 2008–09 to 2012/13 from 65 per cent to 62 per cent (see figure 29).

According to the Living Costs and Food Survey⁸⁵, half of the households in the bottom half of the income distribution lacked home contents insurance in 2009, compared with one in five for households on average incomes. But households with no home contents insurance were more than three times as likely to be burgled in 2008/9 as those with insurance⁸⁶ and even if they have possessions of relatively little value they may have least ability to replace them, given low levels of saving. Figure 30 shows a clear relationship between adults with home contents insurance and income. Only about a third of adults on incomes between £150–250 per week had home contents insurance compared with around 70 per cent of those on more than £600 per week. Those on the very lowest incomes were more likely than those on middle incomes to have their possessions covered such insurance possibly due to living in households with other adults.

⁸⁴ Dayson, K, Vik, P and Ward, A (2009) Developing models for delivering insurance through CDFIs – opportunities and risks, Community Finance Solutions

⁸⁵ See www.poverty.org.uk/74/index.shtml

⁸⁶ www.poverty.org.uk/74/index.shtml

Figure 29: Home contents insurance for working-age adults 2008–09 to 2011–12, Family Resources Surveys

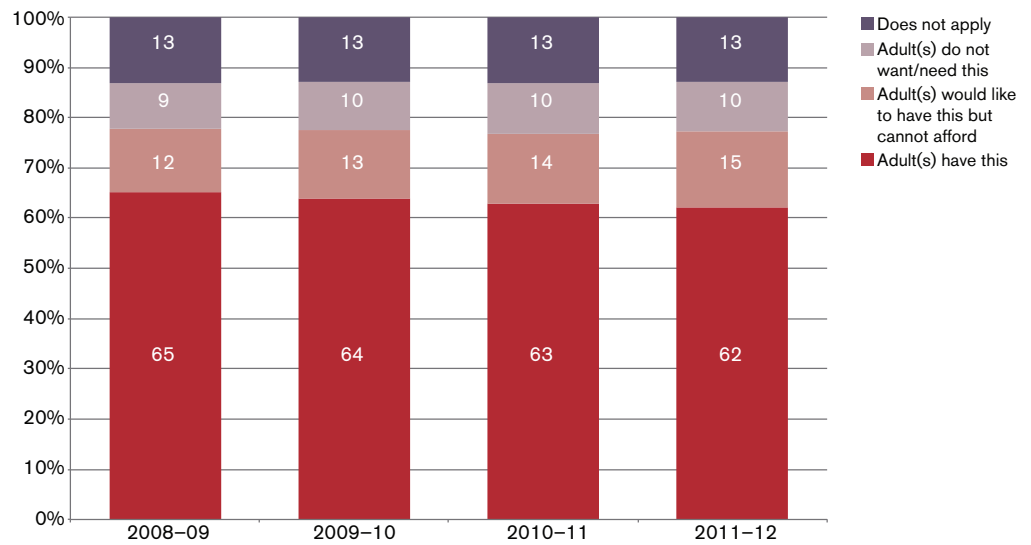
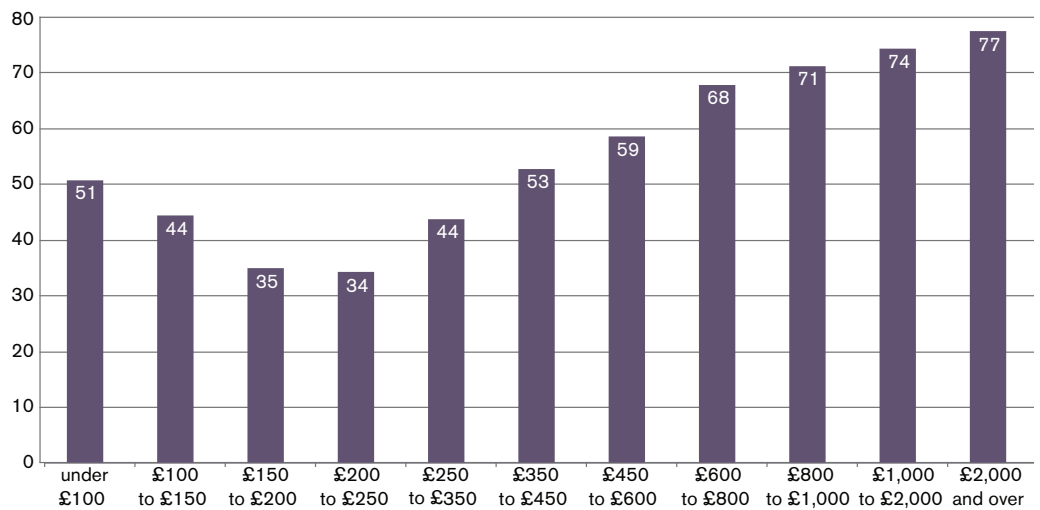


Figure 30: Percentage of adults with home contents insurance by income, Family Resources Survey 2011–12



Conclusions

This is the second of a series of five annual reports on financial inclusion. Compared to last year, unemployment has fallen and we see some signs of increased earnings. We also see that some groups in the population have increased their savings and have more of a financial cushion to draw on in times of need. But the majority of the population are still having to cut back on spending and, for some, debt is increasing and it is difficult to afford even the basics. There is also evidence that repossessions have increased (though not to the extent of past recessions), and more tenants have faced actions by landlords, particularly social landlords, to regain their properties.

It therefore looks as though some at the top are able to benefit from economic growth while many in the middle and at the bottom are struggling ever more. However, several of the most relevant datasets in this field only provide data up to 2011–12, or earlier in some cases, so the effect of the recession may not yet be shown in all of the figures and the effects of the most recent cuts in government welfare spending will start to be felt even more keenly from now on. So there are reasons to be concerned about financial security and living standards for many.

Against this, we might record that there are fewer people unbanked, and the numbers seem to continue to decline despite having already reached quite low levels. However, there are still issues about access to appropriate transactional accounts.

The picture in relation to savings is that, as mentioned above, there is great inequality in levels of saving. Most people have very little money saved and therefore no cushion to meet unexpected expenses. A few have considerable savings, and for some of these, the amount they have has increased a little. Given the general lack of savings, many people fall back on borrowing in times of need. And those on the lowest incomes are more likely to turn to the most expensive credit.

Overall, relatively few people use the new kinds of financial products that have raised concerns about very high levels of charges (according to APR calculations). It is therefore hard to identify groups using payday lenders and home-collected credit in the standard surveys but these forms of lending are much more commonly used among those on lower incomes, and it would be helpful to have more survey research to capture this information – perhaps also collecting data on borrowing in informal ways from family members. Use of payday lenders, in particular, may not be very widespread, but there are nevertheless major concerns about how they operate and the government has asked the Financial Conduct Authority to put a cap on the cost of this lending by January 2015.

There are also difficulties in finding reliable and comparable data on problem debt. In particular, a new survey of ‘over-indebtedness’ would be extremely helpful to measure the most recent trends in problem debt. Existing data suggests that problem debt may be increasing, particularly in relation to unsecured credit commitments and rent payments. Some with mortgages are generally benefitting from low interest rates but others are struggling and the changes to social security mentioned above may mean that problem debt and evictions from rental properties, particularly social housing, will increase still further next year.

This past year has seen some signs of economic growth but it is not, so far, clear as to who is benefitting from this growth. Furthermore, it will take many years to make up the ground lost during the longest and deepest slump in a century that we have just experienced. The situation, in fact, looks set to worsen still further for many low and middle income groups in coming years without changes in social security policy and more action to increase job security and wages.

Appendix

Data sources and research methods

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

Stakeholder engagement

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

Secondary analysis of existing data sources

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

- **Wealth and Assets Survey (WAS)**

This is a relatively new panel survey of people's assets and general wealth, including pensions,

financial assets, property and savings. Three waves have been produced, covering 2006–08, 2008–10 and 2010–12⁸⁷. The first wave of the survey comprised 30,595 responding households.

The second wave comprised 20,170 responding households, all of whom had taken part in wave 1. The third wave comprised 21,541 responding households. It returned to responding households from waves 1 and 2 who gave their permission to be re-interviewed. In addition, a new cohort was introduced at wave 3 (12,000 issued addresses) with the aim to maintain an achieved sample size of around 20,000 responding households. These data are Crown Copyright.

- **Family Resources Survey (FRS)**

This is a long-running annual cross-sectional survey of over 24,000 households. It is used by government and others to describe the income distribution and numbers of households below various income lines. It also collects details about accounts held⁸⁸. These data are Crown Copyright.

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

The BHPS was a panel survey of individuals living in around 5500 households in 1991. Where possible those individuals have been interviewed on an annual basis since then⁸⁹. This source is now largely subsumed into the new Understanding Society survey. A large new sample of over 40,000 households (plus remaining BHPS respondents) is now interviewed each year⁹⁰.

⁸⁷ Office for National Statistics. Social Survey Division, Wealth and Assets Survey, Waves 1–2, 2006–2010 [computer file]. Colchester, Essex: UK Data Archive [distributor], March 2013. SN: 7215, <http://dx.doi.org/10.5255/UKDA-SN-7215-1>, and www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/index.html

⁸⁸ 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>

⁸⁹ University of Essex. Institute for Social and Economic Research, British Household Panel Survey: Waves 1–18, 1991–2009 [computer file]. 7th Edition. Colchester, Essex: UK Data Archive [distributor], July 2010. SN: 5151.

⁹⁰ University of Essex. Institute for Social and Economic Research and National Centre for Social Research, Understanding Society: Waves 1–2, 2009–2011 [computer file]. 4th Edition. Colchester, Essex: UK Data Archive [distributor], January 2013. SN: 6614, <http://dx.doi.org/10.5255/UKDA-SN-6614-4>

■ **Data on credit and debt**

There are a number of sources of data on credit and debt using different methodologies, making trends over time difficult to measure. Many of these sources are also considerably out of date. The Department of Trade and Industry/Business Innovation and Skills carried out a series of studies on over-indebtedness beginning with a detailed survey by MORI in 2002, which involved 1,647 face-to-face interviews with the head of household or their spouse/partner. A second survey was also carried out in 2004 by MORI (the Financial Services Survey, or 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 published a report on over-indebtedness in Britain⁹¹ 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 and 2013.⁹²

■ **Labour Force Survey (LFS)**

Each quarter around 120,000 individuals are included in the LFS. The emphasis is on collecting labour market data, including those who are unemployed⁹³. These data are Crown Copyright.

■ **Ipsos/MORI omnibus survey 2013, 2014**

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

⁹¹ BIS (2010) Over-indebtedness in Britain: second follow-up report, www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf

⁹² 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: www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130406.pdf

⁹³ Office for National Statistics. Social Survey Division and Northern Ireland Statistics and Research Agency. Central Survey Unit, Quarterly Labour Force Survey, July to September, 2012 [computer file]. Colchester, Essex: UK Data Archive [distributor], November 2012. SN: 7174, <http://dx.doi.org/10.5255/UKDA-SN-7174-1>

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