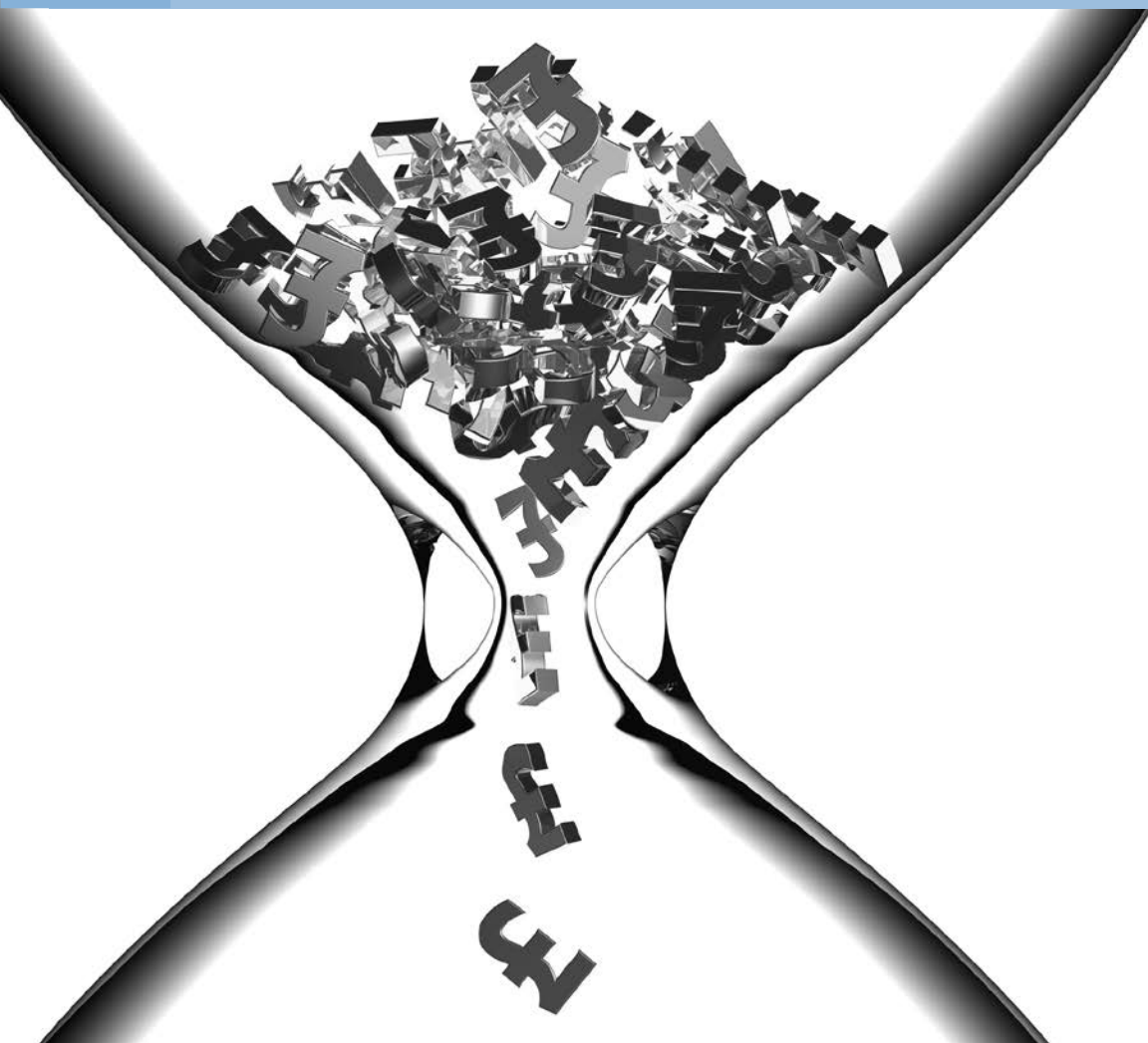


Financial Inclusion Annual Monitoring Report 2015

Karen Rowlingson and Stephen McKay



Contents

Acknowledgements	4
Executive summary	5
Introduction: towards a financially-inclusive society	8
The policy context	9
The continuing squeeze on household budgets	10
How are people feeling about their finances?	18
Bank accounts	20
Meeting one-off expenses	22
Savings	26
Pensions	28
Borrowing	32
Problem debt	38
Home contents insurance	42
Conclusions	43
Appendix	
Data sources and research methods	44

Acknowledgements

We would like to thank the Friends Provident Foundation for funding this work. Andrew Thompson and Danielle Walker-Palmour from the Foundation have been particularly helpful and supportive.

We wish to thank the UK Data Service for supplying the datasets used in this research project. We also want to thank the funders and data collectors of these surveys. Naturally, none of these individuals or organisations has any responsibility for the analysis conducted or any conclusions drawn.

Karen Rowlingson, Professor of Social Policy, University of Birmingham.
Stephen McKay, Distinguished Professor in Social Research, University of Lincoln.

Executive summary

Towards a financially inclusive society

- This report is the third in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain from 2013–2017.
- 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 2005–2011) placed the issue of financial inclusion high on the public and policy agendas.
- The term 'financial inclusion' was rarely used by the Coalition Government from 2010–2015 even though many policies had an impact on levels of inclusion. The term experienced a revival early in 2015 with a major conference on the topic and publication of a report from the Financial Inclusion Commission. Both ventures were funded by the financial services industry though involved a range of stakeholders from government, the third sector and academia.

The economic crisis and the squeeze on incomes

- Unemployment has fallen significantly since 2008 and is now close to pre-recession levels. Nevertheless, nearly 2 million people (1.85 million) were unemployed at the end of 2014. And long-term unemployment has failed to return to pre-crash levels.
- 'Underemployment' fell slightly between 2013 and 2014 but three million workers still wanted to work an average of 11.3 hours more per week than they already were.
- As many as 1.6 million people had 'zero hours contracts' in August 2014 – up from 1.4 million in January 2014. Unfortunately, we have little data on how the hours worked on zero hours contracts actually vary from week to week.

- Average hourly wages are still lower, in real terms, than they were before the recession.
- According to the latest official Household Below Average Income dataset (ie, for 2012/13), median income after housing costs was £374 in 2012/13, compared with £406 in 2009/10 (in real terms), or a reduction of 8 per cent.
- Means-tested benefits for single people out of work in 2015 gave them only 40 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).
- In order to make ends meet, the majority of the population (53 per cent) were cutting back on their spending in 2015 (down slightly from 57 per cent in 2014). Much of this economising is on non-essentials such as eating out and luxury food but one in ten are cutting back on heating and one in twenty on basic food items.
- There has been a dramatic increase in the number of people given 3-days emergency food and support by the Trussell Trust over the past few years, from just over 61,000 in 2010/11 to more than 1 million in 2014/15.

How are people feeling about their finances?

- According to latest figures, 10 per cent of households in 2012/13 were finding it either very or quite difficult to manage financially and a further 25 per cent were 'just about getting by' (a combined total of 35 per cent). These figures are substantially higher than in the early 2000s, when around 5 per cent of the population said they were finding it quite or very difficult to manage, financially, and around 21 per cent were 'just about getting by' (a combined total of 26 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 decile (10 per cent) of the income distribution were finding it difficult to manage, financially, or are just about getting by in 2012/13.

Bank accounts

- Overall, fewer people are without access to any kind of account in their household than ever before. In 2012/13, 'only' 660,000 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 1.5 million adults were, personally, unbanked in 2012/13 (down significantly from 1.87 million the previous year).
- Having access to a bank account does not guarantee that the account will either be useful or be used. Data on the nature of different accounts available to people, and how these are used, is not currently available.

Meeting one-off expenses

- People, including those in work, have very little capacity to meet unexpected expenses, even relatively small ones. About half of those in paid work in 2014 said they did not have enough money put by for emergencies.
- When asked in 2015 whether or not they could find £200 at short notice, 22 per cent said they would not be able to meet this expense or preferred not to answer the question – a rise from 17 per cent in 2014.
- A further 21 per cent of the population in 2015 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 rise from 15 per cent in 2014.
- Two in five (42 per cent) said, in 2015, that they would be able to find £200 without cutting back on essentials or dipping into savings (a fall from 56 per cent the previous year).

Savings

- Latest figures show that 43 per cent of the population in 2012/13 said they were saving – an increase from 41 per cent in 2010/11. 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 something, 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 2012/13 and the average (mean) figure was £581 – up from £526 in 2010/11. By contrast, half of savers in the bottom half of the income distribution were saving only £50 per month.

- In terms of the total amounts saved, just under half (47 per cent) of families had less than £1,500 in savings in 2012/13 and there has been very little change in these figures over the last 3 years. A further 27 per cent had saved between £1,500 and £20,000 and one in five (20 per cent) had over £20,000.

Pensions

- The number of active members of occupational pension schemes fell from 11.1 million in 1983 to 7.8 million in 2013 but then rose, for the first time in 30 years to 8.1 million in 2014.
- The very recent increase in number of active members of occupational schemes is very closely related to the introduction of auto enrolment into workplace pensions from October 2012. Figures from NEST suggest that opt out rates for workplace pensions were running at 10 per cent overall, and 8 per cent at NEST in 2015.
- There is a large variation in opt out rates by age, with only a 5 per cent opt-out rate at NEST among workers under 30 years old compared to more than 28 per cent opting out among those aged 60 and over.
- Auto enrolment is still at an early stage and has so far applied only to large employers and those earning more than £10,000 per year. 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 NMG survey for the Bank of England 60 per cent of households had borrowed money from one or more source of unsecured credit in 2014 – a drop from 63 per cent in 2012 and 2013.

- Credit cards are the most common form of unsecured borrowing and very few people use high-cost, short-term credit but this has been the focus of major reforms from the FCA. In the five months following the 2014 reforms, the number of loans and the amount borrowed from payday lenders dropped by 35 per cent. It is still too early to measure the impact of the 2015 price cap reform but the FCA have estimated that 7 per cent of current borrowers (some 70,000 people) will no longer have access to payday loans following the introduction of the price cap.
- The number of people using credit unions increased again in 2012/13 but at a slightly lower rate than in previous years.
- Funding for local welfare assistance has been slashed from £172m in 2013/14 to a promised £74m in 2015/16.
- Mortgage lending fell in the 12 months following February 2014, both in terms of the number of loans and their value.
- Landlord possession orders in the social rented sector increased considerably between 2012 and 2013 but have since stabilized. Accelerated possessions (where the tenant is near the end of their lease) have risen very steadily every year from 2010 to 2014 but it is not possible to determine whether these relate to the social or private rented sector.

Home contents insurance

- The proportion of households with home contents insurance has declined from 65 per cent in 2008/9 to 60 per cent in 2012/13. This is largely due to the inability to afford such insurance.

Conclusion

- This report shows some positive signs compared to last year. For example, unemployment has fallen and some groups in the population have increased their savings and have more of a financial cushion to draw on in times of need. The number of people with access to bank accounts has increased and the government has regulated high-cost, short-term credit more closely while at the same time providing some funding for credit unions to provide more affordable loans. Insolvencies have fallen, as have mortgage possessions.
- Other signs are less positive however. Wages are still not increasing and benefit cuts continue. 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 landlord repossessions have increased for those in rented accommodation.
- It therefore looks as though the experience of the recovery is very unequal. Some at the top are benefitting from economic growth while many at the bottom are struggling ever more.

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 data from the Bank of England suggests that 10 per cent of those with fixed-term non-mortgage borrowing found it a 'heavy burden' in 2014, down slightly from 13 per cent in 2013.
- Data from the Insolvency Service shows that the rate of individual insolvency fell from 32.4 per 10,000 adults in 2010 to 20.9 in the first quarter of 2015.
- The number of *claims* for mortgage possession increased markedly from 58,000 2002 to a peak of 133,000 in 2008 but have now fallen to 37,000 in 2014.
- *Actual* mortgage (re)possessions by county court bailiffs amounted to around 6,000 in 2003, rising to 33,000 in 2009 and subsequently falling to 11,000 in 2014.
- Evictions from rented properties (technically referred to as landlord possession) show a different trend with orders in the county courts of England and Wales for possession reaching their lowest level around 2010 at just under 100,000 but then increasing to just under 120,000 in 2014.

Introduction: towards a financially-inclusive society

This report is the third in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain. In order to provide a comprehensive picture, this report takes the same framework as the previous two reports and updates figures, where available, to give the most recent data and trends. 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

In this series of reports, we argue that people need three key components in order to achieve financial inclusion as follows:

- A secure income which meets a minimum standard. The Minimum Income Standards 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.'*
- Access to appropriate and well-regulated financial services, particularly transactional bank accounts, savings accounts, affordable credit, pensions and insurance products.
- Access to free and appropriate advice and education, particularly for those with debt problems.

It should be noted, however, that there is an increasingly lively debate, in academic circles, about the nature of financial inclusion and whether it serves as a progressive response to financialisation or serves to advance the process of financialisation³. In these debates, financialisation is seen as the increasing role and power of the financial sector in both the economy in general and people's lives in particular. Financialisation is also generally seen as part of the shift in responsibility from the (welfare) state to the individual.

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

³. See, for example: Berry, C (2014) *'Citizenship in a financialised society: financial inclusion and the state before and after the crash'* Policy & Politics, 1–17; Finlayson, A (2009) *'Financialisation, financial literacy and asset-based welfare'*, British Journal of Politics and International Relations, 11, 3, 400–21; Leyshon, A and Thrift, N (2009) *'The Capitalisation of Almost Everything: the Future of Finance and Capitalism, Theory, Culture and Society'*, 24, (7–8), 97–115

The policy context

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

Key policy milestones under New Labour included:

- 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; and improve access to appropriate money advice⁴.

The Coalition government (2010–2015) retained an interest in this issue but had no overall strategy⁵. The Financial Inclusion Taskforce was formally wound up, as originally planned, in March 2011 and the term 'financial inclusion' was rarely mentioned in government policy despite some relevant reforms in this area.

The government did, however, give some financial support to Credit Unions and it reformed the regulation of high-cost, short-term credit via the Financial Conduct Authority (FCA) which took on responsibility for this in April 2014. The FCA introduced tighter provisions for regulating unsecured credit and also a cap on high-cost short-term credit in January 2015⁶. Mortgage lenders also had to change their practices to conform to tighter regulation of affordability checks.

The government also made changes in ISA arrangements, allowing people to save more in such tax-free accounts (£15,240 from 1 April 2015). And the introduction of auto enrolment in workplace pensions was a significant change in pensions policy alongside the extra freedom given to people in terms of being able to access the whole of their Defined Contribution pension pot on retirement.

Despite these positive reforms, the government also made considerable cuts to benefits which made it more difficult for people (both in and out of work) to make ends meet. The Social Fund was also reformed and cut, reducing alternatives to high cost lenders. And while the government certainly supported 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.

While the Coalition government rarely used the term 'financial inclusion', it was nevertheless revived this year through two key (non-government) initiatives. The first was a major conference held in January 2015 in London, sponsored by HSBC and Lloyds Banking Group, organized by City & Financial Global, attended by 300 people, with keynote addresses from the Chief Executives/Chairmen of the sponsors/organisers as well as other key stakeholders in this field including the Archbishop of Canterbury, the Economic Secretary to the Treasury, the Chief Executive of the British Bankers Association, the former Chair of the Financial Inclusion Taskforce, the leader of Manchester City Council and so on. The second key initiative was the formation of a Financial Inclusion Commission, a non-partisan, cross-party commission supported by Mastercard but independent, chaired by Sir Sherard Cowper-Coles. The Commission produced a report in March 2015⁷ which argued, among other things, for a senior minister in government on financial inclusion and capability, with the title of 'Minister for Financial Health'.

These two initiatives placed financial inclusion back on the public agenda but the term still did not appear in the party manifestos released in April 2015. However, these manifestos did mention relevant policies⁸ and next year's report will reflect on the implications of the outcome of the May 2015 election for financial inclusion policy.

⁴. See Rowlingson, K and McKay, S (2014) *Financial Inclusion Annual Monitoring Report 2014*, Birmingham: University of Birmingham

⁵. See Appleyard, L (2015) *Financial Inclusion: Review of Coalition Government Policies 2010–2015*, Birmingham: University of Birmingham

⁶. See Gardner, J and Rowlingson, K (2015) 'High cost credit and welfare reform', *In Defence of Welfare II* www.social-policy.org.uk/wordpress/wp-content/uploads/2015/04/08_gardner1.pdf

⁷. Financial Inclusion Commission (2015) *Financial Inclusion: Improving the financial health of the nation*

⁸. See Joseph, R (2015) *Financial Inclusion: Review of the 2015 General Election party manifestos*, Birmingham: University of Birmingham

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.

As we have seen in previous reports, the recession of 2008/9 clearly had a major impact on rates of unemployment. At the beginning of 2007, there were more than 1.6 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 2.7 million in 2011. Most recent data shows that it has now fallen to 1.86 million at the end of 2014 (see figure 1). It is therefore not too far away from pre-crash levels. Long-term unemployment 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 2014, the figure had also dropped – to just over 0.6 million – still somewhat higher than pre-recession levels.

Figure 1: Unemployment fell in 2014 and is nearly down to pre-crash levels

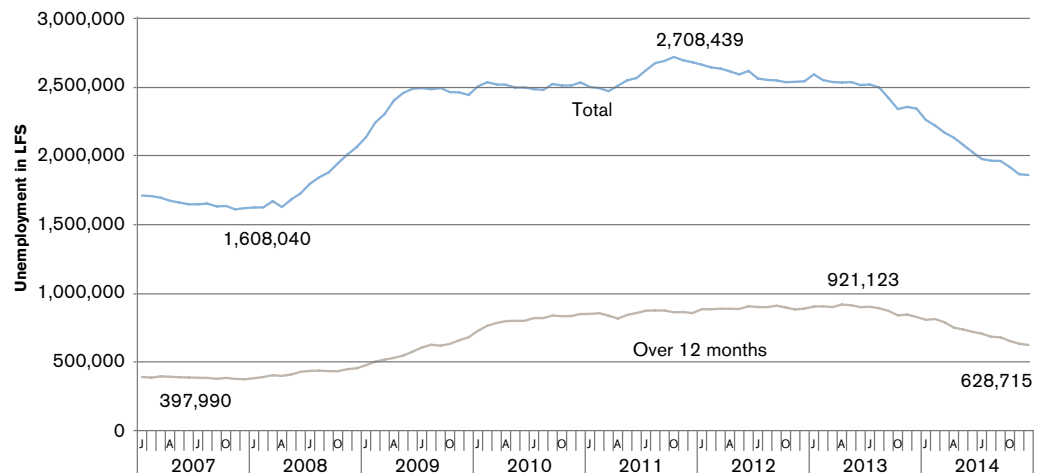
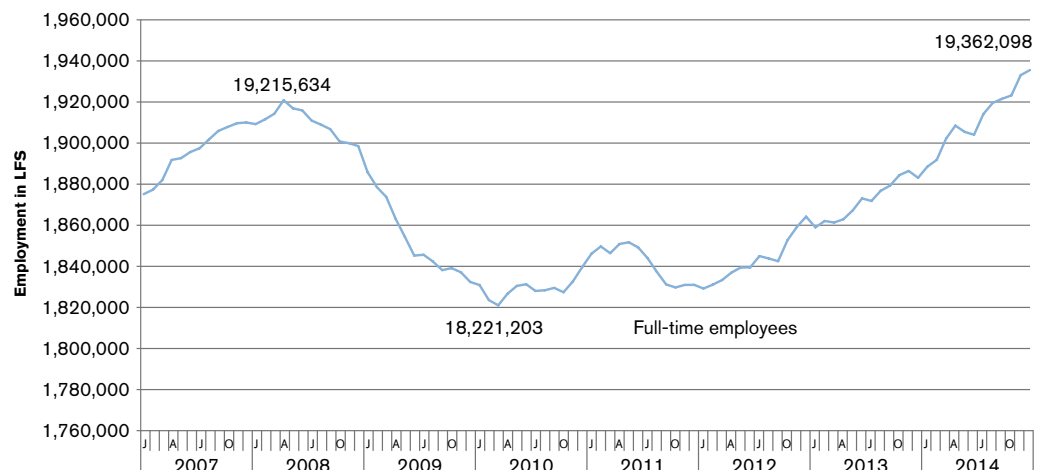


Figure 2: The number of full-time employees rose in 2014 and is now higher than before the crash



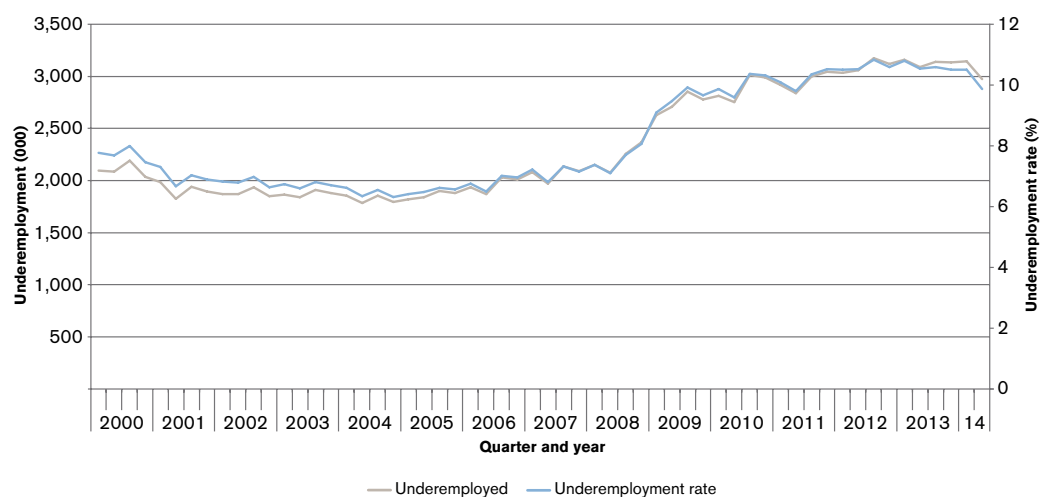
While unemployment rates, generally, have fallen close to pre-recession levels, young people's unemployment rates are still very high and still considerably higher than before the crash. Twenty per cent of those aged 16–17 were unemployed in 2003, rising to a staggering 40 per cent in 2011. The figure in 2014 was 32 per cent – a third of 16–17 year olds. We see a similar trend for 18–24 year olds, with 10 per cent unemployed in 2003, rising to 20 per cent in 2011 with a drop to 14.5 per cent in 2014⁹.

Figure 2 further illustrates the recovery of the labour market in terms of the number of full-time jobs, which is now higher (at the end of 2014) than it was before the crash in 2008.

While there has been further recovery in terms of employment rates in 2014, there has been less improvement in other aspects of the labour market. For example, underemployment dropped very slightly between 2013 and 2014 but there are still 3 million

workers (9.9 per cent) 'underemployed' (see figure 3) – far more than before the recession. 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'. The number of 'underemployed' workers rose dramatically after the crash from 1.8 million (6.3 per cent) in 2004/5 to a peak of 3.2 million (10.8 per cent) in 2012/2013. On average, underemployed workers want to work an extra 11.3 hours per week¹⁰. One in five of those in part-time work are underemployed (compared with one in twenty full-time workers). Interestingly, the same proportion of workers consider themselves 'overemployed' (in other words they want to work fewer hours and would be willing to take a commensurate cut in pay). These workers are much more likely to be in professional occupations and, on average, they would like to work 11.2 hours less per week.

Figure 3: Underemployment dropped very slightly in 2014 but remains high, Labour Force Survey



⁹ McKnight, A (2015) *The Coalition's Record on Employment: Policy, Spending and Outcomes 2010–2015*, Social Policy in a Cold Climate, working paper 15, LSE: CASE, <http://sticerd.lse.ac.uk/dps/case/spcc/WP15.pdf>

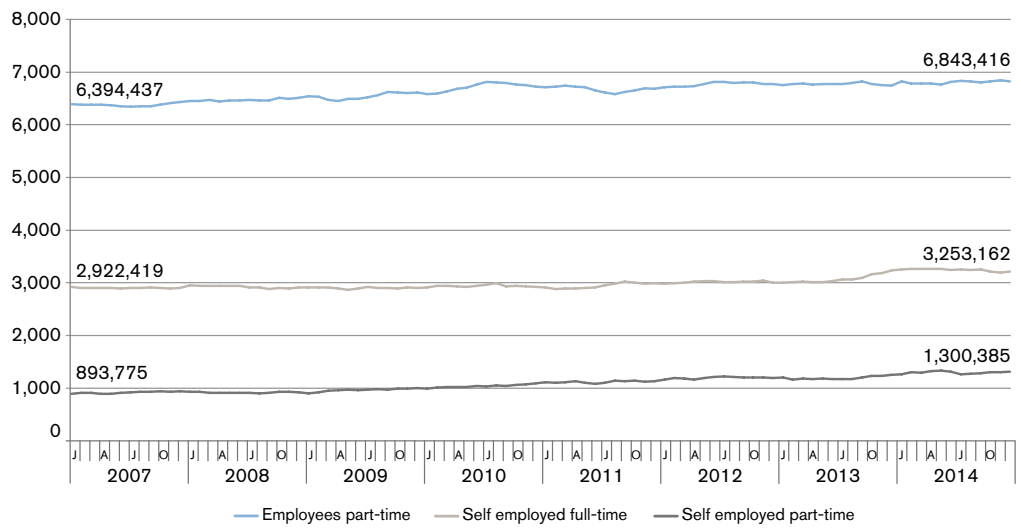
¹⁰ www.ons.gov.uk/ons/rel/lmac/underemployed-workers-in-the-uk/2014/rpt-underemployment-and-overemployment-2014.html

As we have seen, part of the reason for underemployment is that people are more likely to have part-time jobs or be self-employed and yet want more hours of work. Figure 4 shows the increase in part-time employment and self-employment (both full and part-time) from 2007 to 2014.

Alongside 'underemployment' we have also seen a growth in zero hours contracts. The Office for National Statistics (ONS) estimated that there were 1.8 million people with such employment contracts in August 2014¹¹ – up from 1.4 million in January 2014¹². However, these figures are

based on a survey of businesses and the ONS have also estimated, from a survey of individuals (the Labour Force Survey) that 700,000 people had zero hours contracts at the end of 2014. The discrepancy could be due to people not necessarily being aware that they have a 'zero hours' contract when asked about it in the survey. Also, it is possible that some people have more than one zero hours contract. Data from the Workplace and Employment Relations Survey suggests that the number of workplaces offering such contracts has increased from 4 per cent in 2004 to 8 per cent in 2011¹³. Crucially, we seem to have little data on how the hours worked on zero hours contracts actually vary from week to week.

Figure 4: Part-time employment and all forms of self-employment have grown from 2007–2014, Labour Force Survey



¹¹ www.parliament.uk/business/publications/research/briefing-papers/SN06553/zerohours-contracts

¹² www.ons.gov.uk/ons/rel/lmac/contracts-with-no-guaranteed-hours/zero-hours-contracts/art-zero-hours.html

¹³ www.parliament.uk/business/publications/research/briefing-papers/SN06553/zerohours-contracts

Another key change in the labour market is the growth in self-employment. In 2014 4.6 million people were self-employed, representing 15 per cent of the total share of employment (see figure 4). But the average weekly earnings of the self-employed in 2014 were 20 per cent lower than in 2006/7 due to a combination of a reduction in working hours among the self-employed and a change in the composition of self-employment¹⁴.

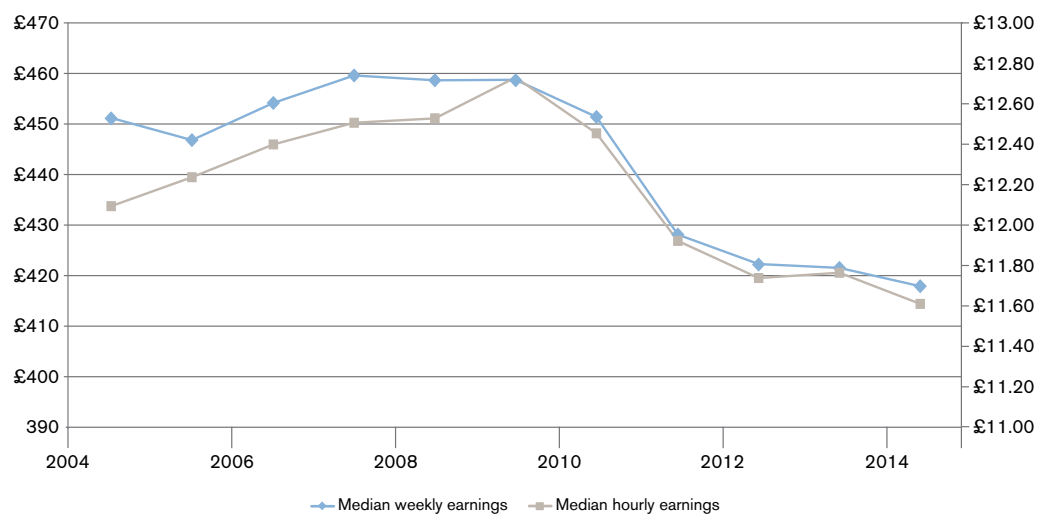
This drop in earnings is a broader feature of the labour market in recent years and, indeed, one of the reasons why employment has remained strong appears to be that employers have tended to cut wages rather than jobs. Falling real earnings have therefore been a striking feature of the recession. Average hourly wages are now lower in real terms than prior to the recession and this can be explained partly due to changes in the composition of the labour force and partly due to changes in the hours that people work. During the recession, those in lower skilled, lower-paid jobs were more likely to become unemployed while those who remained in work saw their pay and/or hours of work cut. The more recent increases in employment seem to have been among the lower skilled/wages. Figure 5 illustrates the dramatic drop in levels of real pay between 2008 and 2011 in particular.

The overall effect of changes in the labour market and the tax/benefit system¹⁶ is that incomes and earnings have fallen. According to the latest official Household Below Average Income dataset (ie, for 2012/13¹⁷), median income after housing costs was £374 in 2012/13, compared with £406 in 2009/10 (in real terms), or a reduction of 8 per cent.

People's living standards are related to both their incomes and their outgoings. Inflation (as measured by the Consumer Prices Index) fell below 2 per cent at the beginning of 2014 and reached 0 per cent at the beginning of 2015. This appears to be due to a combination of factors not least: falling oil prices, commodity prices, fuel and gas prices; supermarket price wars not least with competition from LIDL and ALDI; and low wage growth. While low inflation can be good for people in many ways, if people defer spending to wait until prices come down further then this can cause stagnation in the economy.

Furthermore, while low inflation may ease budgetary pressures for many households, the more long-term increases in prices over the last 5 years mean that the costs of many goods is still high relative to changes in income over the same period.

Figure 5: Levels of real pay (adjusted by CPI)¹⁵



¹⁴ McKnight, A (2015) *The Coalition's Record on Employment: Policy, Spending and Outcomes 2010–2015*, Social Policy in a Cold Climate, working paper 15, LSE: CASE, <http://sticerd.lse.ac.uk/dps/case/spcc/WP15.pdf>

¹⁵ McKay, S and Smith, R (2015) *The labour market before and after the recession*, www.social-policy.org.uk/wordpress/wp-content/uploads/2015/04/McKay-Smith.pdf

¹⁶ See the Institute for Fiscal Studies analyses of the impact of tax and benefit changes: www.ifs.org.uk/budgets/showindex

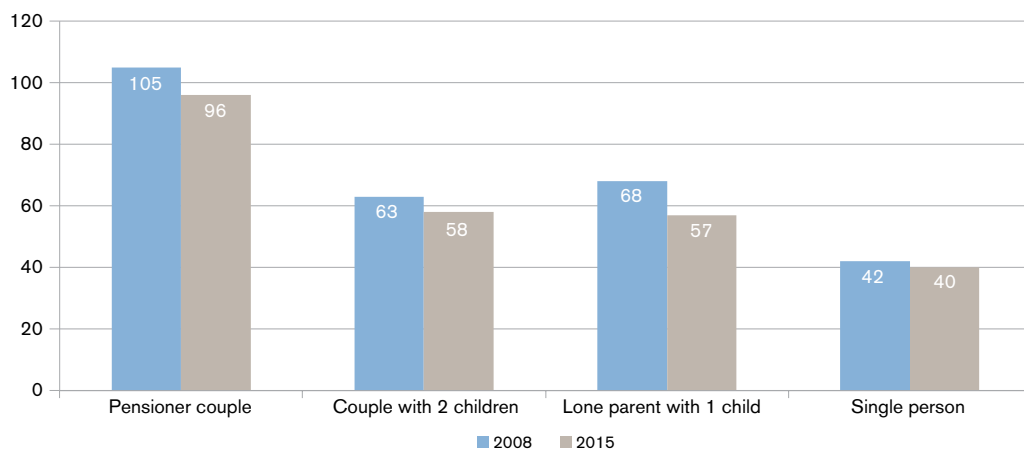
¹⁷ www.gov.uk/government/uploads/system/uploads/attachment_data/file/325416/households-below-average-income-1994-1995-2012-2013.pdf

As pointed out in last year's report¹⁸, the Resolution Foundation has shown that housing, water and fuel costs increased by 32 per cent between 2007 and 2013 (with an increase of 61 per cent for electricity gas and other fuels). Food and non-alcoholic beverages increased by 31 per cent and transport by 25 per cent.

The Minimum Income Standards Team at Loughborough University also found that families with children have faced particularly high increases in childcare and transport costs in recent years¹⁹. People in work are therefore increasingly struggling to meet the minimum income standard from their wages and tax credits. But working-age people without jobs are also increasingly falling very short

of a minimum income standard. Figure 6 shows that safety net benefits for single people in 2015²⁰ gave them only 40 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 6: Means-tested, out-of-work benefits (Income Support/Pension Credit) as a percentage of Minimum Income Standards (excluding rent, childcare, council tax)



¹⁸ Resolution Foundation (2014) *The State of Living Standards*, London: Resolution Foundation

¹⁹ Davis, A, Hirsch, D and Padley, M (2014) *A minimum income standard for the UK in 2014*, York: Joseph Rowntree Foundation, www.jrf.org.uk/publications/minimum-income-standard-2014

²⁰ Figures for 2015 were kindly provided to us by Donald Hirsch prior to the publication of the Loughborough University 2015 minimum income standard report which should now be publicly available

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 (53 per cent in 2015 – down from 57 per cent in 2014) 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 surveys

	2013	2014	2015
Eating out	22	25	21
Luxury food items	17	18	16
Clothes for myself/family	15	17	13
A holiday	15	18	15
Socialising with friends	13	16	12
Heating, to save on gas/electricity/heating oil	11	14	10
Car usage	10	8	7
Trips/days out for the family	9	12	11
Using household utilities (gas/electricity/water)	8	9	8
Use of lighting, to save electricity	8	8	8
Use of appliances, to save electricity	7	7	6
Basic food items	6	8	6
Buying a new/upgrading existing car(s)	6	6	6
Cable/satellite TV subscriptions	6	5	6
Phone/mobile phone bills	5	7	7
Charitable contribution	5	5	5
Number of baths taken (eg, more showers, sharing baths etc.)	3	2	2
All cutting back	54	57	53
Not cut back on any of these	35	35	38
Prefer not to say	11	8	8
Base	967	981	996

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

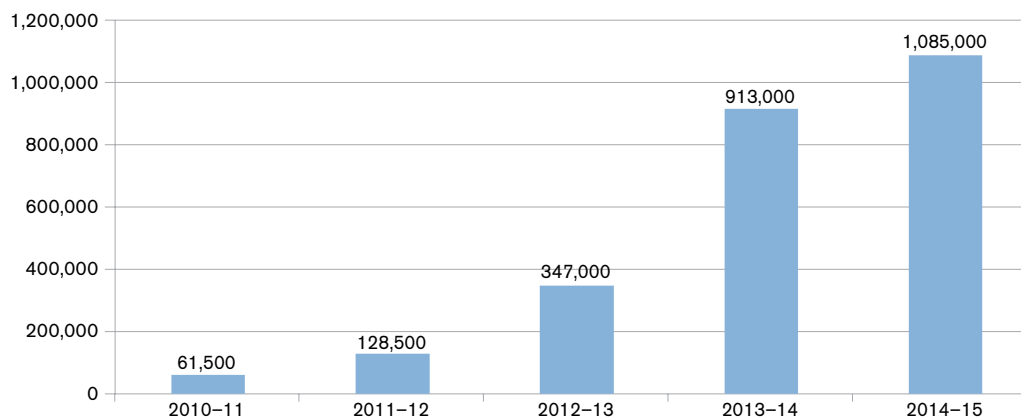
of years. Our survey only picked up 1 per cent of the population using food banks in the past 12 months, in each year from 2013 to 2015 but we will continue to monitor this over the coming years.

Figures from the Trussell Trust²¹ show a dramatic increase in the number of people given 3-days emergency food and support over the past few years, from just over 61,000 in 2010/11 to more than 1 million in 2014/15 (see figure 7).

Table 2: Activities in last 12 months, Ipsos/MORI 2013–2015 surveys

	2013	2014	2015
Sold general items online for cash (eg, via eBay)	8	7	8
Sold items of gold for cash	2	2	2
Used a food bank	1	1	1
Base	967	981	996

Figure 7: Number of people given 3-days emergency food and support by the Trussell Trust



²¹ www.trusselltrust.org/stats



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? According to our most up-to-date figures, 10 per cent of households in 2012/13 were finding it either very or quite difficult to manage financially and a further 25 per cent were 'just about getting by' – a combined total of 35 per cent (see figure 8).

Figure 9 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. Three years on, households appear to have adjusted somewhat to the pressures on their budgets but levels of financial difficulty are still well above the pre-crash figures: 35 per cent of the population – more than one in three households – are still finding it difficult to manage, financially, or are just about getting by.

Figure 8: A quarter of households were 'just about getting by' and one in ten were either finding it difficult or very difficult to manage, financially, in 2012/13, Understanding Society

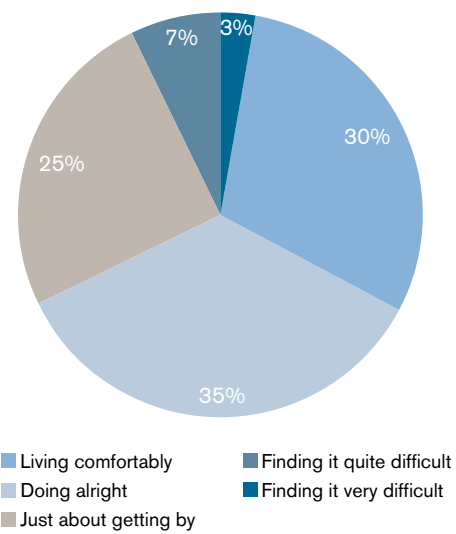
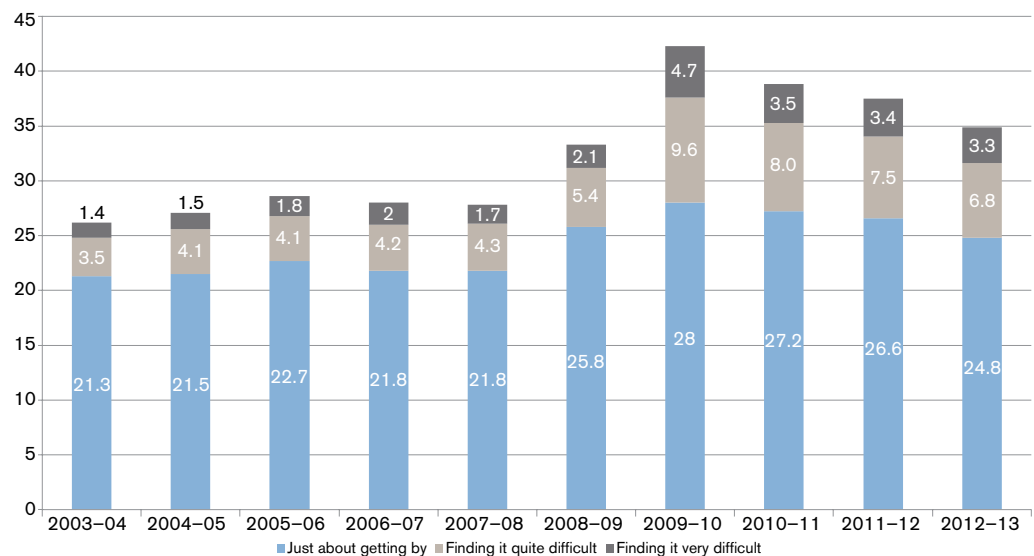
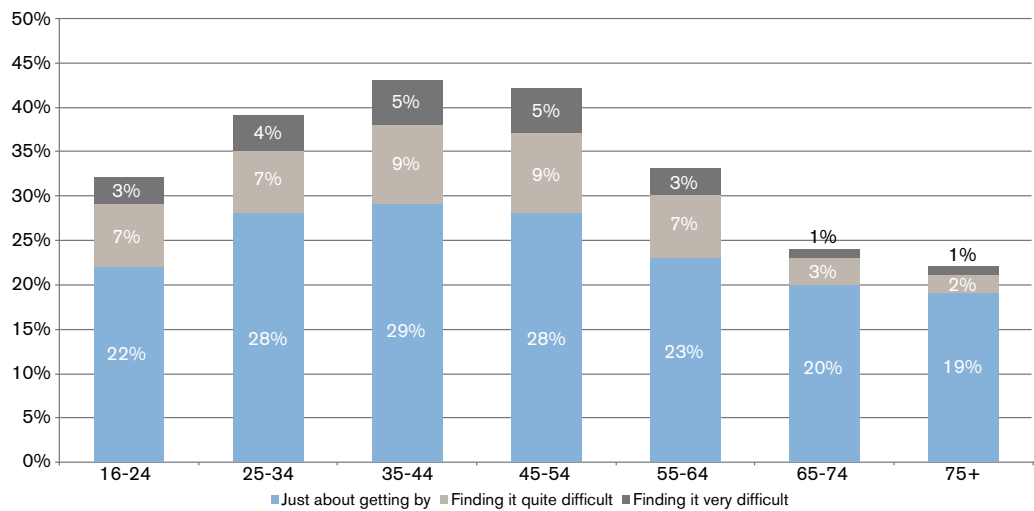


Figure 9: Households in 2012/3 were finding it less difficult to manage than the previous year but still more difficult than before the crash, British Household Panel Survey (up to 2008/9)²², Understanding Society (from 2009/10)



²² Seddon, C (2012) *Measuring National Well-being – Personal Finance*, 2012, ONS, www.ons.gov.uk/ons/dcp171766_278355.pdf

Figure 10: Middle aged groups were finding it most difficult to manage in 2012/13, Understanding Society data

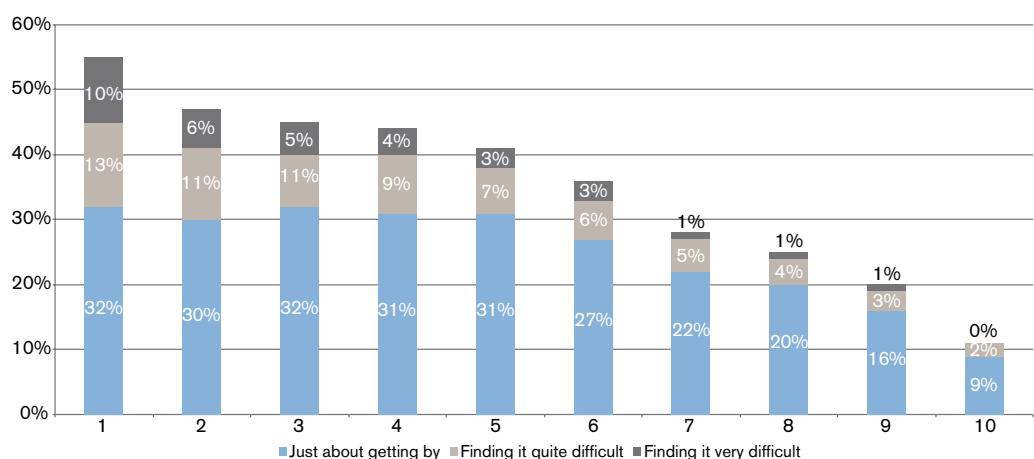


We also saw, in the previous chapter, that young people are particularly suffering in terms of unemployment and most likely to be cutting back generally. But it is actually middle aged groups that are particularly feeling the squeeze on their budgets. This is due to the wages stagnation and increased 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. More than two in five of all 35–44 year olds in 2012/13 said that they were finding things difficult or just about getting by (see figure 10). Those over pension age have been relatively protected in terms of spending cuts and express less difficulty

managing 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 11 shows that more than half of those in the bottom decile (10 per cent) of the income distribution were finding it difficult to manage, financially, or were just about getting by in 2012/13.

Figure 11: Half of those in the bottom ten per cent of the income distribution were finding it difficult to manage, financially, or are just about getting by in 2012/13, Understanding Society data



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 internet.²³

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 2005/6 to 2012/13, the number without access to any account in their household fell from 1 million to 660,000, amounting 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^{24, 25}

Year	Grossed up numbers.		
	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')	Adults living in households and adults without access to a current or basic bank account, or savings account – Positively affirmed no account
2012/13	1.50m	1.00m	0.66m
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).

²³ See Kempson, E and Collard, S (2012) *Developing a vision for financial inclusion*, London: Friends Provident Foundation

²⁴ 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)

²⁵ 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 responded in the survey that they did 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 million adults living in households without accounts. And if we focus solely on whether adults, themselves, have accounts, then 1.5 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 declined substantially from 2008/9 to 2011/12 but then, somewhat surprisingly, increased in 2012/13. The FRS did not previously separate out 'don't knows' from 'refuseds' but we can now see that most of the 'not stateds' 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 of 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	2012/13
Yes	44,828,296	45,147,566	45,890,210	46,295,434	46,986,457
No	995,897	1,008,048	871,287	868,038	926,049
Don't know	1,600,962*	271,796	242,451	329,949	416,629
Refused		1,215,075	1,019,666	1,007,548	1,161,829

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

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.). 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 Parliament has also been active in this area with its Payment Accounts Directive (PAD), passed in September 2014, which created a right to a basic bank account. This must be enshrined in national law across Europe by September 2016. Chapter four of the PAD states that payment accounts must be offered to all customers, without prejudice based on their nationality, place of residence,

race, age, sexual orientation or disability. These accounts 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.

Access to a bank account is clearly important but the facilities provided by, and the costs of, that account are also important. We have very little data on these issues or on how people use the accounts they already have access to. Such data would be very useful to understand fully the extent to which people are included, financially.

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

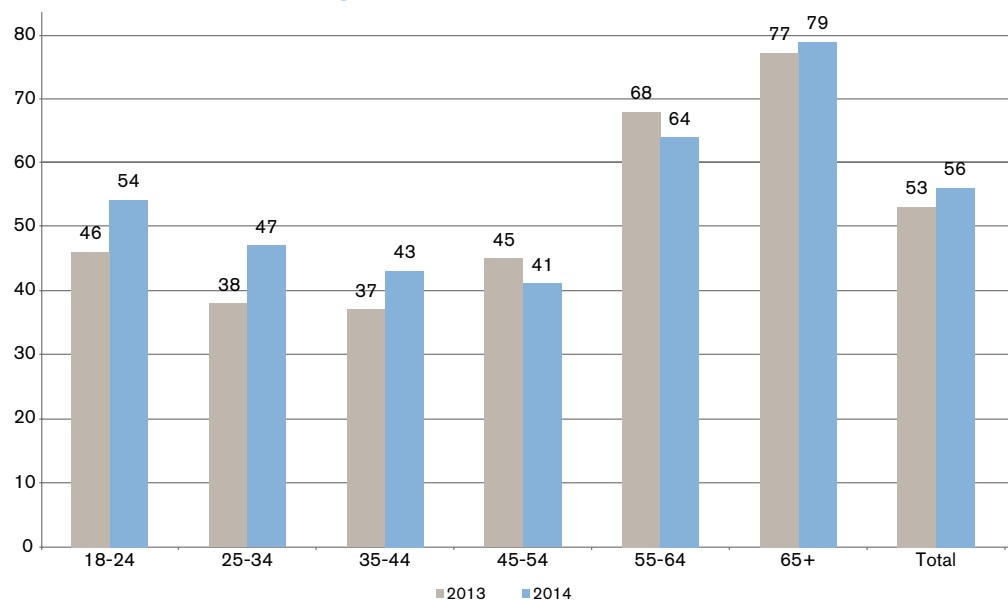
In a series of surveys of the general public carried out by NMG for the Bank of England²⁶, respondents were asked if they feel you have enough money set aside for emergencies. Figure 12 shows that just over half the population had enough money set aside, in 2015, for emergencies – a slight increase on the previous year. This is a particular issue for middle aged groups, where fewer than half have the necessary resources to cope with an emergency. While the proportion of those with an ‘emergency fund’ rose in most age groups, there was actually a drop in access to such funds for those between the ages of 45–64.

There were also wide variations in the abilities of people in different economic groups to cope, financially, with emergencies. Those who were

unemployed or disabled/ill were least likely to have enough money set aside for emergencies but even among those in paid work only half had enough money for emergencies. Those who have retired were the only group that stood out as generally having a financial cushion for times of need (see figure 13). Most groups, however, were more likely to have such a cushion in 2014 than 2013, with the exception of the self-employed, who were less likely.

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 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 6). This rose to 46 per cent in 2014 but has subsequently fallen to only 28 per cent in 2015. A further 8 per cent, in 2013, said they would be able to pay this from their own money but would have to cut back on essentials (rising to 14 per cent in 2015). 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.

Figure 12: Just over half the population have enough money for emergencies, NMG data 2013/14, commissioned for the Bank of England



²⁶ 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 in 2013 and 2014

Figure 13: Only half of those in paid work have enough money for emergencies, NMG data 2013/14, commissioned for the Bank of England

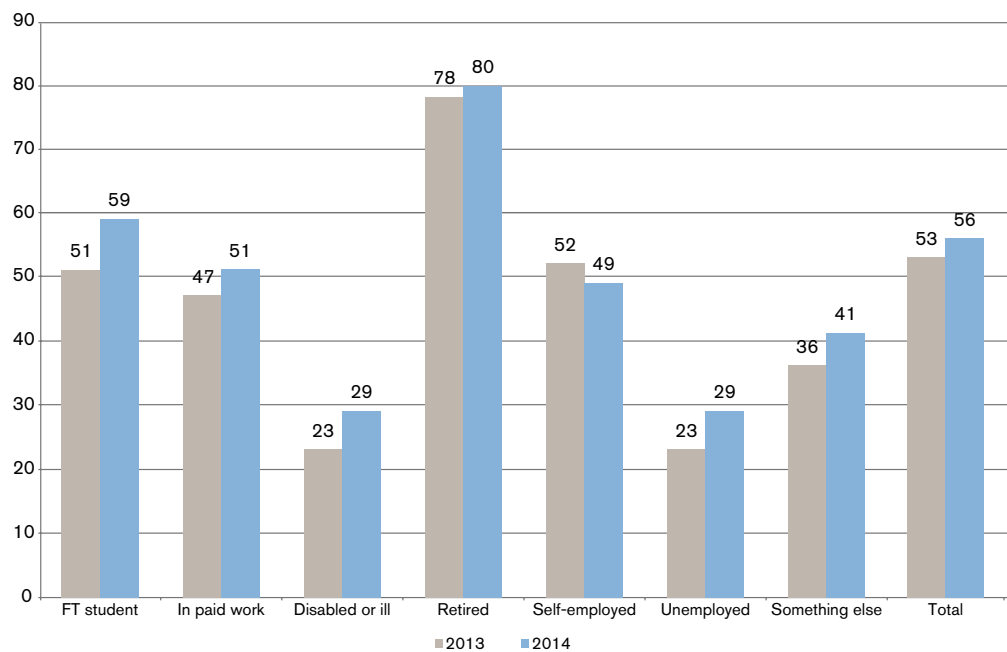


Table 5: Imagine you had to pay an unexpected expense of £200 in one lump sum, within 7 days from today. Which, if any of the following would you do to pay this expense?²⁷

	2013	2014	2015
I would pay this with my own money, without dipping into my savings or cutting back on essentials	39	46	28
I would pay this with my own money, without dipping into my savings, but I would have to cut back on essentials	8	10	14
I would have to dip into my savings	17	14	15
I would use a form of credit (eg, credit card, take out a loan or make use of an authorised overdraft facility)	8	6	6
I would go overdrawn without authorisation	2	1	1
I would get the money from friends or family as gift or loan	9	8	14
I would have to sell (a) personal/household item(s) to get the money	1	1	1
I would not be able to pay this expense	6	8	12
Prefer not to say	11	8	9
Base	967	981	996

²⁷ Ipsos/MORI surveys.

In 2015, 12 per cent said that they would not be able to pay this expense, a rise from 6 per cent in 2013 and 8 per cent in 2014.

These figures vary substantially by age and social class (see figures 14 and 15). Younger people were much more likely to say that they would have to borrow this money (34 per cent of 18–24 year olds and 33

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 (16 per cent of 25–34 year olds). There is also stark variation by social class with 26 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 5 per cent of those in the professional/senior managerial occupations.

Figure 14: Ability to meet unexpected expense of £200 by age in 2015²⁸

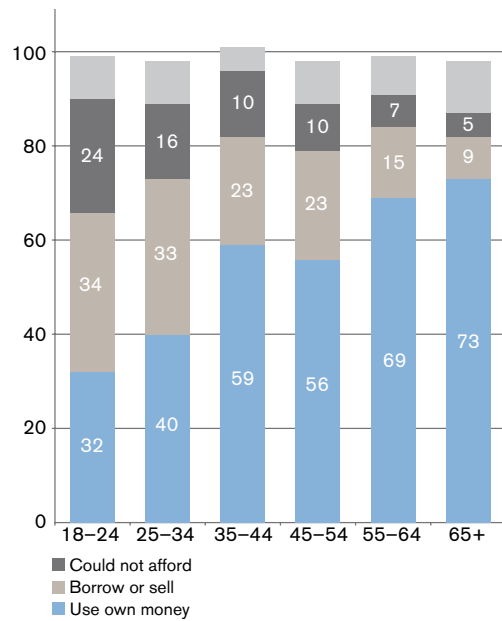
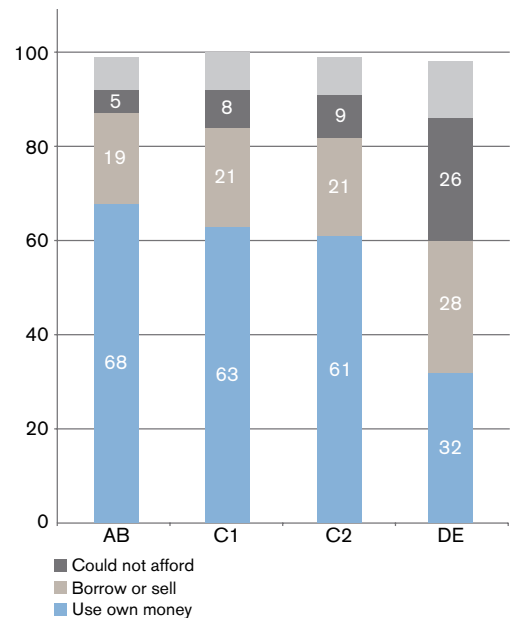


Figure 15: Ability to meet unexpected expense of £200 by social class in 2015²⁹



²⁸ Source: Ipsos/MORI survey, April 2015, base = 996

²⁹ Source: Ipsos/MORI survey, April 2015, base = 996



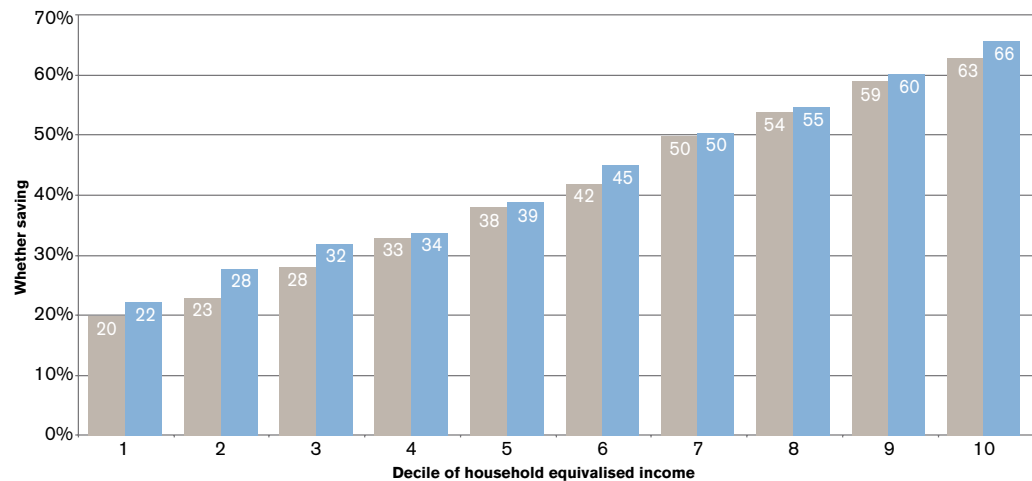
Savings

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 2012/13, the last time that such questions were asked, 43 per cent of the population said they were saving in this way – a slight increase on 41 per cent in 2010/11. Not surprisingly, perhaps, those in the top 10 per cent of the income distribution were three times as likely in 2012/13 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.

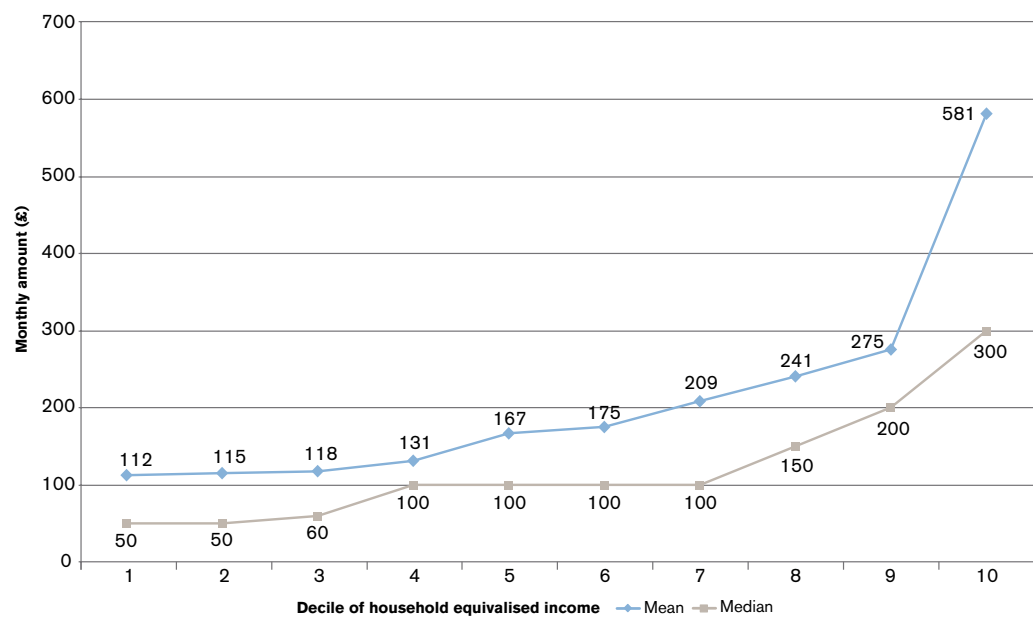
Figure 16: Those in the top 10 per cent of the income distribution are three times as likely to be saving than those in the bottom 10 per cent, Understanding Society, 2010/11 and 2012/13



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 £581 (an increase from £526 in 2010/11). By contrast, half of savers in the bottom half of the income distribution were only saving £50 per month in 2012/13 (no change on 2010/11).

In terms of the total amounts held in savings, the Family Resources survey shows that 47 per cent of families had less than £1,500 in savings in 2012/13, an increase of 47 per cent on 2010/11. A further 27 per cent had between £1,500 and £20,000 and one in five (20 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.

Figure 17: Higher-income savers are saving far more each month than lower-income savers in 2012/13, Understanding Society



Last year's report presented data from the Wealth and Assets Survey³⁰ on the kinds of accounts that people hold, and how much is in them. More up-to-date information is not yet available so the key points from last year's report are summarized here. The percentage of households with any formal financial asset remained at 98 per cent from 2006/8 to 2010/12³¹. 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 type 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).

The amount held in most of these accounts, however, had increased rather than decreased between 2008/10 and 2010/12. This suggests increasing inequality with some people closing their accounts and others 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).

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.

³⁰ 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.

³¹ www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/report--chapter-5--financial-wealth.html#tab-Financial-assets

Pensions

Pensions are rarely included in discussions about financial inclusion but they are clearly important in relation to security and inclusion in later life.

Figure 18 shows that the number of active members of occupational pension schemes fell from 11.1 million in 1983 to 7.8 million in 2013 but then rose, for the first time in 30 years to 8.1 million in 2014. While the number of active members has generally fallen over the past 30 years, the number of people with preserved pension entitlements has increased from 2.8 million in 1983 to 10.2 million in 2014.

The long-term decline in number of active occupational pension scheme membership has been entirely within the private sector. Figure 19 shows that there has actually been long-term growth in public sector pensions over the 2000s. Our most recent data shows increases in both private and public sector active pension membership so the tide has turned in the private sector (see figure 19).

Figure 18: Number of active members of occupational pension schemes (in millions),
 Source: Office for National Statistics Occupational Pension Schemes Surveys

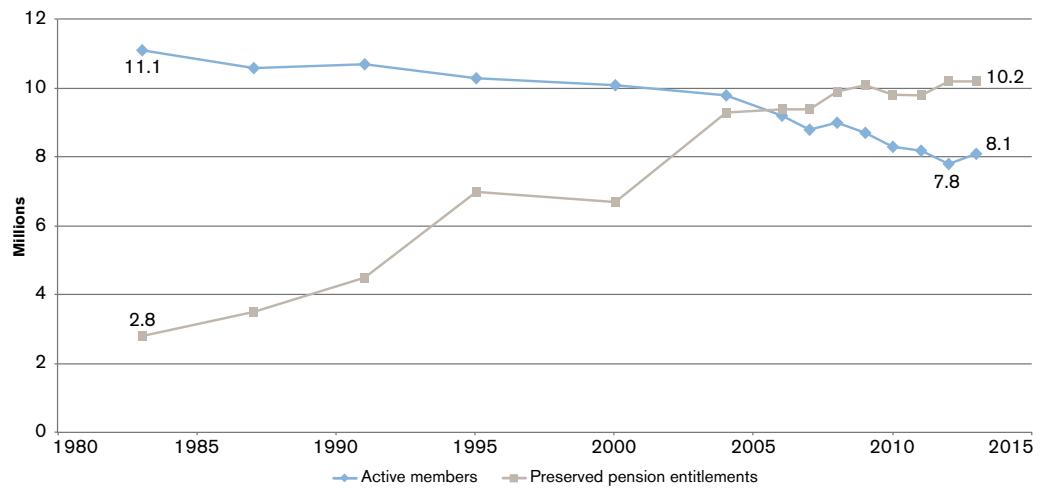
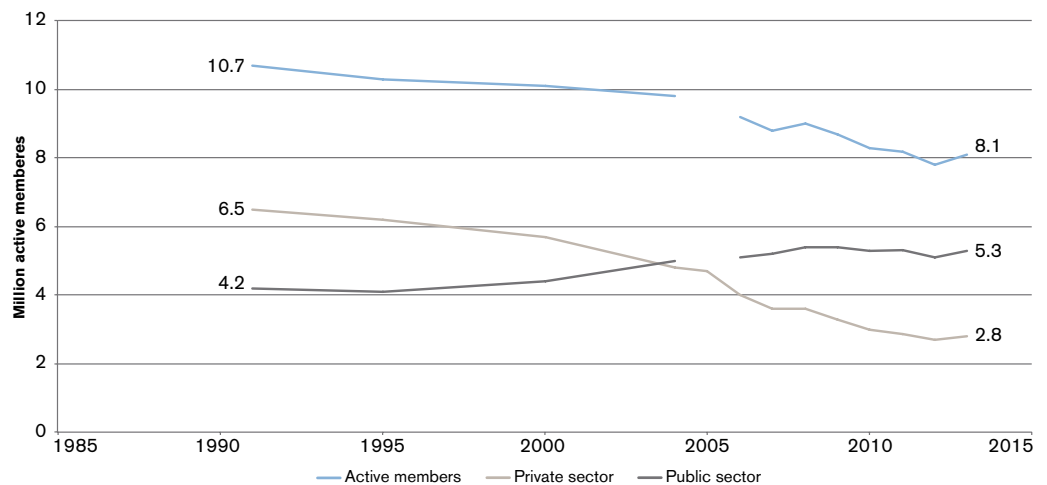


Figure 19: Active membership of occupational pension schemes (in millions) by public/private sector,
 Source: Office for National Statistics Occupational Pension Schemes Survey

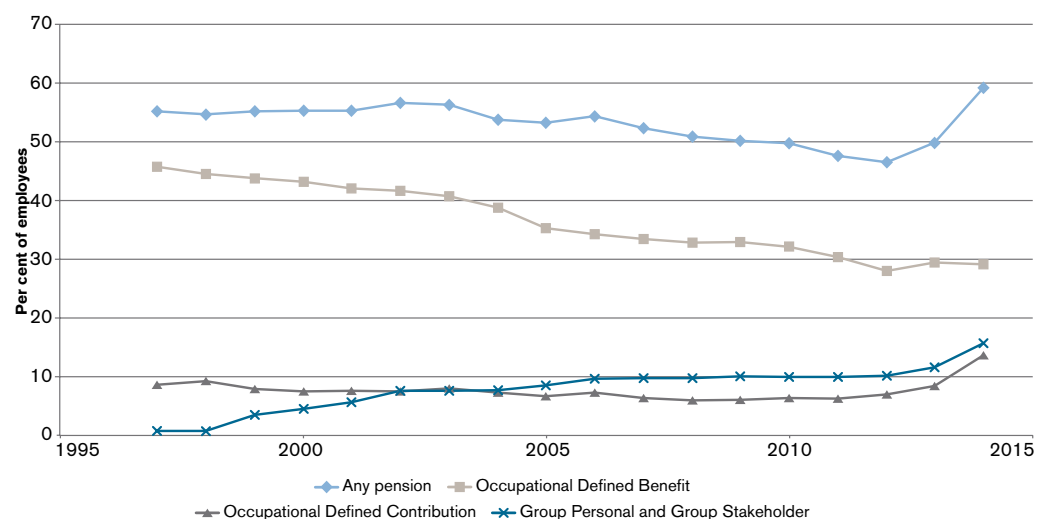


The long-term decline in active pension membership has also been particularly strong in relation to Defined Benefit schemes – see figure 20. These schemes provide guarantees about the amount that people will receive when they retire, for example, as a proportion of their final salary depending on the 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 and so placing more of the financial risk on the employee/contributor rather than the employer/pension provider.

The decline in private sector occupational membership has been almost entirely in relation to the decline of Defined Benefit schemes. The number of members of Defined Contribution schemes has remained fairly constant (see figure 20).

The very recent increase in number of active members of occupational schemes is very closely related to the introduction of auto enrolment into workplace pensions from October 2012. Employers became subject to auto enrolment in order of size, with all large employers with 250 workers or more subject to the duties by 1 February 2014. Duties for medium employers with 50 to 249 workers were effective from 1 April 2014 to 1 April 2015. And duties for small and micro employers with up to 49 workers will start from 1 June 2015. The duties relate to those aged between 22 and state pension age, working or ordinarily working in the UK and earning more than £10,000 (2014/2015 earnings threshold) unless they are already an active member of a qualifying scheme (eg, NEST). The option is available for automatically enrolled jobholders to opt out of a scheme. Figures from NEST suggest that opt out rates for workplace pensions were running at 10 per cent overall, and 8 per cent at NEST in 2015.

Figure 20: Active membership of occupational pension schemes (in millions) by type of pension, Source: Office for National Statistics Occupational Pension Schemes Survey



While NEST figures suggest that opt-out rates are stabilising overall there is a large variation by age, with only a 5 per cent opt-out rate at NEST among workers under 30 years old compared to more than 28 per cent opting out among those aged 60 and over. One of the key reasons for opting out is affordability, cited by 30 per cent of those who had opted out. People are also less likely to state that they have been motivated to opt out by a lack of trust in pension providers – only 16 per cent in 2014 compared to 27 per cent in 2013. Other reasons given for opting out of a workplace pension include: feeling that there are better ways of saving for retirement (22 per cent) saving for retirement using other means (19 per cent) thinking that the particular scheme wasn't right for them (18 per cent) and lack of trust in pension providers (16 per cent).

Another major change in the pensions landscape was announced by Chancellor George Osborne in his March 2014 Budget. This was in relation to pension lump sums. Until then, people who were retiring could cash in up to 25 per cent of their pension pot as a tax-free lump sum. The rest would have to be invested in order to provide an income stream. From April 2015, however, those who retire can do whatever they like with 100 per cent of their pension pot, for example invest in property, although crucially they will still only receive the first 25 per cent tax free. NEST asked 2,000 consumers what they might do if they had a pension pot when they retired. One in five could not give an answer but the majority of the rest said that they would use it, in one way or another, to provide an income. Few said they would take it out and do 'as they pleased' with it (see table 7).

Table 7: Imagine that when you retire, you have built up a pension and it is time to decide what to do with it. Which one of the following do you think you will be most likely to do?³²

Leave it invested where it is and take an income from it	19
Convert all of it into a regular retirement income guaranteed for the rest of your life	16
Take all of it out and do with it as you please	7
Take all of it out and invest it in a way that gives you an income from it	5
Convert some of it into a regular retirement income guaranteed for the rest of your life and invest the rest in a way that gives you an income from it	19
Convert some of it into a regular retirement income guaranteed for the rest of your life and take the rest of it out and do with it as you please	13
Don't know	22
Base: consumers who are eligible for auto enrolment or who have recently auto enrolled	2,000

³² www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/nest-insight-2015.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 labelled 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.

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/recovery on borrowing. A new national survey of 'credit and debt' is urgently needed.

As recorded in last year's monitoring report, the Wealth and Assets Survey found that total household borrowing in 2008/10 reached £94.3bn³³. The vast majority of this (90 per cent or £84.8bn) was property borrowing (ie mortgages/secured credit)³⁴ up 3.1 per cent on 2006/8. 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 (£9.5bn – 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.

Readers are referred to last year's report for further breakdowns of these figures by the different types of borrowing that people have and also trends over time.

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 Britain³⁵ based on data from the YouGov DebtTrack survey, a series 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 2008/9 sample was around 20 per cent higher than that recorded for the 2006/8 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.

³³ 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

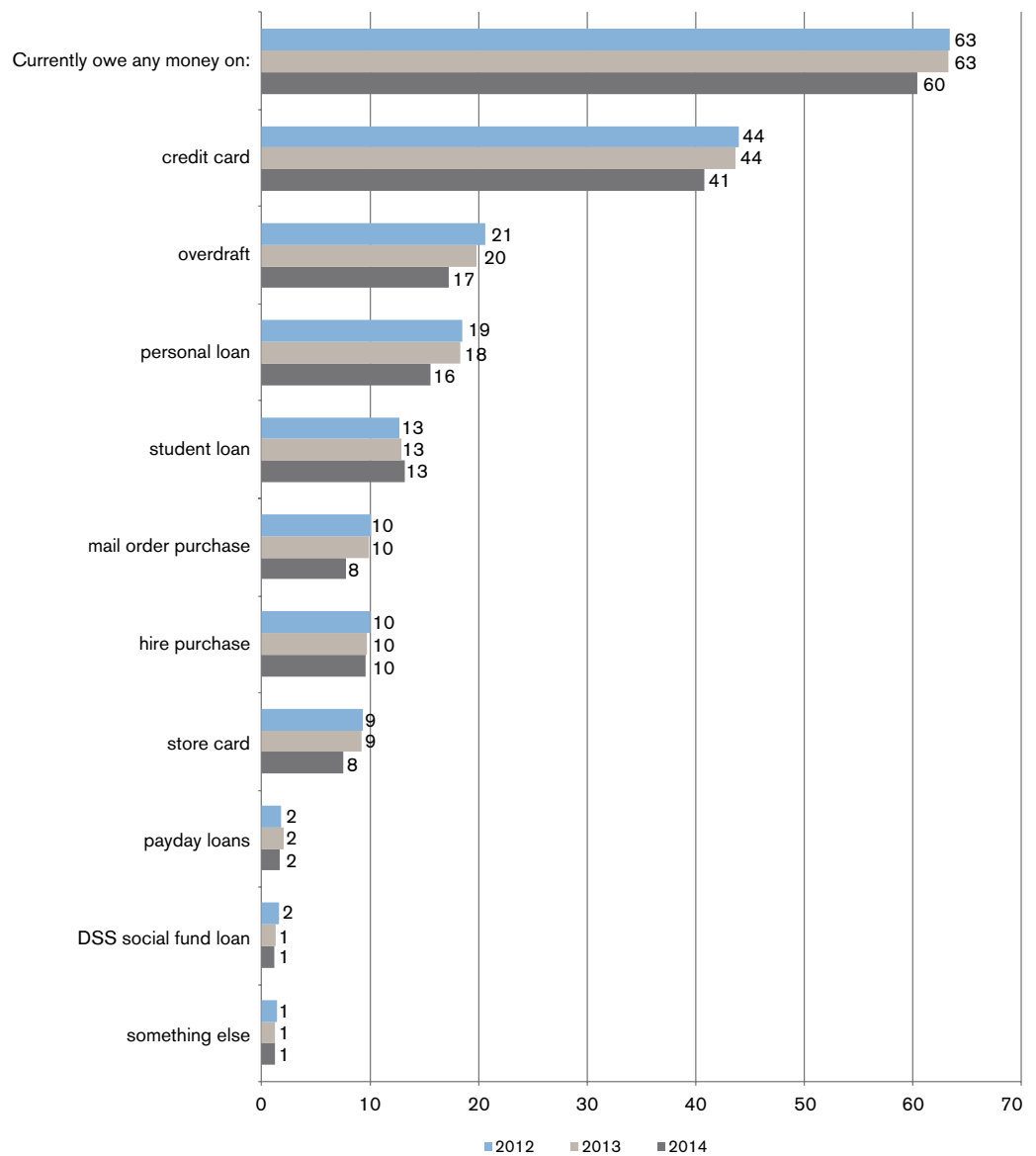
³⁴ Note – property debt in these figures includes liabilities against the household's main residence only

³⁵ 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

Another source of data here is the NMG survey for the Bank of England.³⁶ This found similar levels of borrowing to the BIS levels with 60 per cent of households borrowing money from one or more source of unsecured credit in 2014 – a drop from 63 per cent in 2012 and 2013 (see figure 21).

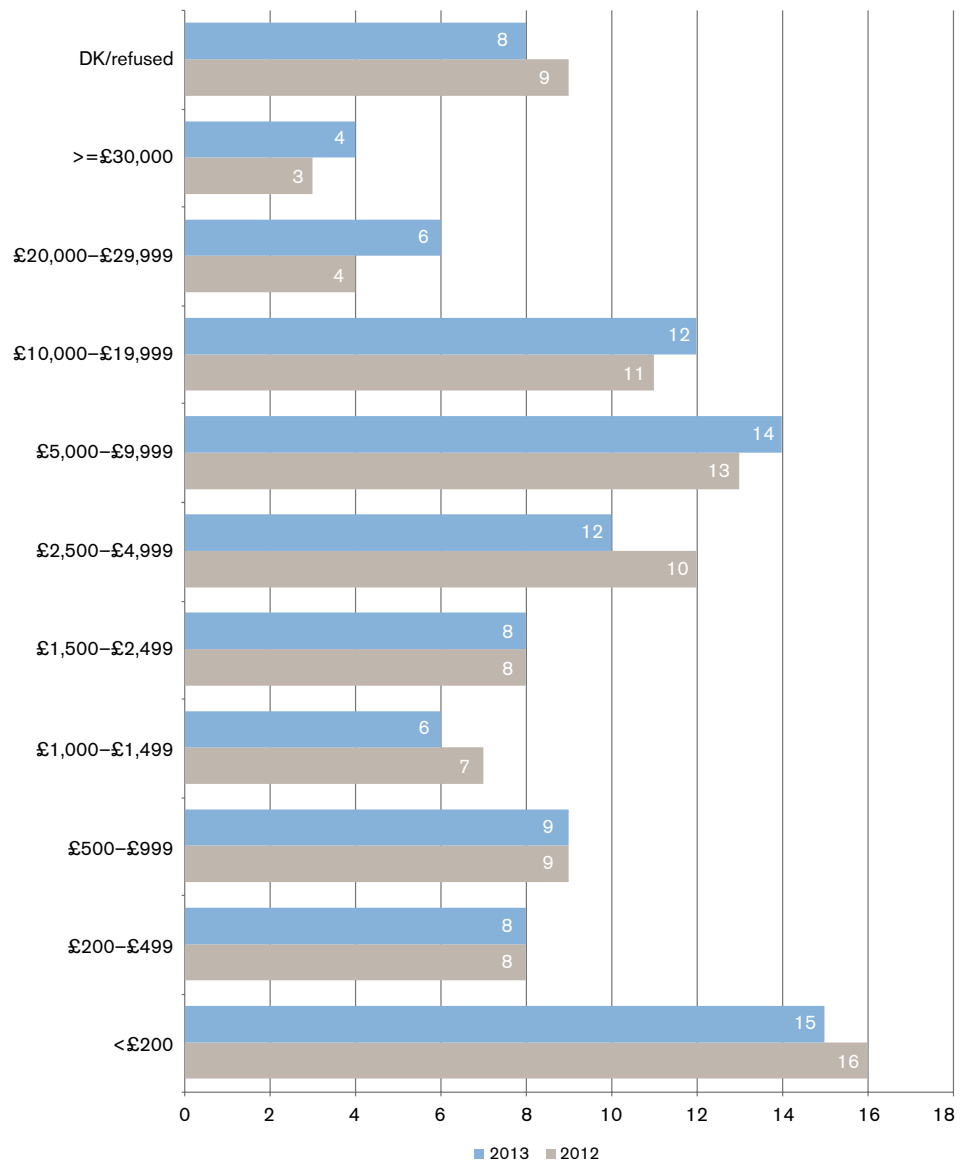
Figure 22 also shows the amount borrowed with about 30 per cent of households borrowing less than £1,000. But 22 per cent of households were borrowing £10,000 or more in 2013, up from 18 per cent in 2012 (see figure 22).

Figure 21: Unsecured borrowing from different sources in 2012–2014, NMG data for Bank of England



³⁶ NMG Consulting carried out an online survey of around 4,000 UK households in 2012 and 6,000 in 2013 and 2014 on behalf of the Bank and asked them a range of questions about their finances.

Figure 22: 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



Bank of England data has also shown that unsecured lending reached a 7 year high in November 2014 at £1.25bn – up 6.9 per cent compared with November 2013³⁷.

So there seems to be a polarization between a (slowly) growing number of people without any unsecured borrowing and a group of people with increasing amounts.

We have seen significant changes around the regulation of high-cost, short-term lending over the past year. The FCA has gained tougher powers than the previous regulator, the Office of Fair Trading, including unlimited fines, ordering refunds and banning misleading advertisements. In 2014 it limited, to two, the number of times a customer can rollover a loan; introduced improved affordability checks; and controlled the practice of lenders taking automatic repayments from borrowers' bank accounts. The FCA has also introduced a cap on the cost of credit (from 2 January 2015)³⁸. This cap involves the following: the initial cost of credit limited to 0.8 per cent per day, with an annualised percentage rate of 1,270 per cent; default fees limited to £15 and default interest must not exceed 0.8 per cent per day; and a 100 per cent repayment cap, meaning that the borrowers will never have to repay more than double the amount they borrowed³⁹.

According to the FCA, in the five months following the 2014 reforms, the number of loans and the amount borrowed from payday lenders dropped by 35 per cent. It is still too early to measure the impact of the 2015 reforms but the FCA have estimated that 7 per cent of current borrowers (some 70,000 people) will no longer have access to payday loans following the introduction of the price cap⁴⁰.

It is not clear what will happen to these people. Some will go without credit entirely. Others might find alternative, cheaper sources, including credit unions and friends/family. Others might use similarly or even more expensive forms including weekly-collected credit, unauthorised overdrafts and unlicensed lenders/loansharks.

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'⁴¹. 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 2013 in Britain (see figure 23). The total figure for 2012 increases to over 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 362 between 2004 to 2014 as credit unions have merged to lower the costs of administration⁴². Alongside credit unions, another potential source of low-cost (actually no-cost) credit has, traditionally,

³⁷ www.theguardian.com/money/2015/jan/03/new-consumer-debt-reaches-7-year-high

³⁸ www.social-policy.org.uk/wordpress/wp-content/uploads/2015/04/08_gardner1.pdf

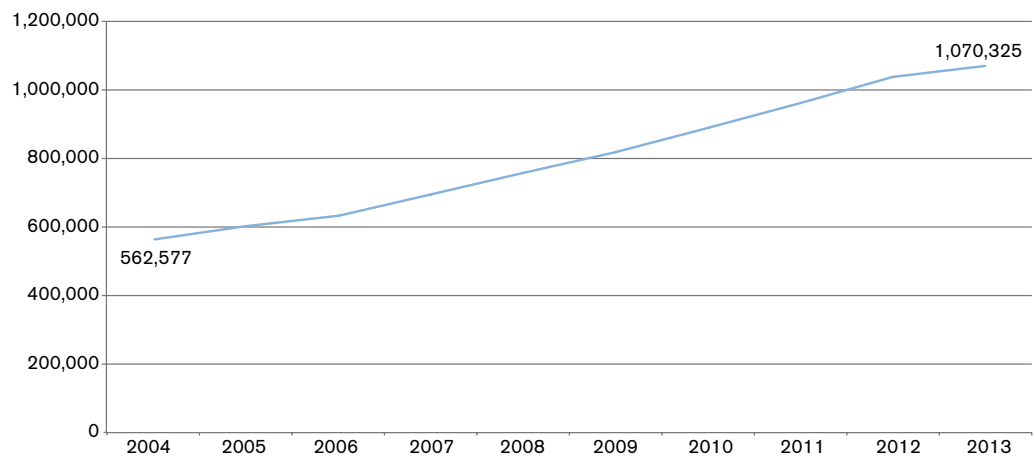
³⁹ Financial Conduct Authority (2014) *Proposals for a price cap on high-cost short-term credit*: Consultation Paper, July 2014.

⁴⁰ www.fca.org.uk/news/fca-confirms-price-cap-rules-for-payday-lenders

⁴¹ www.theguardian.com/money/2013/jul/25/church-england-wonga

⁴² www.abcul.org/media-and-research/facts-statistics

Figure 23: Total number of members of credit unions in Britain (excluding Northern Ireland) (including 'Juvenile Depositors'), Bank of England Data⁴³



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^{44 45}. 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
- 2011/2012 actual – £215.3 million
- 2012/2013 allocation – £178 million
- 2013/14 allocation – £172.1 million

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. This 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. In 2013/14 just under half of the total allocation for local welfare provision went unspent. The Centre for Responsible Credit have estimated that one-third of local authorities performed particularly badly, spending less than 40 percent of their total allocation in 2013/14 on direct financial assistance to vulnerable people⁴⁶.

There has been much concern that funding for local welfare assistance may be scrapped entirely but, under pressure from across the political spectrum, the government has agreed to continue some, albeit heavily reduced, funding here⁴⁷. As a result, councils will receive £74m of cash in 2015/16. This is a cut of more than 50 per cent but preserves some funding for emergency needs.

⁴³ www.bankofengland.co.uk/pr/Pages/regulatorydata/creditunionsstatistics.aspx

⁴⁴ 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

⁴⁵ Gibbons, D (2013) *Local Welfare Provision, Low-Income Households, and Third Sector Financial Services Provision*, London: Friends Provident Foundation

⁴⁶ www.responsible-credit.org.uk/uimages/File/Where%20now%20for%20local%20welfare%20schemes.pdf

⁴⁷ www.theguardian.com/society/2015/feb/24/u-turn-local-welfare-funds-victory

In terms of mortgage borrowing, the total number of loans advanced to home-owners for house purchase was 40,600 loans in February 2015 a decline in volume of 16 per cent compared to February 2014⁴⁸. Overall, the value of the loans advanced in February totalled £6.8bn, a decline of 13 per cent compared to February 2014.

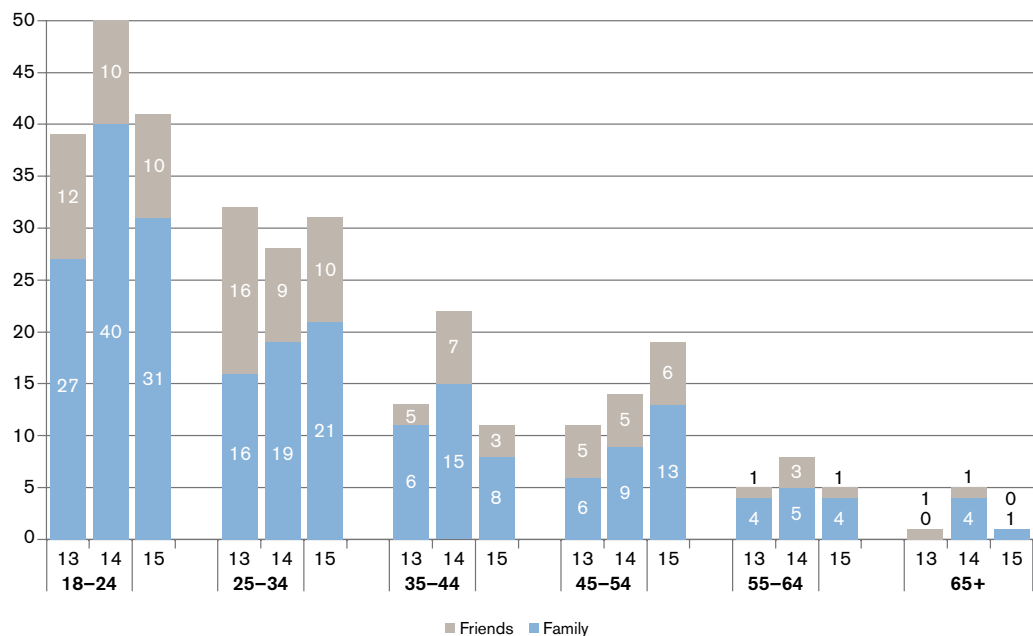
This decrease could be due to uncertainty caused by the coming General Election but could also be due to mortgage lending in the previous year being fuelled by the Help to Buy scheme, or to new regulations on lenders to check that mortgages are affordable to borrowers.

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 2012/2013 but data from 2014 from the Student Loan Company shows that average debt for those entering into repayment in England was already £20,100 prior to the cap on tuition fees being raised. Students subject to the maximum £9,000 per year fees will only become liable for repayment from April 2016.

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, are likely to borrow from a family member or friend (see figure 24). Nearly a third of 18–24 year-olds said they had borrowed from a family member and 10 per cent borrowed from a friend in the 12 months prior to being interviewed in April 2015. The figures for 25–34 year olds were 19 per cent and 9 per cent respectively.

Figure 24: Use of informal lending (in the previous 12 months) is high among young people in 2013, 2014 and 2015⁴⁹



⁴⁸ www.cml.org.uk/cml/media/press/4183

⁴⁹ Source: Ipsos/MORI survey, June 2013, base = 967, May 2014, base = 981, April 2015, base 996

Problem debt

As is the case with data on 'borrowing', there are also issues in relation to data on 'problem debt'. Once again, definitions vary and the way data is collected over time also varies. Also, while data on debts is collected on some routine surveys (such as the Wealth and Assets Survey and Family Resources Survey) the detail provided by these datasets is limited and it takes several years for the data to become openly available. The Bank of England/NMG data provides some additional data which is released more quickly but we still lack a comprehensive picture of problem debt and the last time that we had such a survey was in 2008/9 when the Department for Trade and Industry/Business Innovation and Skills carried out a series of surveys. These were referred to in last year's report so will not be repeated here but lack of data on this vital issue is a pressing problem. The Conservative party did, indeed, note that their new Financial Policy Committee would 'monitor and control the growth of indebtedness⁵⁰'. We suggest that any future government should collect better evidence on problem debt.

This chapter therefore provides the most recent information available. These indicate a reduction in some indicators of problem debt (such as insolvencies and mortgage possessions) but a rise in other indicators (such as landlord possessions).

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. The Wealth and Assets Survey (WAS) found that the proportion of households in arrears on fixed-term non-mortgage borrowing remained stable at 4 per cent between 2006/8, 2008/10 and 2010/12⁵¹. Data from the Bank of England/NMG found that borrowing was considered a 'heavy burden' by 13 per cent of borrowers in 2013 falling slightly to 10 per cent in 2014.

Another indicator of problem debt is the rate of insolvency⁵². 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 BIS, 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 Service⁵³ shows that the total individual insolvency rate has declined from a peak of 32.4 per 10,000 adults in 2010 to 20.9 in the first quarter of 2015. In terms of numbers of people declared insolvent, this amounted to 99,000 in 2014 in England Wales. Rates of bankruptcy have been steeply declining since 2009 while debt relief orders have increased and individual voluntary arrangements remained fairly stable (see figure 25).

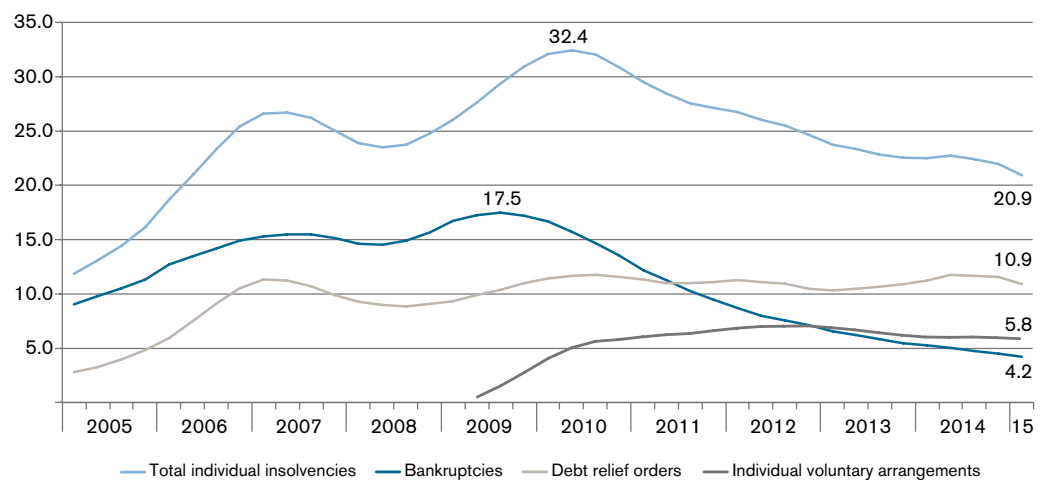
⁵⁰ www.conservatives.com/manifesto

⁵¹ www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/report--chapter-5--financial-wealth.html

⁵² See the Insolvency Service website: www.bis.gov.uk/insolvency

⁵³ www.gov.uk/government/statistics/insolvency-statistics-january-to-march-2015

Figure 25: Individual insolvency rate in England and Wales, quarterly data. Rates are the number of individual insolvencies per 10,000 adults



Another, quite extreme, indicator of problem debt is the number of properties taken into possession over time. Repossession is the final part of a process which starts with a claim for possession, followed by an order and then a warrant. As figure 26 shows, all parts of this process (claims, orders, warrants and actual possessions) increased markedly from the early 2000s to 2008/9 and thus predates the recession though is, of course, closely linked to the credit crunch which subsequently led to recession. As far as claims for possession go, these rose from 58,000 in 2002 to 133,000 in 2008 and have now fallen to 37,000⁵⁴. Actual (re)possessions by county court bailiffs were around 6,000 in 2003 but then rose to a peak of 33,000 in 2009 before falling to 11,000 in 2014.

We see a different trend with evictions from rented properties (technically referred to as landlord possession)⁵⁵. Figure 27 reports on landlord possession orders (which may not necessarily lead to evictions). These have increased quite dramatically since 2010 from around 95,000 to 120,000 in 2014. (Re)possession orders by social landlords grew from 65,000 in 2010 to 75,000 in 2013 where they remained in 2014. Accelerated possession orders 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 have increased every year since 2009 and reached just over 29,000 in 2014. Actual (re) possessions have increased every year since 2009 from just under 28,000 to over 42,000 in 2014.

⁵⁴ www.gov.uk/government/statistics/mortgage-and-landlord-possession-statistics-october-to-december-2014

⁵⁵ Ministry of Justice (2015) Mortgage and landlord possession statistics quarterly, October to December 2014, Ministry of Justice Statistics bulletin, www.gov.uk/government/uploads/system/uploads/attachment_data/file/403190/mortgage-and-landlord-possession-statistics-october-december-2014.pdf

Figure 26: Mortgage possession statistics in County Courts in England and Wales, Ministry of Justice data

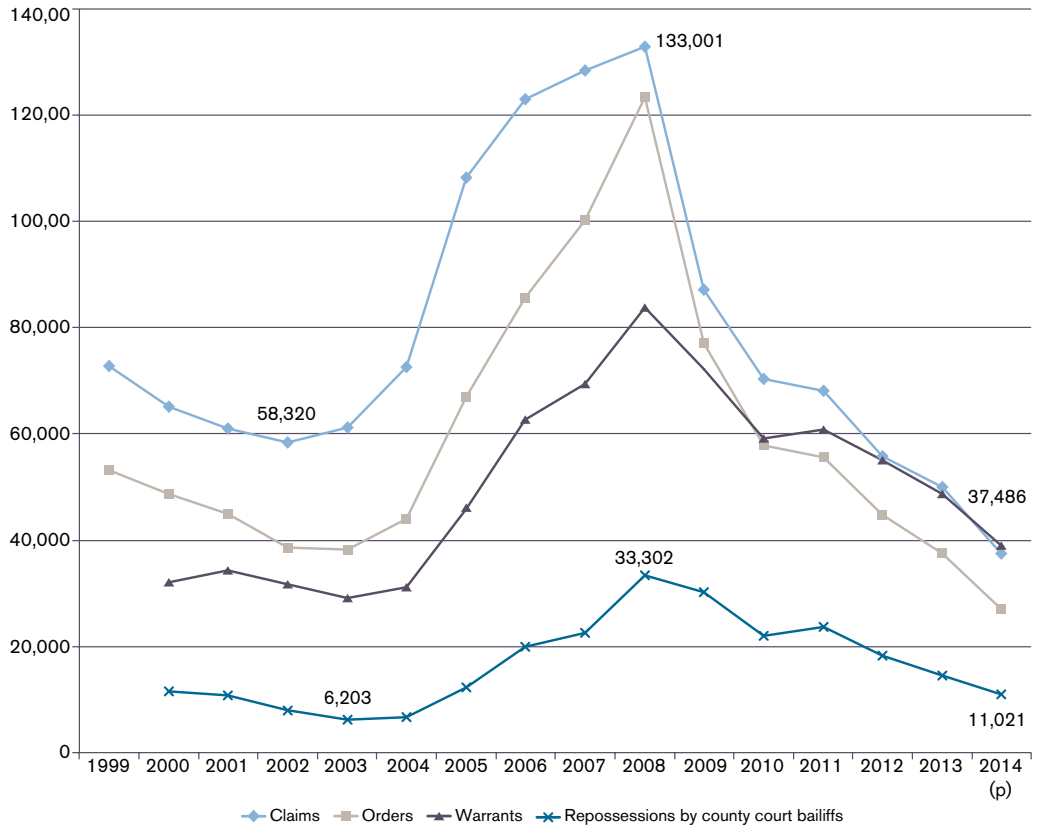
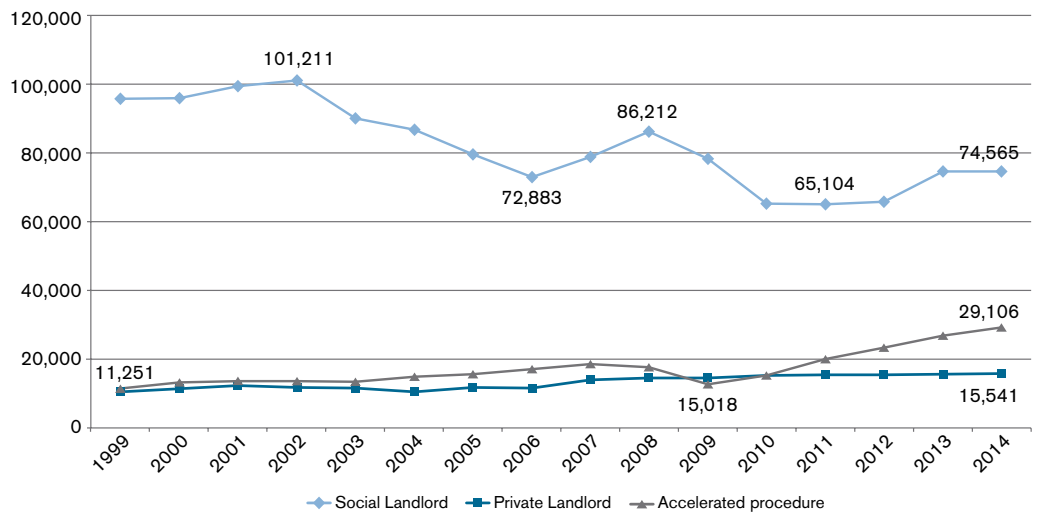


Figure 27: Landlord possession orders in the county courts of England and Wales by type of procedure and landlord, 1999–2014



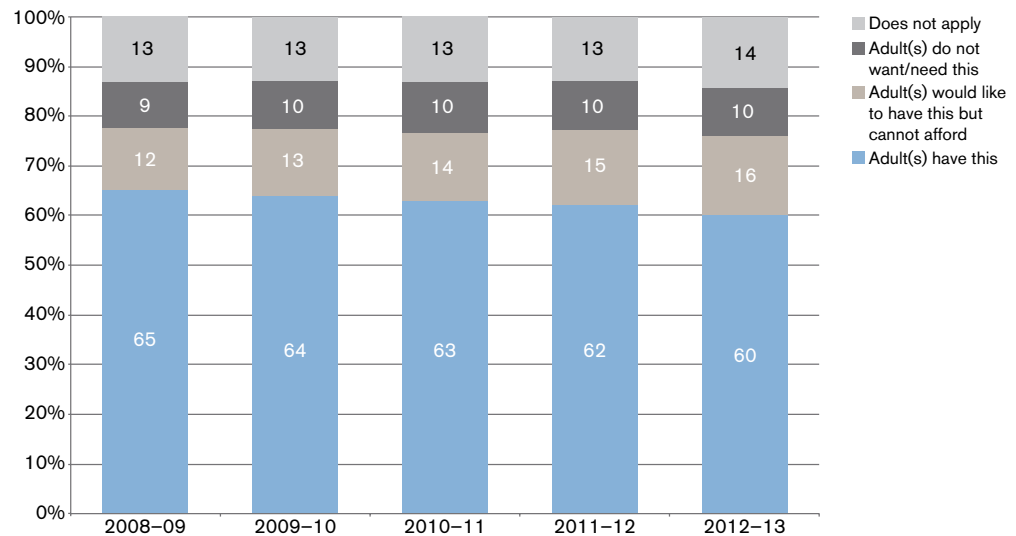


Home contents insurance

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 sector⁵⁶ 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 2008/9 to 2012/13 from 65 per cent to 60 per cent (see figure 28).

Figure 28: Home contents insurance for working-age adults 2008/9 to 2012/13, Source: Family Resources Surveys



⁵⁶ Dayson, K, Vik, P and Ward, A (2009) Developing models for delivering insurance through CDFIs – opportunities and risks, Community Finance Solutions

Conclusions

This is the third in a series of five annual reports on financial inclusion. Compared to last year there are some positive signs. For example, unemployment has fallen, and employment increased. Some groups in the population have increased their savings and have more of a financial cushion to draw on in times of need. The number of people with access to bank accounts has increased and the government has regulated high-cost, short-term credit more closely while at the same time providing some funding for credit unions. The number of people saving in an occupational pension has increased for the first time in 30 years. Insolvencies have fallen, as have mortgage possessions.

Other signs are less positive, however. Labour market insecurity remains high with an increase in zero hours contracts and little change in the level of underemployment. Wages are still not increasing and benefit cuts continue to make it difficult for those out of work to make ends meet. Incomes in 2012/13

were 8 per cent lower than they had been in 2009/10 (in real terms). 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. More than half of those in the bottom decile (10 per cent) of the income distribution were finding things difficult or just about getting by. There is also evidence that landlord repossessions have increased for those in rented accommodation.

It therefore looks as though some at the top are able to benefit from economic growth while many at the bottom and in the middle 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 the picture we will be showing in next year's report.

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 2013, 2014 and 2015.

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 2010–12⁵⁷. 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 held⁵⁸. 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 then⁵⁹. 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 year⁶⁰.

⁵⁷ 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

⁵⁸ 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>

⁵⁹ 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.

⁶⁰ 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: 661, <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 Britain⁶¹ 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, 2013 and 2014⁶².

■ **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 unemployed⁶³. These data are Crown Copyright.

■ **Ipsos/MORI omnibus survey 2013, 2014, 2015**

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 7 and 16 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, and again in April 2015 with 996 adults.

⁶¹ 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

⁶² NMG Consulting carried out an online survey of around 4,000 UK households in 2012 and 6,000 in 2013 and 2014 on behalf of the Bank and asked them a range of questions about their finances. See www.bankofengland.co.uk/publications/pages/quarterlybulletin/surveys.aspx

⁶³ Office for National Statistics. Social Survey Division and Northern Ireland Statistics and Research Agency. Central Survey Unit, Quarterly Labour Force Survey, July – September, 2012 [computer file]. Colchester, Essex: UK Data Archive [distributor], November 2012. SN: 7174, <http://dx.doi.org/10.5255/UKDA-SN-7174-1>



