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FINANCIAL INCLUSION ANNUAL MONITORING REPORT 2017

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Contents

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Executive summary

Towards a financially inclusive society

- This is the final report in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to monitor progress towards or away from financial inclusion in Britain from 2013–2017.
- We define financial inclusion broadly as the ability: to manage day-to-day financial transactions; meet expenses (both predictable and unpredictable expenses); manage a loss of earned income and; avoid or reduce problem debt.
- The report presents data on a range of indicators. Where possible, we have shown data from previous years to highlight trends in these indicators.

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), sponsored by HM Treasury, placed the issue of financial inclusion high on the public and policy agendas.
- The term 'financial inclusion' was rarely used by the Coalition and Conservative Governments from 2010–2017 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.
- In 2017, the House of Lords Select Committee on financial exclusion and access to mainstream financial services produced a report which made a series of recommendations to reduce financial exclusion. The snap election of 2017 interrupted the expected government response to the report but in June 2017 the new government established a post of 'Parliamentary Under Secretary for Pensions and Financial Inclusion' which is, in part at least, reflecting one of the committee's key recommendations for greater government leadership on this issue. We look forward to seeing the new Minister's work in this field.

A slow, highly unequal recovery

- Before the economic crash in 2008, the British economy was typically experiencing two per cent rise in GDP per year and so, over the nine or so years since then, we might have predicted being about 20 per cent better off. GDP, however, crashed by seven percentage points between 2008–9. Since then, it has crept slowly upwards and it was only last year, 2016, it exceeded pre-crash levels. In total, therefore, we have experienced nine 'lost years' of growth.
- The position in relation to employment, however, appears a strong one. Unemployment has fallen significantly since its peak in 2011 and is now below pre-recession levels. Nevertheless, there were still 1.58 million people unemployed in early 2017. And long-term unemployment remains high at over 200,000 people out of work for at least two years.
- 'Underemployment' (those in employment but seeking more hours of work) has also fallen significantly since early 2014 but 2.6 million workers still wanted to work more hours than they currently do (in 2016). This was particularly true for those in part-time jobs.
- In last year's report we saw that average weekly wages had increased very slightly from 2014 to 2015 but in 2016–17 rising inflation (as a result of the Brexit vote's impact on the value of the pound) has further reduced levels of real pay. A recent plummet in the annual rate of pay increases suggests that we will see a further drop in real wages next year.
- Means-tested benefits for single people out of work in 2016 gave them only 39 per cent of the income they would need to have an acceptable standard of living. A couple with two children had only 61 per cent of what they would need and a lone parent with one child only 56 per cent (a drop from 68 per cent in 2008).
- In 2015, inflation had been at its lowest rate since the crash – even reaching negative figures (deflation) at one point. But the Brexit vote led to a dramatic fall in the value of the pound and so prices (from imports) rose equally dramatically, placing strains on family budgets.
- In 2014–15, there were 13.5 million people living in poor, low-income households, 21% of the UK population. By 2016, this had increased slightly to 22%.
- More than half (55 per cent) of those in working families are now living in poverty – a record high.
- There has been a dramatic increase in the number of people given three-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 1.2 million in 2016–17.

How are people feeling about their finances?

- According to latest figures, seven per cent of households in 2014–15 were finding it either very or quite difficult to manage financially and a further 21 per cent were 'just about getting by' (a combined total of 29 per cent). These figures are now very close to the figures in the early 2000s, when around five 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) following a significant rise to a peak in 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 in 2014–15 were those between the ages of 35–54, and those on the lowest incomes. About two in five of those in the bottom two deciles (20 per cent) of the income distribution were finding it difficult to manage, financially, or were just about getting by in 2014–15.
- Overall, more people thought that the Brexit vote would have a negative rather than positive impact both on the economy as a whole and on them in particular. As many as one in five believed that their chances of becoming unemployed had increased as a result of the vote.

Bank accounts

- Last year we reported an increase in the number of people without access to any kind of account in their household. This year we have two extra year's worth of data and we see fluctuations but no clear trend in the number of people unbanked.
- If we focus solely on whether individual adults have accounts in their own names, then about 1.52 million adults were, personally, unbanked in 2015–16 (down from 1.71million) in 2013–14.
- Having access to a bank account does not, in itself, 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

- Overall, people were less able in 2017 to be able to find money for one-off expenses than they had been in 2013. When asked whether or not they could find £200 at short notice, 11 per cent said they would not be able to meet this expense compared with six per cent in 2013.
- A further 21 per cent of the population in 2017 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, or sell an item – a similar figure to 2013.
- Only a quarter (26 per cent) said, in 2016, that they would be able to find £200 without cutting back on essentials or dipping into savings (a dramatic drop from 39 per cent in 2013).

Savings

- Unfortunately, we have very little new data on savings this year. However, we do know that the savings ratio fell to a new low of 3.3 per cent in 2016 from a high of 11.5 per cent in 2010. This shows that, on average, people are saving less money from their disposable income once their spending is taken into account.

Pensions

- From 2014 to 2016, we witnessed a massive upsurge in membership of occupational pension schemes. In the private sector, the figure more than doubled from 2.7 million to 5.6 million.
- However, the amounts contributed are low and, indeed, some members are not contributing anything at all. Figures from NEST (who are a key provider of workplace pensions) show that, as at March 2017, there were a total of 4.6m members but only 2.7m of these were actively contributing to their pension pot.

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.
- The annual rate of growth in credit card lending is now at a higher level than at the peak of the financial crisis in 2008. Non-credit card lending (particularly car loans) and student loans are also at a very high level though latest figures for 2016 suggest this is now tailing off.
- The number of people using credit unions in England, Scotland and Wales increased again in 2016 to reach nearly 1.3 million but this masks a decline in England during that year. The reason for this is not clear.
- Mortgage lending increased in 2016 to an estimated £246 billion, a 12 per cent increase on 2015's £220 billion and the highest annual growth in lending figures since 2008.

Problem debt

- As with data on credit, it is also difficult to find reliable data on ‘problem debt’ which can be compared over time.
- The 2015 Financial Capability Survey found that 39% of the public said it was ‘somewhat of a burden’ keeping up with their bills and credit commitments and a further ten per cent said it was a heavy burden.
- Data from the Insolvency Service shows that the number of individual insolvencies had been increasing from the middle of 2015 to the middle of 2016 but then fell at the end of 2016.
- Claims for mortgage (re)possessions by county court bailiffs in England and Wales were around 7,000 in 2003 but then rose to a peak of 36,000 in 2008 before falling to below 5,000 in 2016.
- Evictions from rented properties (technically referred to as landlord possession) show a different trend with actual possessions in the county courts of England and Wales reaching their lowest level around 2010 at around 27,000 but then increasing to over 41,000 in 2015. In the last year, they have declined slightly – to just under 40,000.
- Levels of street homelessness, though notoriously difficult to measure, appear to have doubled between 2010 and 2016.

Home contents insurance

- The proportion of households with home contents insurance has declined from 65 per cent in 2008–09 to 59 per cent in 2015–16. This is largely due to the inability to afford such insurance.

Conclusion

- This report again shows some positive signs compared to last year. For example, unemployment has fallen as have individual insolvencies, mortgage and landlord possessions. For the population as a whole, fewer people were finding it difficult to manage, financially, in 2014–15 than at any time since before the economic crash.
- Other trends around financial inclusion are less positive however. Low-paid work is prevalent. Increased access to transactional bank accounts appears to have stalled. The savings rate is very low, and borrowing is high. Far fewer people are able to find £200 in an emergency in 2017 compared to 2016. Use of food banks continues to increase as does the level of street homelessness. With relatively high levels of inflation, further cuts to basic benefits will make it even harder for some people to manage, financially.
- In these five years of monitoring financial inclusion, we have witnessed changing levels of financial inclusion as different economic trends and social policies make an impact. Overall, however, we now see divisions between four main groups in terms of financial inclusion: those most excluded, some without access to any financial services and some of whom will be suffering destitution; those who are ‘barely managing’: this group is likely to have a bank account and access to credit though much of this credit will be high-cost. They will also be struggling to keep up with bills and basic goods; a third group are generally ‘doing alright’ at the moment but lack the kind of savings and pensions to provide financial security in the medium and/or long-term; and finally, there are some who are comfortable, financially, and may indeed be ‘super included’ in terms of access to low-interest mortgages and loans and relatively generous pensions.
- While it is difficult to put figures on each of these groups, it is likely that the first group is the smallest though the most financially excluded and therefore the one most in need of policy response to support. Such support must come in the form of raising the level and security of their incomes as well as ensuring that they have access to appropriate and affordable financial services particularly basic bank accounts. Those ‘barely managing’ require similar policy responses but with the emphasis on affordable credit. And those ‘doing alright’ at the moment need further support to build up adequate savings and pension pots. We very much hope that the new Minister for Pensions and Financial Inclusion can take such policy reforms forward.

Introduction: towards a financially-inclusive society

This report is the last in a series of five annual monitoring reports commissioned by the Friends Provident Foundation to monitor progress towards or away from financial inclusion in Britain. In order to provide a comprehensive picture, this report takes the same framework as the four previous reports and updates figures, where available, to give the most recent data and trends.

According to Kempson and Collard[1], 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 Team[2] 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.

This provides a broad framework for any study of financial inclusion but there are also particular social and technological trends that are worthy of highlighting and research published by the FCA in 2016[3] on access to financial services in the UK highlighted five such trends here: digital transformation, especially in banking; compliance and crime prevention, in the form of the anti-money laundering and know-your-customer regulations; automated processes in the credit market; increasingly segmented markets for insurance; and how policies to tackle problems associated with an ageing population impact on people's access to credit in later life.

In a separate report also published by the FCA in 2016[4], the authors used three metaphors to describe the difficulties consumers had in accessing financial services. They talked about: the void – physical and digital barriers to access; the maze – complex bureaucratic procedures; and the fog – lack of transparent and simple information which hampered understanding.

Alongside much empirical and policy-focused research on financial inclusion there is also an increasingly lively debate, in academic circles, about the nature of financial inclusion and whether it serves as a progressive response to financialisation or serves to advance the process of financialisation[5]. 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.

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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 Collard, S, Coppack, M, Lowe, J and Sarkar, S (2016) Access to financial services in the UK, London: FCA, **www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf**

4 Rowe, B., De Ionno, D., Peters, D. and Wright, H. (2016) Mind the gap. Consumer research exploring experiences of financial exclusion across the UK. London: ESRO/FCA. Available at: **www.fca.org.uk/static/documents/research/vulnerability-exposed-research.pdf**

5 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 advice[6].

The Coalition government (2010–2015) retained an interest in this issue but had no overall strategy[7]. The Financial Inclusion Taskforce was formally wound up, as originally planned, in March 2011 and the term 'financial inclusion' was rarely mentioned in government policy despite some relevant reforms in this area (for example, in relation to Credit Unions and reform of the regulation of high-cost, short-term credit via the Financial Conduct Authority (FCA))[8]. 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. 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 in 2015 through two key (non-government) initiatives. The first was a major conference held in January 2015 in London, sponsored by HSBC and Lloyds Banking Group. The second 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 2015[9] 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 election of a Conservative government in May 2015 did not see a particular policy focus on financial inclusion. Nevertheless, various policies have had an impact on financial inclusion, not least with further cuts to benefits and tax credits causing hardship for some[10]. Government policy has also been active in other fields, not least: basic bank accounts; workplace pensions; new savings schemes; and local welfare assistance. These are all mentioned later in this report.

In a report published by the FCA[11] (2016: 18) on access to financial services, the authors echoed the Financial Inclusion Commission's call for a stronger strategic lead from government and more joined-up action on this issue.

In October 2016, the Financial Conduct Authority published its new 'mission statement' setting out its plan to be more transparent, proactive and supportive of vulnerable customers. It specifically drew attention to those who might be vulnerable in the wake of the new pension freedoms introduced by the government. The mission statement was unveiled by Andrew Bailey who took over as CEO of the FCA from Martin Wheatley in July 2016. The Financial Times[12] noted that the Archbishop of Canterbury had raised concerns, just prior to the release of the new mission statement, that 'leadership changes and the perception of political interference were in danger of making the FCA into a timid and cowed regulator.'

Another important development this year has been the work of the House of Lords Select Committee on Financial Exclusion which gathered detailed evidence on financial inclusion, both written and oral[13]. On publishing its report in March 2017, the Chair of the Committee, Baroness Tyler of Enfield said: 'The UK financial services sector is a world leader which makes it doubly unacceptable that it is failing those who need it most. Too many people still have no bank account or cannot get access to basic or fairly priced financial services. The "poverty premium"—where the poor pay more for a range of services from heating their home to accessing credit—contributes to a vicious circle driving people ever deeper into debt and distress… action must be taken to ensure the financial system in this country works for all.'

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[6] see Rowlingson, K and McKay, S (2014) Financial inclusion annual monitoring report 2014, Birmingham: University of Birmingham

[7] See Appleyard, L (2015) Financial inclusion: review of Coalition Government policies 2010-2015, Birmingham: University of Birmingham

[8] 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**

[9] Financial Inclusion Commission (2015) Financial inclusion: improving the financial health of the nation

[10] McKay, S and Rowlingson, K (2015) Social security under the coalition and Conservatives: shredding the system for people of working age; privileging pensioners in Bochel, H and Powell, M (eds) The Coalition government and social policy, Bristol, The Policy Press.

[11] Collard, S, Coppack, M, Lowe, J and Sarkar, S (2016) Access to financial services in the UK, London: FCA, **www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf**

[12] Financial Times, 'FCA reveals 50 page mission statement after sting from archbishop, October 26, 2016 **www.ft.com/content/42fb5c39-a586-3918-aeb1-e2d3cacdc959**

[13] **www.parliament.uk/financial-exclusion**

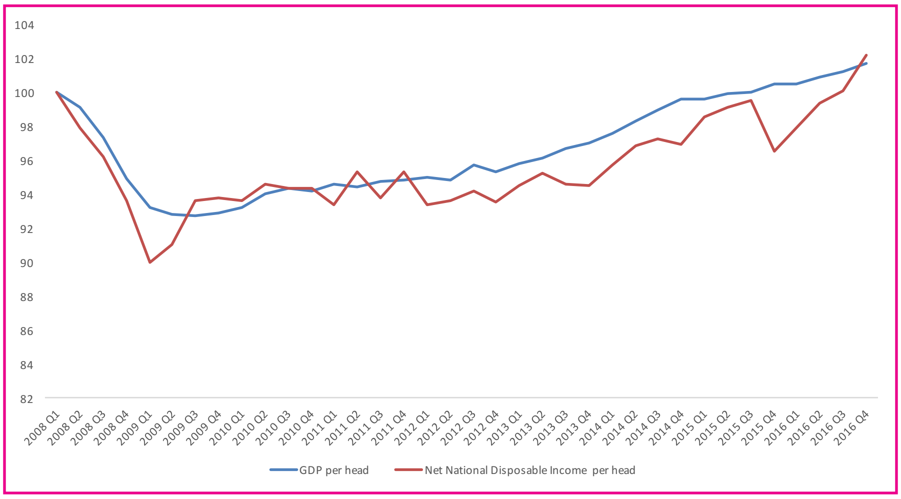
Employment strong but incomes stagnant and prices rising

Among the many recommendations in the report were the following:

- that the Government should appoint a clearly designated Minister for Financial Inclusion, and that they should set out a clear strategy which they then report on, annually .
- that the Government should expand the remit of the FCA to include a statutory duty to promote financial inclusion as one of its key objectives.
- That the FCA introduce rules setting out a reasonable duty of care for financial services providers to exercise towards their customers.
- that regulations to limit and manage the negative impact of unarranged overdraft charges should be introduced.
- that the Government reform various aspects of Universal Credit and in particular abolish the seven-day waiting period at the start of a claim.

The government was expected to make a formal response to the report by the end of May 2017 but the unexpected calling of a General Election interrupted this timetable. Nevertheless, the new government, in June 2017 appointed Guy Opperman as Parliamentary Under Secretary of State for Pensions and Financial Inclusion in the Department for Work and Pensions and so went some way towards the Select Committee's recommendation for greater government leadership on the issue.

Figure 1: Measures of national economic well-being Q1 (2008) to Q4 (2016), GDP and NNDI



As highlighted in our previous monitoring reports, the fundamental cornerstone of financial inclusion is for people to have a sufficient level of income to meet basic needs. The source of income is also important as those in stable employment generally have better access to appropriate financial products, such as affordable credit, than those out of work or in insecure jobs.

A key indicator of the state of an economy is GDP (Gross Domestic Product) which is the amount an economy produces each year. Figure 1 takes 2008 as a baseline for GDP per head and shows that over the course of one year, from 2008–09, this fell by seven percentage points. From then until 2012, there was a slow recovery, and from 2012, GDP has grown more steadily and in 2015 reached above the pre-crash level of 2008. Before the crash, the British economy was typically experiencing two per cent rise in GDP per year and so, over a period of seven years, we might expect to be about 15–20 per cent better off rather than at the same level. In 2016, GDP grew further still but at a slower rate of growth than in 2013 and 2014.

Figure 1 also shows NNDI (Net National Disposable Income) per head. There are two main differences between this and GDP per head. First, not all income generated by production in the UK will be payable to UK residents. For example, a country whose firms or assets are predominantly owned by foreign investors may well have high levels of production, but a lower national income once profits and rents flowing abroad are taken into account. As a result, the income available to residents would be less than that implied by measures such as GDP. Second, NNDI per head is adjusted for capital consumption. GDP is 'gross' in the sense that it does not adjust for capital depreciation, that is, the day-to-day wear and tear on vehicles, machinery, buildings and other fixed capital used in the productive process. The trends are similar for both measures though NNDI dropped even further in 2008–09 and also dipped noticeably at the end of 2015. Both measures are now higher than they were in 2008.

Labour market engagement

As we have also seen in previous reports, the recession of 2008–09 clearly had a major impact on rates of unemployment. At the beginning of 2007–early 2008, there were more than 1.6 million people unemployed. In the space of just over a year another million people had joined their ranks and unemployment then peaked at around 2.7 million in 2011. Most recent data shows that it has now fallen to 1.58 million at the end of 2016–beginning of 2017 (see figure 2). It is therefore lower than the 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 2016, however, the figure had also dropped – to just under 0.4 million again, back again to pre-crash levels. There is still, however, a higher rate of unemployment for those who have been out of work for more than 2 years, compared to the rate before the crash.

There have been further positive signs recently in other aspects of the labour market. For example, underemployment[14] dropped between 2014 and 2016 from 3.1 million to 2.6 million workers 'underemployed' (see figure 3) – still, however, significantly more than the 1.9 million before the recession[15]. Interestingly, more workers now consider themselves 'overemployed' (in other words they want to work fewer hours and would be willing to take a commensurate cut in pay) – just over 3.2 million at the end of 2016.

Figure 2: Unemployment fell in 2016 and is now below pre-crash levels, Source: Labour Force Surveys

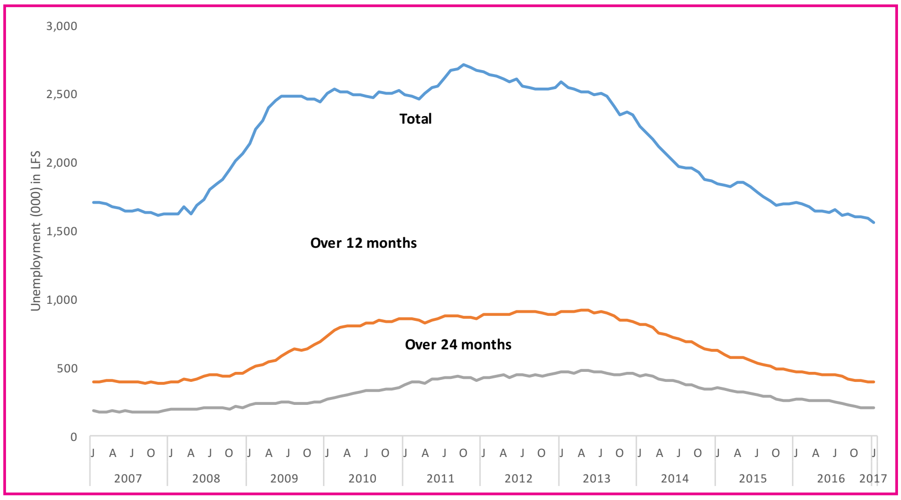


Figure 3: Under-employment dropped again in 2016 but remains high. Over-employment has also started to fall since 2014, Labour Force Survey

[14] The definition and measurement of underemployment has changed recently and so the precise figures for previous years are different from last year's report but the broad concept and underlying trends are the same. Basically, underemployed workers are those who are employed but who either wish to work more hours in their current role or who are looking for an additional job or for a replacement job which offers more hours. They must be able to start working extra hours within the next two weeks to be categorized as 'underemployed'.

[15] **www.ons.gov.uk/ons/rel/lmac/underemployed-workers-in-the-uk/2014/rpt-underemployment-and-overemployment-2014.html**

Figure 4: Part-time employment and all forms of self-employment grew steadily from 2007–2016 (taking 2007 as a baseline). Full-time employment fell dramatically at first but has recovered equally dramatically since 2012, Labour Force Survey

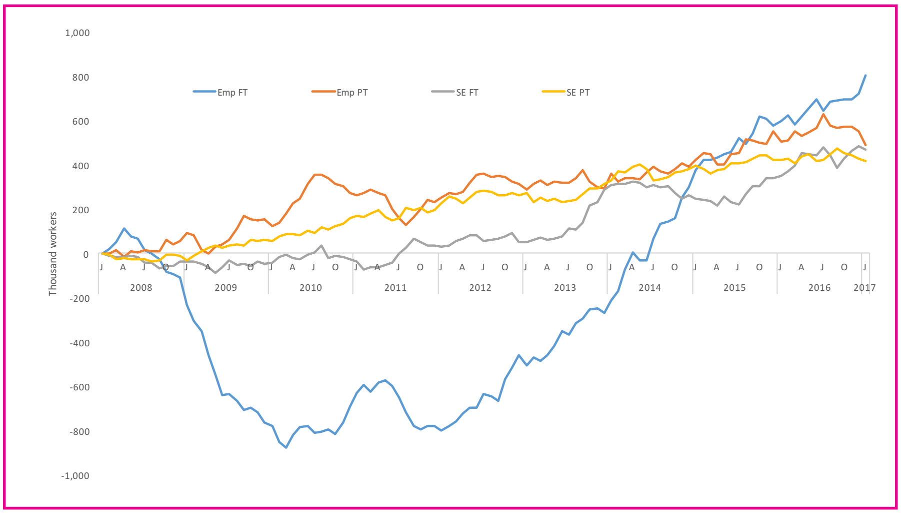
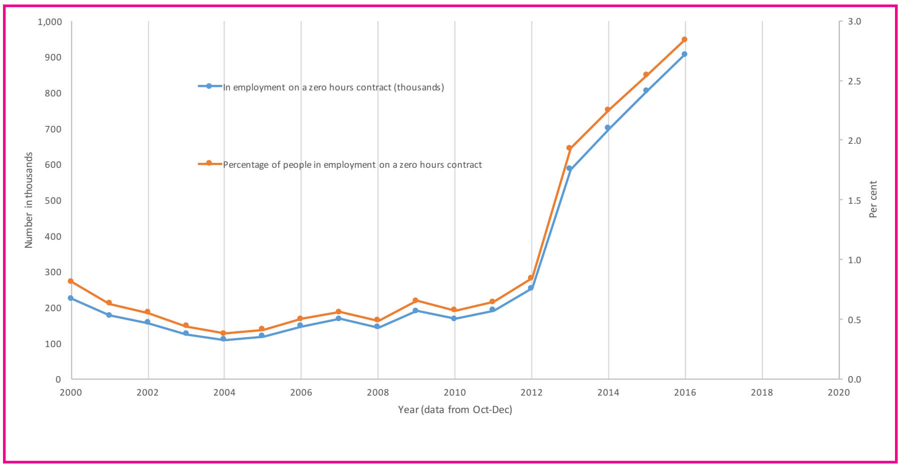


Figure 5: Estimates of the number of people in employment in the UK on contracts where they are not guaranteed any hours in a given week, also known as 'zero hours contracts', LFS

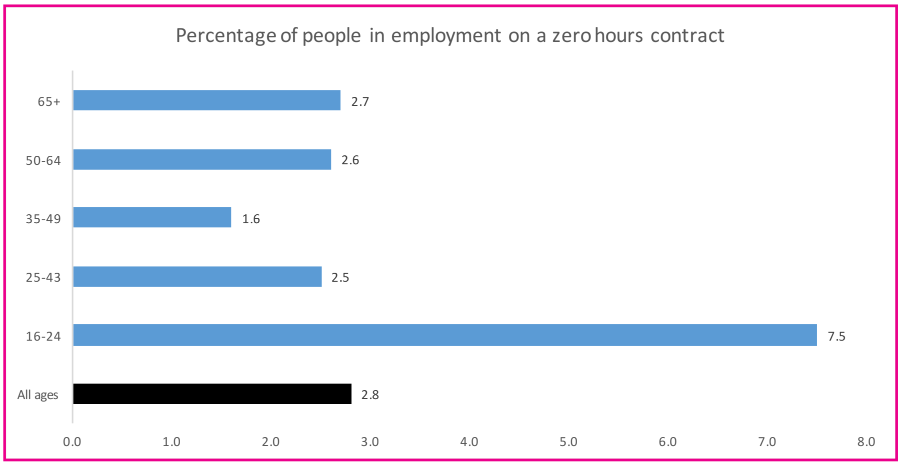


Underemployment is linked to part-time jobs and self-employment, both of which grew steadily from 2008 onwards while full-time employment dropped dramatically. Figure 4 shows the increase in part-time employment and self-employment (both full and part-time) from 2007 onwards. But it also shows that the level of full-time employment picked up, particularly from 2012 to 2015 and is still increasing in 2016 though perhaps at a slower rate than before. These trends help explain some of the trends in underemployment.

Alongside 'underemployment' and the growth in part-time and self-employment, we have also seen a growth in zero hours contracts. Once again, definitions and measurements of such contracts (also referred to as 'contracts with no guaranteed minimum number of hours – NGCHs) varies over time but the Office for National Statistics (ONS) has estimated, from a survey of individuals (the Labour Force Survey) that 900,000 people had zero hours contracts at the end of 2016 (about three per cent of the labour force) – see figure 5. This is lower than the data on the number of actual zero hours contracts due to people not necessarily being aware that they have a 'zero hours' contract when asked about it in the survey. Also, it is quite possible that some people have more than one zero hours contract. Crucially, we still seem to have little data on how the hours worked on zero hours contracts actually vary from week to week.

According to the Office for National Statistics, people who report being on a 'zero-hours contract' are more likely to be at the youngest end of the age range with nearly eight per cent of 16–24-year-old workers on such contracts compared with less than two per cent of those in 'prime' working age of 35–49 – see figure 6. The next most common group of zero hours workers, are those aged over 65. These patterns may partly reflect the groups most likely to find the flexibility of 'zero-hours contracts' an advantage, for example, young people who combine flexible working with their studies, and those who have retired from their main occupation but are continuing with some work.

Figure 6: Percentage of people in employment on a zero hours contract



Incomes

The situation in relation to employment therefore appears to be a positive one. The situation in relation to pay, however, is not so positive. This might at first seem surprising but 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 were therefore a striking feature of the recession (see figure 7). Average real weekly wages had started to increase in 2014–2015 but were still lower than prior to the recession. And during that same year there was a drop in the annual rate of pay increases which has now appeared as a further drop in real wages in 2015–2016. Rising inflation as a result of the Brexit vote's impact on the value of the pound has further reduced levels of real pay at the end of 2016–early 2017 and this is reflected in the fact that the annual rate of change at the end of 2016 plummeted, suggesting that 2017 will see a further drop in real wages.

Figure 7: Levels of real pay (adjusted by inflation – Consumer Prices Index)

Even with relatively high rates of employment, not everyone receives a wage. Many families remain largely or solely reliant on social security benefits. We therefore look at levels of income which take into account wages, social security benefits and any other income people receive. Latest figures on this from Households Below Average Income (HBAI) study[16], show that there has been positive real term income growth across the population as a whole. However, between 2014–15 and 2015–16, the incomes of those in the bottom half of the distribution saw more modest growth compared to those in the top half. Poverty rates have remained fairly stable in recent years with 16 per cent of the population in relative low income before housing costs (BHC) and 21 per cent after housing costs (AHC). However, in the last year for which we have data (2014–15 to 2015–16) the figure for relative low income after housing costs has increased by one percentage point to 22 per cent.

Low income and poverty vary by family type with the percentage of children in relative low income BHC also increasing by one percentage point from 2014–15, rising to levels last seen in 2009/10. Compared to the overall population, children remain more likely to live in poverty. Pensioners, on the other hand, are less likely to live in poverty.

The HBAI figures are also analysed by the IFS[17] who found that median income overall was now (in 2015–16) two per cent above pre-crisis (2007–08) levels, but for adults aged 31 to 59 it was still at its pre-crisis level and for those aged 22 to 30 it was still seven per cent lower. They remarked that it was highly unusual to see no growth in working-age incomes over a seven-year period. They went on to state that, 'In key respects middle income families with children now more closely resemble poor families than in the past. Half are now renters rather than owner occupiers and, while poorer families have become less reliant on benefits as employment has risen, middle-income households with children now get 30% of their income from benefits and tax credits, up from 22% 20 years ago.'

The overall effect of changes in the labour market and the tax/benefit system[18] is that incomes and earnings have fallen in recent years.

[15] **www.gov.uk/government/statistics/households-below-average-income-199495-to-201516**
[17] **www.ifs.org.uk/publications/8371**
[18] See the Institute for Fiscal Studies analyses of the impact of tax and benefit changes: **www.ifs.org.uk/budgets/showindex**

The IFS reported in April 2017[19] that the average impact of tax and benefit changes since May 2015 had been relatively small – less than one per cent of income in each income decile. Two particular tax changes – the above-inflation increases in the income tax personal allowance (to £11,500 rather than £10,710) and the higher-rate threshold (to £45,000 rather than £42,815) – largely explain the gains for higher-income households from 2015–2017 with most basic-rate taxpayers gaining £160 a year and most higher-rate taxpayers gaining £380 a year.

For lower-income households, the cash freeze in most working-age benefits has affected 11 million households but has only amounted to a one per cent real cut so far as inflation has been low. The reduction in the benefit cap has hit some households very hard but this only applies to fewer than 100,000 households.

In the longer run, however, there will be large losses for low-income households (more than four per cent of income, on average, in each of the bottom three deciles) mostly explained by the continued freeze in most working-age benefit rates until March 2020; cuts to tax credits for families with children – limiting entitlement to two children and removing the 'family element'; and the roll-out of universal credit. These will lead to sharp cuts in incomes that are already inadequate in many respects.

According to the Joseph Rowntree Foundation[20], in 2014–15, there were 13.5 million people living in poor, low-income households, 21% of the UK population. This proportion has barely changed since 2002–03. However, more than half of those in working families are now living in poverty – a record high. At the same time, there has been a reduction in the number of children living in long-term workless households, down 280,000 in four years to 1.4 million. Disabled people are much more likely to be poor than non-disabled people once we take into account the higher costs they face. Indeed, half of people living in poverty are either themselves disabled or are living with a disabled person in their household.

[19] Hood, A and Waters, T (2017) The impact of tax and benefit reforms on household incomes, Briefing Note (BN196), London: IFS, **www.ifs.org.uk/publications/9164**

[20] Tinson, A, Ayrton, C, Barker, K, Born, T, Aldridge, H, Kenway, P (2016) Monitoring poverty and social exclusion 2016 (MPSE) **www.jrf.org.uk/report/monitoring-poverty-and-social-exclusion-2016**

Expenditure

As well as looking at people's incomes, their living standards are, of course, also related to their outgoings. In last year's report, we suggested that low Inflation, or even 'stagflation' was a potential threat to the economy but the Brexit vote has weakened the value of sterling and so pushed up the costs of imports so inflation has risen quite dramatically since the middle of 2016 (see figure 8). While a small measure of inflation can be good for an economy in boosting demand, high inflation can cause financial problems for people trying to make ends meet if incomes do not keep pace. High inflation can also lead to an increase in interest rates which may put pressure on those with mortgages.

As mentioned above, a vital source of income for many people out of work (as well as in work) is the social security system. Figure 9 shows that safety net means-tested benefits for single people out of work in 2016[21] gave them only 39 per cent of the income they would need to have an acceptable standard of living. This percentage has not changed particularly in recent years and, during the last year, has remained stable due in general to zero inflation and zero uprating of benefit levels. A couple with two children had only 61 per cent of what they would need in 2016 and a lone parent with one child only 56 per cent (a drop from 68 per cent in 2008).

As we can see from figure 9, there has been a long-term decline in the adequacy of benefits relative to MIS levels. This is linked to the low or zero uprating of benefits which has occurred (see above) at the same time as the cost of a minimum budget has risen. Cuts in Council Tax Support in 2016 further stretched people's budgets.

As we also see in figure 9, pensioner benefits continue to provide incomes close to the MIS level not least because Pension Credit, like the state pension, is guaranteed to rise at least in line with the higher of prices and earnings. However, there has been a significant drop from 105% of MIS in 2008 to 98% in 2016 and, in 2016, the savings element of the Pension Credit was abolished which will cut the incomes of people with modest amounts of private pensions or savings. The trend is likely, therefore, to be further downwards.

Figure 8: Consumer Price Index (CPI) and CPIH (CPI plus a measure of the costs of owner occupiers) inflation, 2007 to 2017

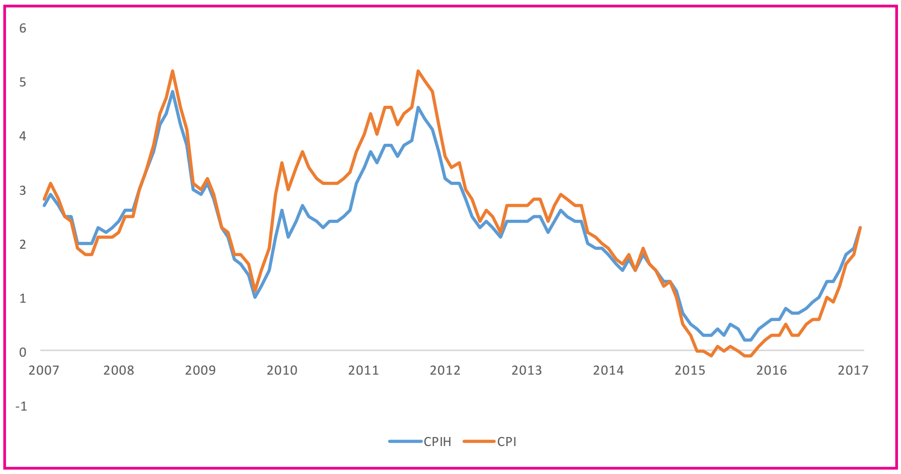
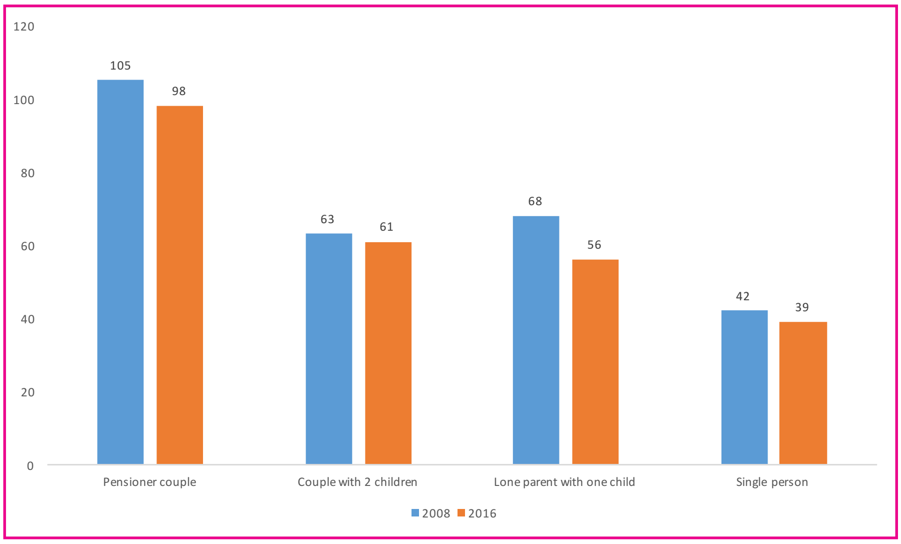


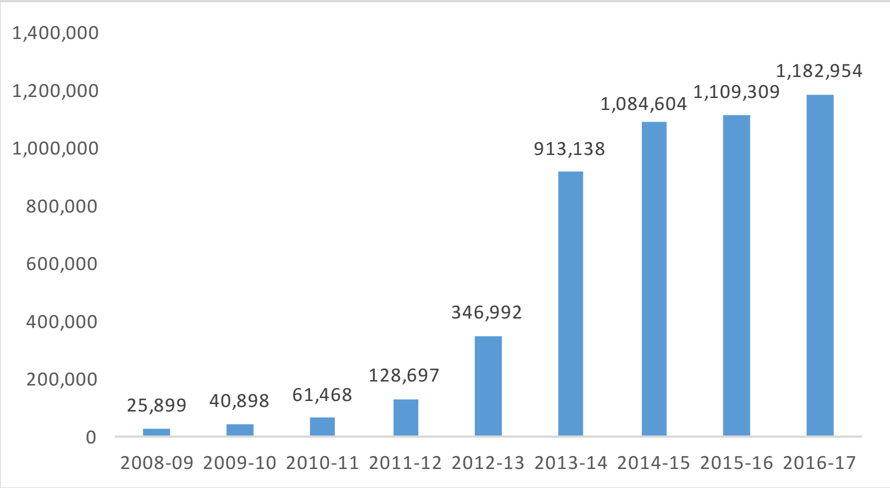
Figure 9: Means-tested, out-of-work benefits (Income Support/Pension Credit) as a percentage of Minimum Income Standards (excluding rent, childcare, council tax)[22]



[21] Figures for previous years and methodology can be found here: **www.jrf.org.uk/sites/default/files/jrf/migrated/files/MIS-2015-full.pdf**

[22] Abigail Davis, Katherine Hill, Donald Hirsch and Matt Padley (2016) A minimum income standard for the UK in 2016, **www.jrf.org.uk/report/minimum-income-standard-uk-2016** and data from previous reports

Figure 10: Number of people given 3-days emergency food and support by the Trussell Trust increases to 1.2 million[23]



It is also worth reflecting on the fact that the benefit system will become increasingly complex as the position of existing claimants will be different from new claimants. This will make it difficult for analysts to produce information about 'the' system as there will be more than one in operation. MIS data will consider the position of new claimants as the intention is to show the situation that is being created, reflecting the direction of current policy, even where beneficiaries of a legacy system are being protected.

Despite some positive economic signs shown above in terms of employment, it is clear that the incomes of those both in and out of work are still extremely stretched but with those of working age who are out of work particularly struggling. In last year's report we also highlighted a Joseph Rowntree Report[24] which used the term 'destitution' to describe a situation when people cannot afford to buy the essentials to eat, stay warm and dry, and keep clean. The report suggested that there were about 1.2 million people, including 312,000 children, were in this situation in the UK at some point during 2015.

Another indicator of destitution may be the need to turn to a food bank. Figures from the Trussell Trust show a dramatic increase in the number of three-days emergency food parcels given out over the past few years with an increase from just over 61,000 in 2010–11 to nearly 1.2 million in 2016–17 (see figure 10). The primary reason for use of food banks was, according to the Trussell Trust: benefit delays; low income; and benefit changes (including sanctions).

[23] www.trusselltrust.org/news-and-blog/latest-stats
[24] www.jrf.org.uk/report/destitution-uk

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? There are various sources of data on this. For example, the Eurobarometer Consumer survey asks respondents how they think the general economic situation has changed over the last 12 months (see figure 11). A negative balance means that, on average, respondents reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change. Figure 11 shows that 2008–09 saw a low-point in people's perceptions of the general economic situation but it was not until 2012 that this impacted most on perceptions of their own financial situations. Since 2012, people have reported that the financial situation for themselves and the country more generally has improved. By early 2015, more people were reporting an improvement in their finances (and the country's more generally) than were reporting a decline. But the last two years have seen more negative reports predominating again, with a particularly dramatic decline in views about the general economic situation in 2015 and 2016, predating the Brexit vote.

The Understanding Society survey also asks people about how they are managing, financially, and according to our most up-to-date figures, seven per cent of households in 2014–15 were finding it either very or quite difficult to manage financially and a further 21 per cent were 'just about getting by' – a combined total of 28 per cent (see figure 12).

Figure 11: Perception of financial situation (general and personal) compared with 12 months ago in the UK

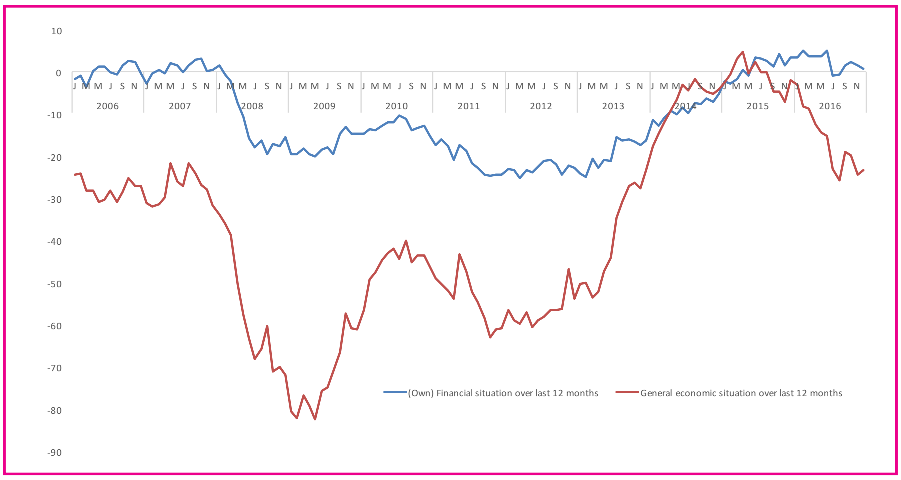


Figure 12: A fifth of households were 'just about getting by' and nearly one in ten were either finding it difficult or very difficult to manage, financially, in 2014–15, Understanding Society

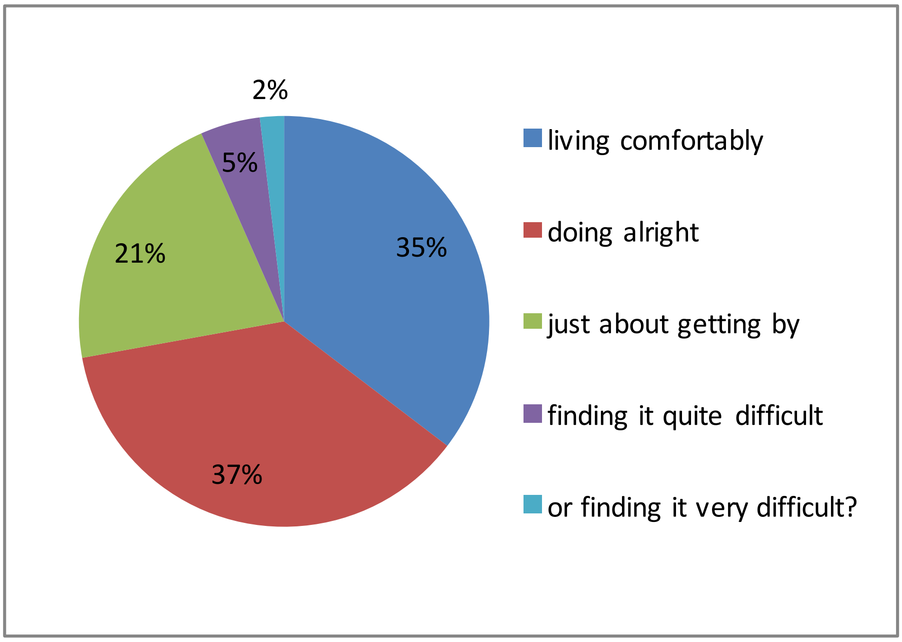


Figure 13: Households in 2014–15 had returned to pre-crash levels of managing financially, British Household Panel Survey (up to 2008–09)[25], Understanding Society (from 2009–10)

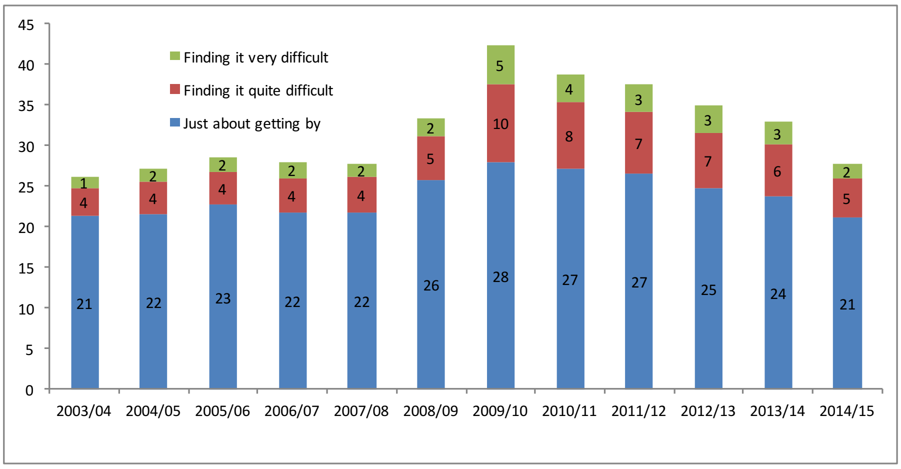


Figure 14: Middle aged groups were finding it most difficult to manage in 2014/15, Understanding Society data

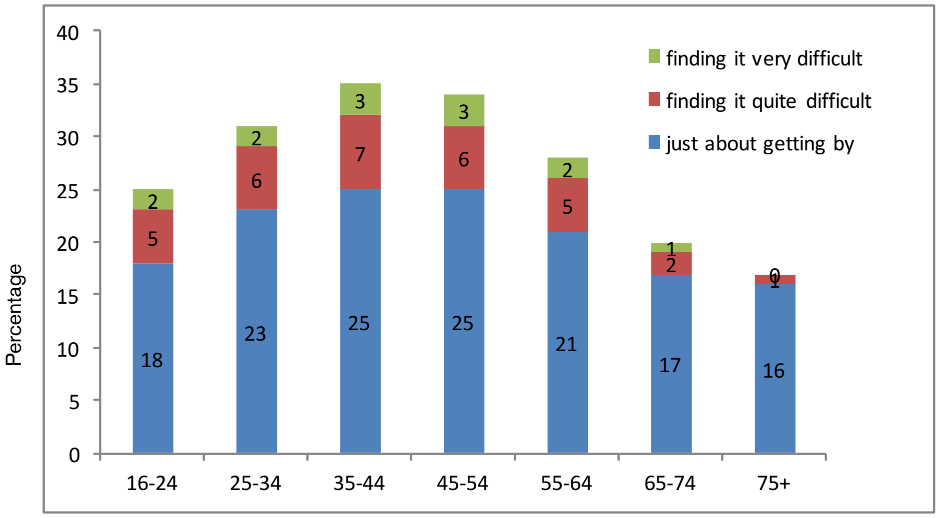


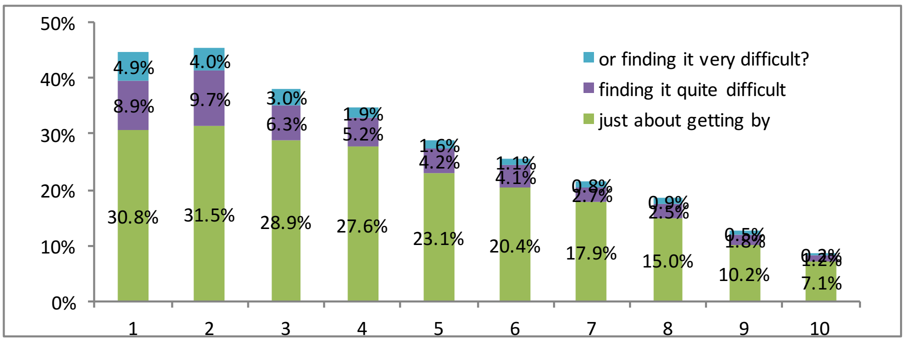
Figure 13 shows how these figures have changed in recent years. During the early 2000s, around six per cent of the population said they were finding it quite or very difficult to manage, financially and around 22 per cent were 'just about getting by' (a combined total of 28 per cent). The impact of the recession of 2008 was that this proportion grew to a total of 42 per cent in 2009–10. Five years on, pressures had lifted by 2015–15 and/or households had adjusted somewhat to these pressures with levels of financial difficulty falling back to pre-crash figures: nevertheless 28 per cent of the population – about three in ten households – were still finding it difficult to manage, financially, or are just about getting by in 2014–15.

As we saw last year, middle aged groups are particularly feeling the squeeze on their budgets. This is due to the wages stagnation 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 one in three of all 35–44 year olds in 2014–15 said that they were finding things difficult or just about getting by (see figure 14). 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.

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

Of course, the key groups that are finding it difficult to manage are those on the lowest incomes and figure 15 shows that around 45 per cent of those in the bottom two deciles (20 per cent) of the income distribution were finding it difficult to manage, financially, or were just about getting by in 2014–15.

Figure 15: More than two in five of those in the bottom twenty per cent of the income distribution were finding it difficult to manage, financially, or are just about getting by in 2014–15, Understanding Society data



Bank accounts

Access to a bank account is a core part of financial inclusion as it enables people 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.[26]

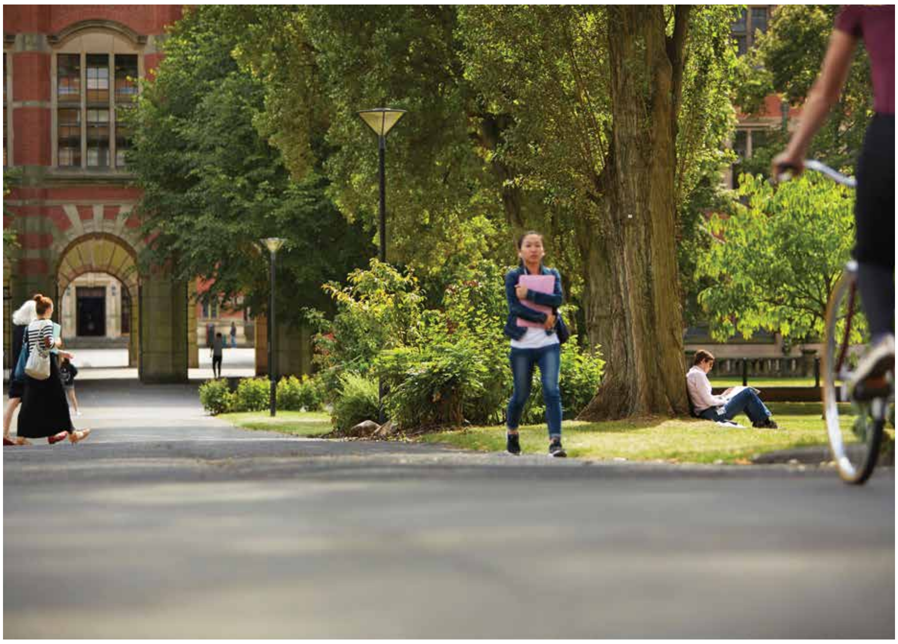
The number of adults without access to an account of any kind is relatively small as a proportion of the population. The Family Resources Survey collects a great deal of detail about accounts, but the opening question seeks to identify whether any accounts are either currently held, or have been held in the last 12 months. In table 1 we extend the series of estimates of the unbanked previously produced by the Treasury.

The first column shows the number of adults without a current or basic bank account. This figure also includes people who 'did not state' whether they had an account or not. Previous research suggests these are more likely to be without an account but some of these people will have one. The figures in table 1 (see also figure 16) show that there has been a steady decline in the numbers of unbanked adults according to this measure from 4.38 million in 2002–03 to a low of 1.5 million in 2012–13. However, in the last three years, we have seen some fluctuation in the numbers – up to 1.71 million in 2013–14, as reported in last year's report. In this year's report, we can show two extra years of data and these show a reduction in the number of unbanked individuals to 1.64 million in 2014–15 and then to 1.52 million in 2015–16. This is still not quite back to the low of 1.5 million in 2012–13 but is very close.

Table 1: Households and adults without access to a current or basic bank account, or savings account, Family Resources Survey[27 28]

Grossed up numbers.			
Year	**Adults without current or basic bank account (including 'did not state')**	**Adults living in households without access to a current or basic bank account, or savings account (including 'did not state')**	**Adults living in households without access to a current or basic bank account, or savings account – Positively affirmed no account**
2015–16	1.52 million	0.88 million	0.71 million
2014–15	1.64 million	0.89 million	0.64 million
2013–14	1.71 million	1.02 million	0.73 million
2012–13	1.50 million	1 million	0.66 million
2011–12	1.87 million	1.37 million	0.70 million
2010–11	1.97 million	1.51 million	0.77 million
2009–10	2.36 million	1.78 million	0.87 million
2008–09	2.54 million	1.85 million	0.87 million
2007–08	2.71 million	1.85 million	0.89 million
2006–07	3 million	2.09 million	1.01 million
2005–06	2.85 million	1.97 million	1 million
**			
2002–03	4.38 million	2.83 million	2.02 million

** 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).



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

[27] Source: own analysis of Family Resources Survey for 2008–09 onwards based on previous methodology from HM Treasury which drew data from different questions on account-holding in the FRS. Published HMT figures for 2002–03 (**www.hm-reasury.gov.uk/d/stats_briefing_101210.pdf**)

[28] Some waves of data have been re-released with new information on weights, so estimates vary slightly from those previously published

Figure 16: Trends in the number of adults, unbanked, family resources survey

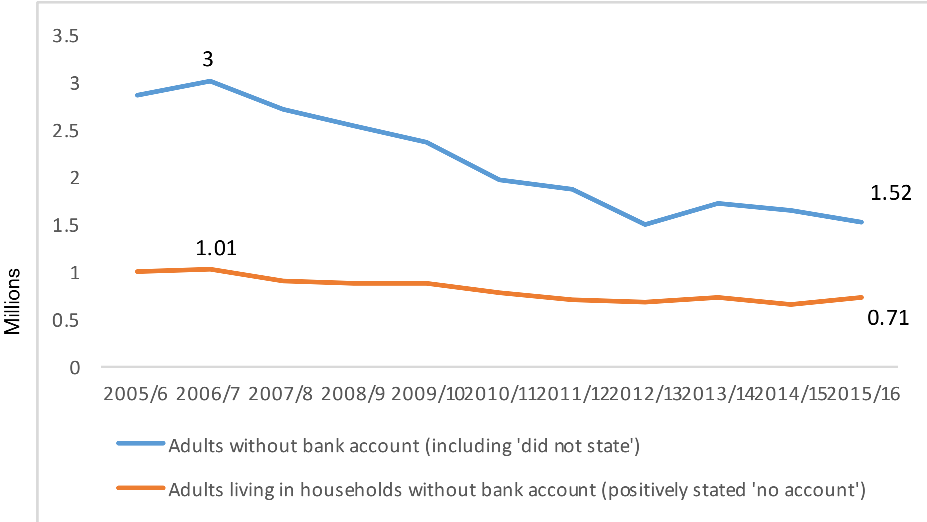
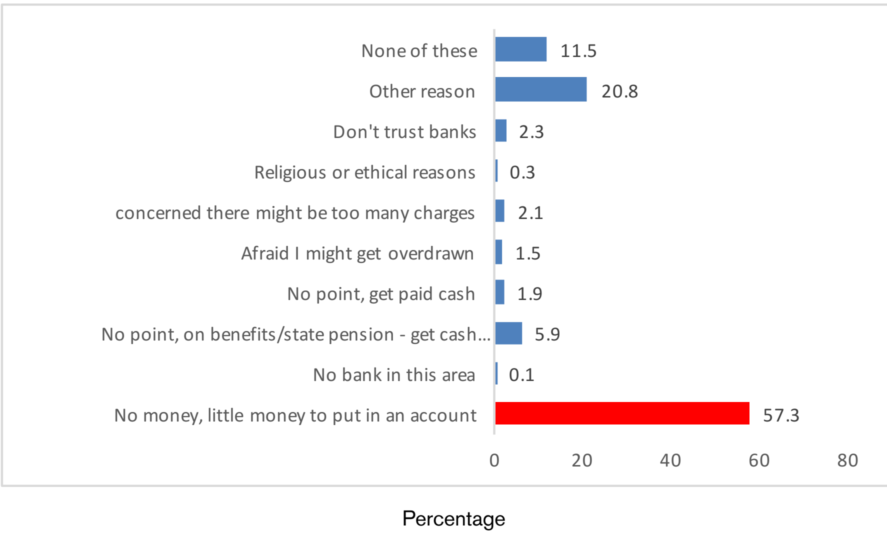


Figure 17: Reasons people gave for not having a current account, Understanding Society data



Some adults may not have a bank account themselves but they may live in a household where someone else has an account and if that person (partner, parent, adult child) shares the benefits of doing so with them, the lack of an account may be less of a concern. The final column of table 1 therefore shows the number of adults living in households without access to a relevant account. It also excludes those who 'did not state' whether or not they have an account, focusing only on those who positively stated that they did not have an account. This group is the most severely excluded. From 2005–06 to 2012–13, the number without access to any account in their household fell from one million to 660,000, amounting to about one per cent of households. We then saw, in last year's report, a reversal of that trend, with 730,000 households lacking access to any accounts in 2013–14. In this year's report, as stated above, we have two extra years' worth of data and so can see if the figure in 2013–14 was a one-off increase or part of a trend. As table 1 shows, in 2014–15, the number without any access to accounts reduced to 640,000 suggesting the figure in 2013–14 was indeed a one-off increase but then in 2015–16 the figure rose again – this time to 730,000. So it seems that the figures are 'bumping along the bottom' and progress towards financial inclusion in terms of bank account access has changed very little over the last four–five years (see figure 16 also).

Alongside FRS data on bank accounts, some questions were asked in the *Understanding Society* survey wave four in 2012–13. In particular people were asked if they had a current account and, if not, the reasons for that. This provides a sample of 385 individuals who did not have a current account. And among the ethnic booster and recent migrants, six per cent did not have a bank account. The specific question was 'Do you have any current accounts in the UK? This could be in your name only or held jointly with someone else'.

Those without an account were given a range of reasons to choose from to explain why they did not have an account (see figure 17). The main reason given, by 57 per cent, was that they simply had no money or too little to put into an account. The other reasons listed were not particularly helpful as 21 per cent of the unbanked said there was an 'other reason' and a further 12 per cent said that none of the given explanations were relevant. One in twenty said that there was no point as they got their benefits or state pension in cash (presumably with a post office card account).

Those without current accounts were asked if they had ever tried to open one and three quarters (73 per cent) said they had tried and indeed opened one. A quarter (23 per cent) said they had not tried and only five per cent said they had tried and been refused. So it seems that most people were able to open an account at one point. They either decided that the account was not helpful or, indeed, if they suffered any bank charges, they may have decided that the account was positively harmful. Having access to some kind of account does not, therefore, 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.) without the risk of being charged for inadvertently going overdrawn.

Basic bank accounts have existed in the UK since 2003 but some participating banks have found ways to reduce the costs of providing such accounts by limiting access to ATMs or charging fees for failed direct debits. 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 had to be enshrined in national law across Europe by September 2016. These accounts 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. In November 2015, HM Treasury reported on the consultation it had carried out on the implementation of the EU payment accounts directive[29]. In December 2015, nine of the major high street banks in the UK launched basic bank accounts that would not charge a fee for missed payments[30]. And customers are able to use the same services (ATMs and Post Office counter access) as other account holders. However, there are still concerns that banks may not promote such accounts widely and so people may not be aware that they exist or that they can have access to them and research is yet to assess the impact of the directive. The Brexit vote may also affect this aspect of financial inclusion as Britain will not necessarily need to adhere to the directive once the country leaves the EU.

Another issue in relation to access to bank accounts is branch closures which have been increasing dramatically over the last few years – over 1,000 branches closed between 2015–2016, just over ten per cent of the network[31]. While the banks claim, quite rightly, that online banking has increased and so fewer branches are needed, digital exclusion remains a major problem and so branch closures are adversely affecting those customers who cannot (easily) access online banking.

More generally in terms of bank accounts used by the wider public, the Competition & Markets Authority have produced some useful information on use of personal current accounts in 2015 and their review has highlighted problems with high costs and lack of transparency of costs for overdrafts[32]. Their final report[33], however, fell short of recommending a cap on overdraft fees, calling instead for the banks to set and publish their own monthly maximum charge (MMCs) for going over the limit. The Financial Conduct Authority (FCA) is, however, now including overdraft fees in a review into high interest loans including payday loans and doorstep lending. It is due to report in the summer of 2017.

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[29] **www.gov.uk/government/uploads/system/uploads/attachment_data/file/477200/PAD_consultation_responses.pdf**

[30] **www.bbc.co.uk/news/business-35168705**

[31] House of Commons Library briefing note, 385 (2016) Bank Branch Closures, file://cssfs15/home2/rowlingk/rowlingk%20Documents/Admin/College%20DoR/SN00385.pdf

[32] **www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk**

[33] **www.gov.uk/government/news/cma-paves-the-way-for-open-banking-revolution**

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

We have 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 from their own income, without difficulty (see table 2). This figure has fallen to just over a quarter (26 per cent) in 2017. A further eight per cent, in 2013, said they would be able to pay this from their own income but would have to cut back on essentials (rising to 14 per cent by 2017). And a further 17 per cent would dip into their savings (a similar figure – 19 per cent – in 2017). One in five in 2013 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, or sell an item (20 per cent). There was a similar figure for this in 2017. Finally, six per cent in 2013 said that they simply would not be able to meet this expense in any way, rising to 11 per cent in 2017.

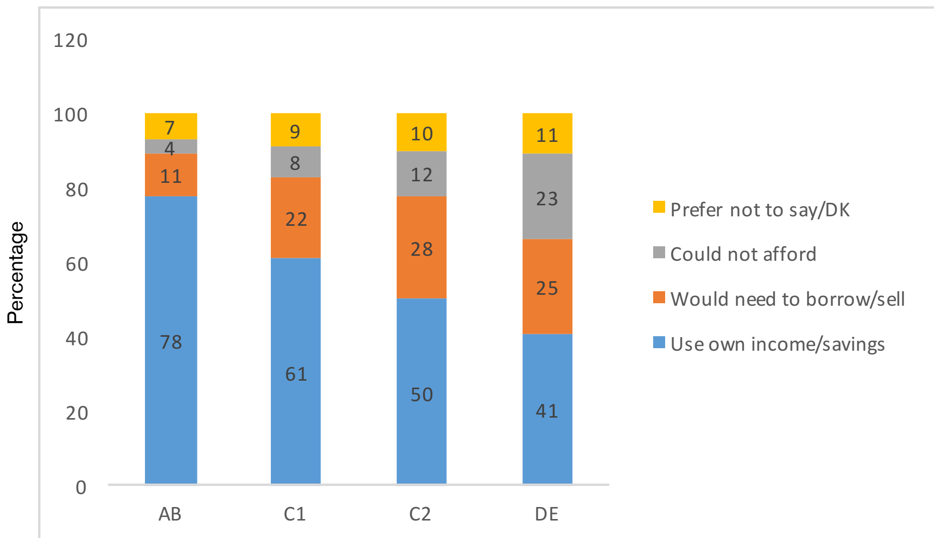
We can see this polarisation clearly by comparing the responses of people by social class in 2017. Fewer than half of those in the semi- or unskilled occupations saying that they could find the money from their own income or savings compared with 78 per cent of those in the professional/senior managerial occupations (see figure 18).

Table 2: Imagine you had to pay an unexpected expense of £200 in one lump sum, within seven days from today. Which, if any of the following would you do to pay this expense? Source: Ipsos/MORI survey

	2013	2017
I would pay this with my own money, without dipping into my savings or cutting back on essentials	39	26
I would pay this with my own money, without dipping into my savings, but I would have to cut back on essentials	8	14
I would have to dip into my savings	17	19
I would use a form of credit (e.g. credit card, take out a loan or make use of an authorised overdraft facility)	8	6
I would go overdrawn without authorisation	2	1
I would get the money from friends or family as gift or loan	9	13
I would have to sell (a) personal/ household item(s) to get the money	1	1
I would not be able to pay this expense	6	11
Prefer not to say	11	8
Base	967	968

** 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).

Figure 18: Ability to meet unexpected expense of £200 by social class in 2017, Source: Ipsos/MORI survey

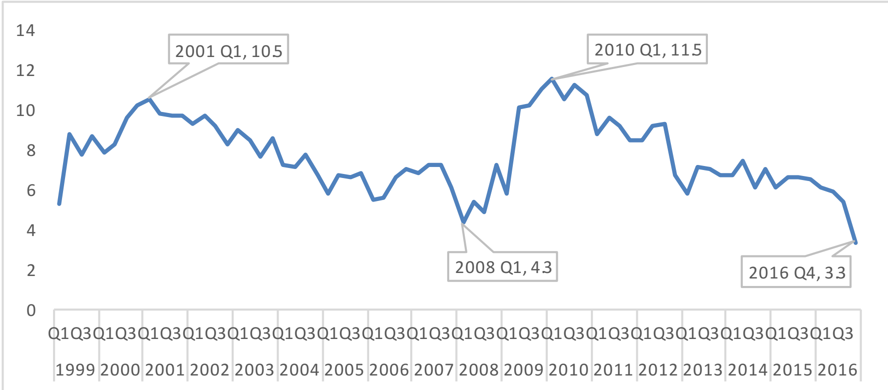


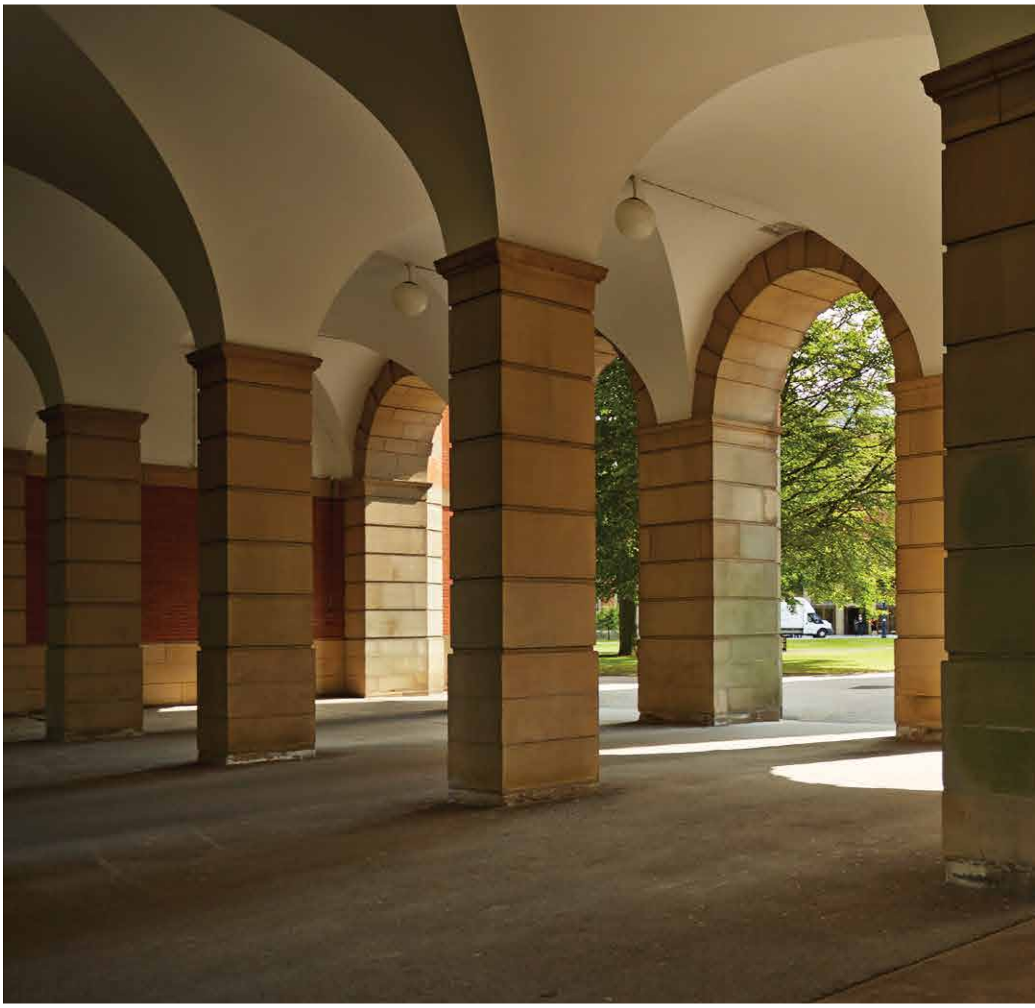
Savings

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. This is largely due to a lack of income to save (see earlier in this report) but attitudes to spending and saving are also important. 'Incentives' to save are also important and this links to interest rates and other potential ways to encourage people to save.

There are many ways to measure actual and potential saving. One measure is the household saving ratio as measured in the National Accounts by subtracting household spending – on goods and services, housing and financial services – from household income, which includes post-tax earnings from employment, benefits and net interest received, as well as imputed sources of income. A lower saving ratio may arise either because of a fall in households' income, a rise in their expenditure or a combination of the two. As shown in figure 19, the saving ratio was 13.2%, at the beginning of 1997 and this fell to a low of 4.8% just before the economic crash. The fall in the savings ratio over this period was due to strong consumer confidence and the rise in house prices which led many households to increase their spending and take on more debt. The savings ratio then grew sharply as a result of the crash as households became more cautious and tended to pay off their debts and cut back on spending. Unemployment and lower incomes would also have reduced discretionary spending. However, since the middle of 2010, the saving ratio has fallen again from 11.5% to a new low of 3.3% in the latest quarter (2016). This is partly due to the fact that disposable income has risen very slowly while prices (and therefore spending) have risen more quickly – restricting the amount of money that households have available to save. The savings ratio is now at its lowest since the turn of the century.

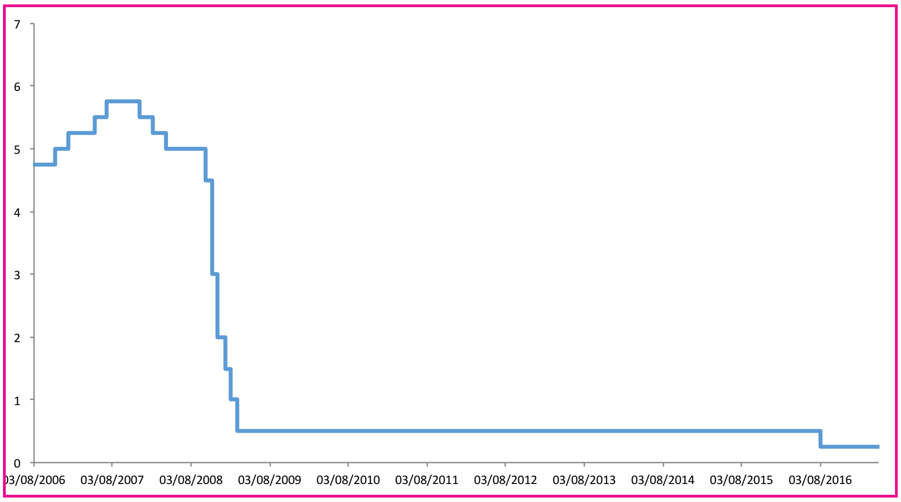
Figure 19: Household Savings Ratio, Office for National Statistics[35]

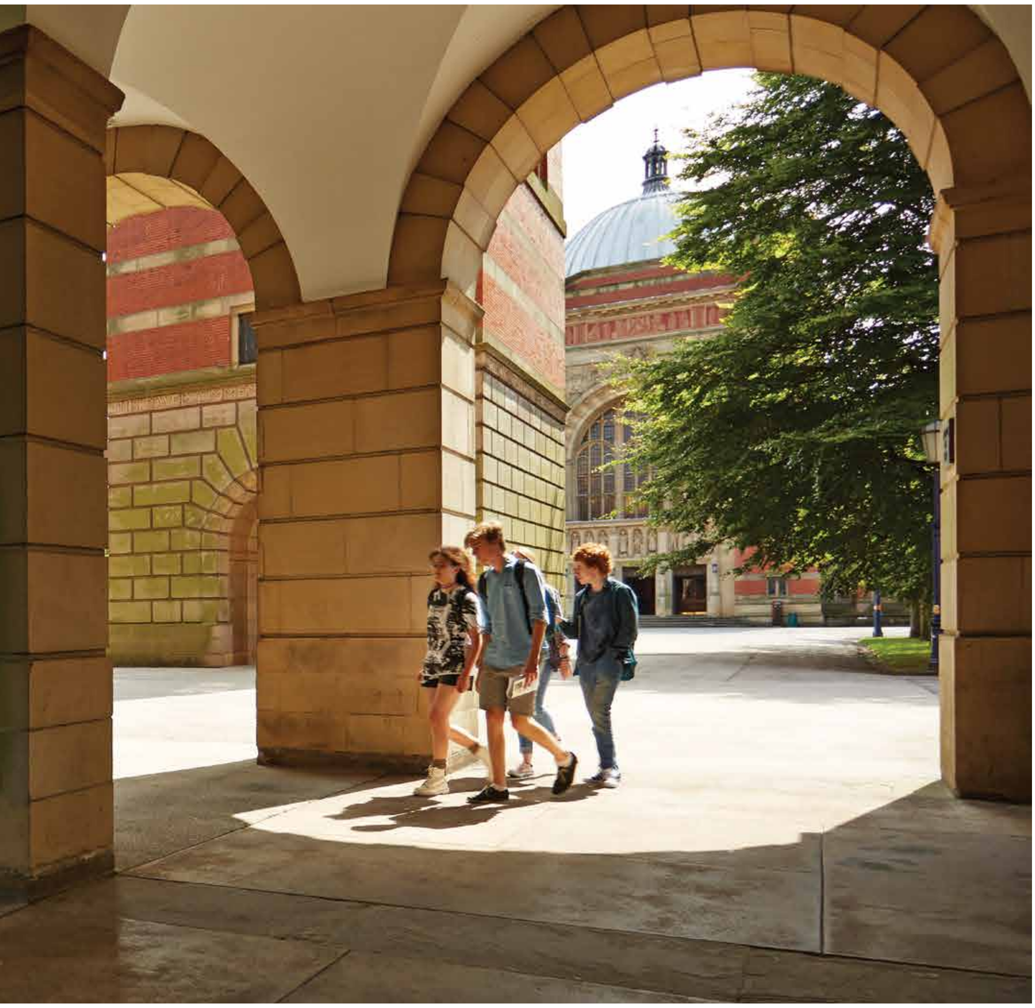




[35] www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/nationalaccountsarticles/2015-07-01#the-saving-ratio-is-on-a-downward-trend

Figure 20: Bank of England Official Base Rate





Level of saving is not just related to level of disposable income, of course, but also to attitudes to spending/saving which can be influenced by a range of factors, not least the 'incentives' to save, including those related to the interest rate on savings. But, in this regard, there has been very little incentive to save in recent years given that interest rates have been negligible since 2009 and, indeed, falling still further to 0.25% in 2016 (see figure 20 which shows the Bank of England Official Base Rate from 2006 to 2016).

Every few years the British Household Panel Survey/Understanding Society survey asks people about their saving behaviour but there is no new data on this since our 2015 report. That report showed that about two in five of the population were putting something away 'now and then' with much higher rates of saving among those on higher incomes. Those on higher incomes were also saving much larger amounts than those on lower incomes.

Unfortunately, there is no new data this year from the Wealth and Assets Survey (WAS). Last year's report provided the most up-to-date figures from WAS, showing that median gross financial wealth for households in 2012–14 was £8,500. This figure has remained more or less the same since 2006–8. When we took debts into account, we found that more than one in five households (22 per cent) in 2012–14 had net financial wealth below zero (that is, more financial debts than savings). The level of negative net financial wealth had, however, fallen from 25 per cent in 2010-2012, suggesting that people, on average, were paying off their debts. At the opposite end of the spectrum, more than one in ten (13 per cent) had £100,000 or more of net financial wealth. Net financial wealth is therefore very unequally distributed. Over recent years, fewer people had savings but, among those that did, the amounts they had, had increased, suggesting greater levels of wealth inequality.

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 21 shows that there was a long-term decline in the number of active members of occupational pension schemes from 10.7 million in 1990 to 7.8 million in 2013 but this figure then rose, for the first time in 30 years, to 8.1 million in 2014. And since then, there has been a dramatic increase to 11.1 million in 2015. Alongside this, the number of people with preserved pension entitlements has increased from 4.5 million in 1990 to 11.8 million in 2015.

This recent increase in active membership of occupational pension schemes is almost entirely due to the introduction of auto enrolment for workplace pensions (see below) and it has helped to reverse the long-term decline in pension membership which had been a feature of the private (but not the public) sector. Figure 22 shows that there had 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 22).

Figure 21: Number of 'active' members of occupational pension schemes (in millions), Source: Office for National Statistics Occupational Pension Schemes Surveys, 2015

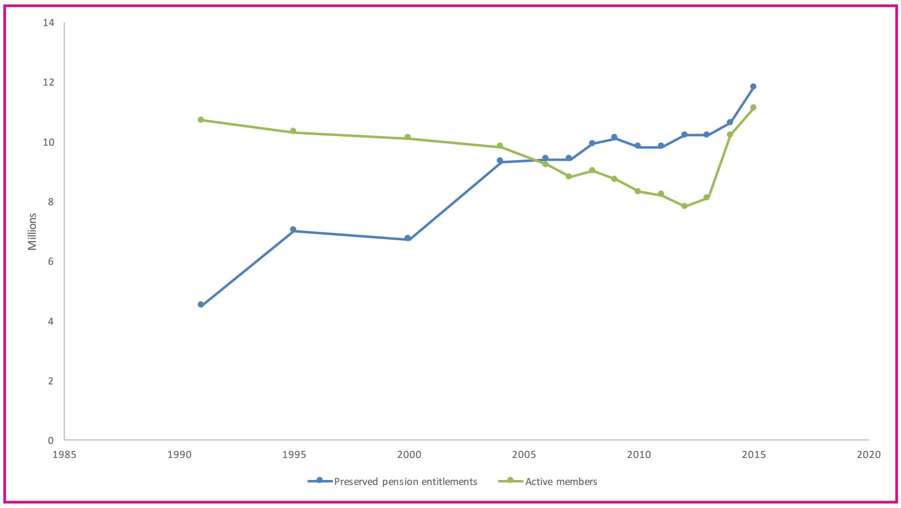
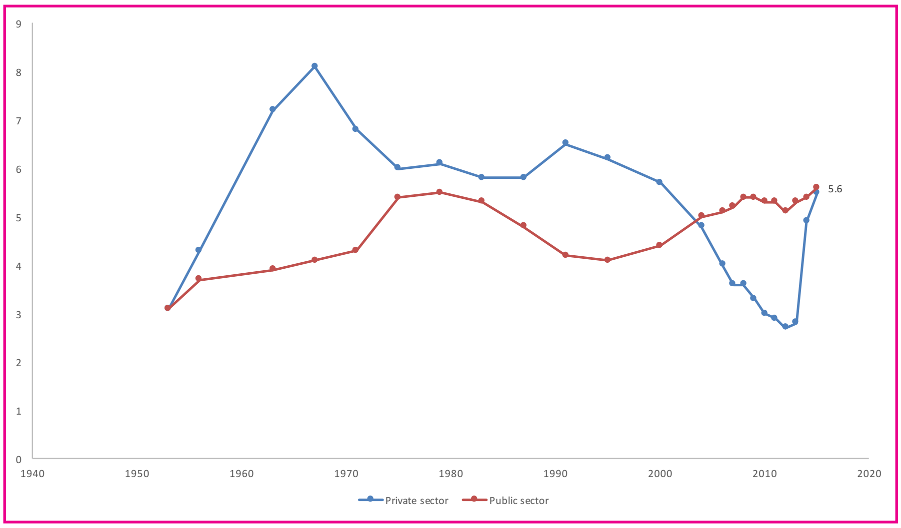


Figure 22: Active membership of occupational pension schemes by sector, 1953 to 2015, Source: Office for National Statistics Occupational Pension Schemes Survey[36]



[36] This trend data needs to be interpreted with some caution as it is not a continuous time series. For example, there have been changes in the definition of the private and public sectors so estimates for 2000 onwards differ from earlier years. From 2000, organisations such as the Post Office and the BBC were reclassified from the public to the private sector. Nevertheless it provides a good indication of the trends in different sectors

Figure 23: Active membership of occupational pension schemes (in millions) by type of pension, Source: Office for National Statistics Occupational Pension Schemes Survey

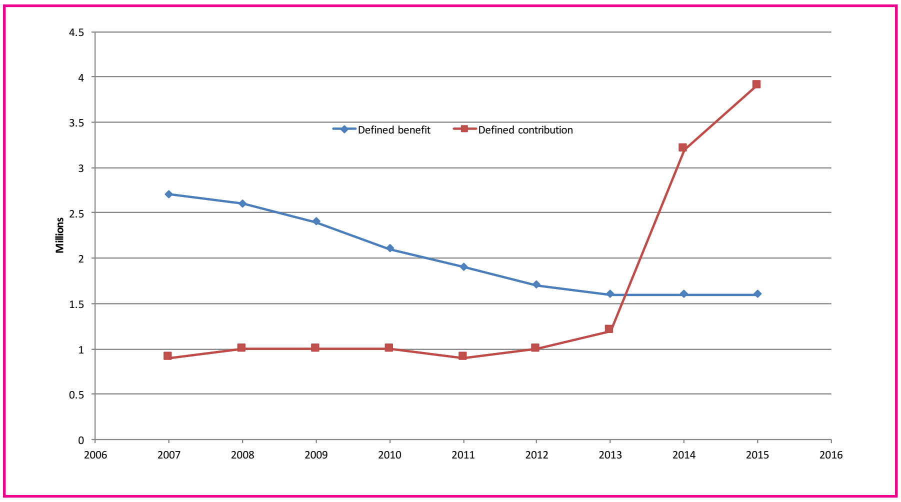


Figure 24: Proportion of employees with workplace pensions: by age, 2016, Office for National Statistics Annual Survey of Hours and Earnings

The decline in active pension membership up to 2014 had also been a particularly strong feature in relation to Defined Benefit schemes and this decline continues – see figure 23. 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 recent upswing in private pension activity has been almost entirely in relation to Defined Contribution schemes rather than Defined Benefit schemes.

As mentioned above, 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. The option is available for automatically enrolled jobholders to opt out of a scheme, within the first six months and opt-out rates have appeared quite low (only eight per cent in 2013[37]). Figures from NEST (who are a key provider of workplace pensions) show that, as at March 2017, there were a total of 4,550,000 NEST members (ie they were individual enrolled into NEST and had not since opted out, withdrawn all their funds or died). But only 2,720,000 of these were truly 'active'[38] members (ie they had a NEST pot and hadn't either ceased their contributions or been notified to NEST as having left that employment). This give a total of only 60% of members being truly 'active'. So while opt out rates may be low, active contribution rates to workplace pensions are also fairly low. And of those who are actively contributing, the amounts paid into these pensions may also be insufficient to provide a decent standard of living in later life. The need for 'auto escalation' is considerable though this may also lead to more people either opting out altogether or ceasing their contributions.

Membership of workplace pensions also varies by a range of factors, not least age. Figure 24 shows the proportion of full-time employees with workplace pensions is very low, as we might expect, among 16–21 year olds but then rises to about two thirds of those aged 22–29, peaking at over three quarters for those aged 50–54 in 2016.

[37] www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/nest-insight-2015,pdf.pdf
[38] www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-in-numbers_April_2017,PDF.pdf

Figure 25 shows pension coverage for those in different occupations and how this has changed from 2015 to 2016. It shows that coverage is much higher in more professional and managerial occupations but the gap between these and coverage of elementary occupations is closing slowly.

Pension coverage is important but is not enough, in itself, to ensure that people will have a sufficient level of income in retirement. Crucially, employees (and employers) need to put enough contributions into their pensions and figure 26 shows some cause for concern here. Contribution rates are far higher in DB and Career Average pension schemes than in the increasingly common DC schemes. Indeed, the low rates of contribution to DC schemes make it very unlikely that these schemes will provide an adequate income in retirement.

Figure 27 further explores contribution rates by sector, revealing that contribution rates are far higher to public pensions than to private pensions. Indeed, more than half of all those employers contributing to private pensions are contributing less than four per cent of the employee's income. There is a similarly low contribution rate among employees (see figure 28).

Figure 25: Proportion of employees with workplace pensions: by sector, 2016, Office for National Statistics Annual Survey of Hours and Earnings

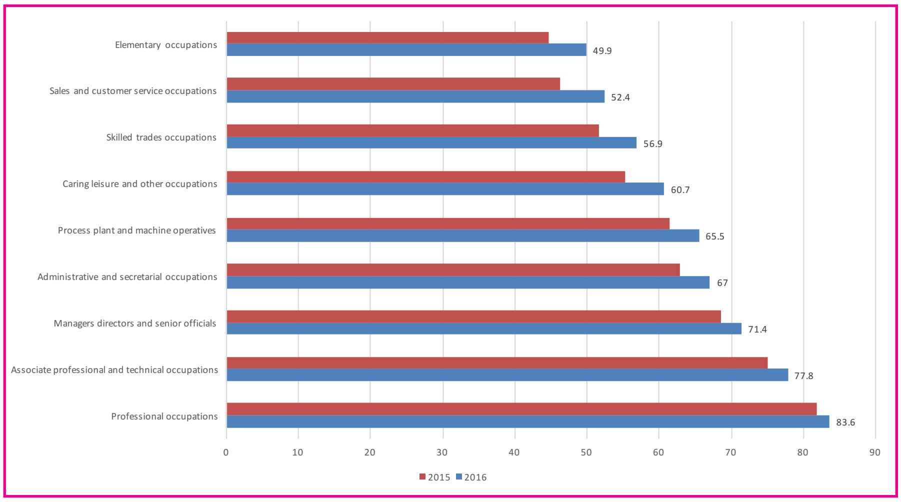


Figure 26: Contribution rates by type of pension and employee/employer contirbutions, 2016, Office for National Statistics Annual Survey of Hours and Earnings

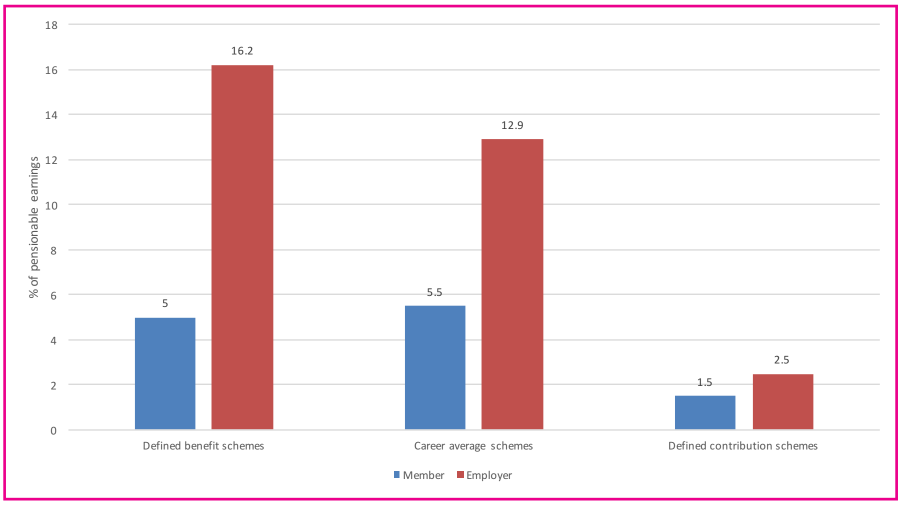


Figure 27: Employees with workplace pensions: percentage employer contributions (banded) by sector, 2016, Office for National Statistics Annual Survey of Hours and Earnings

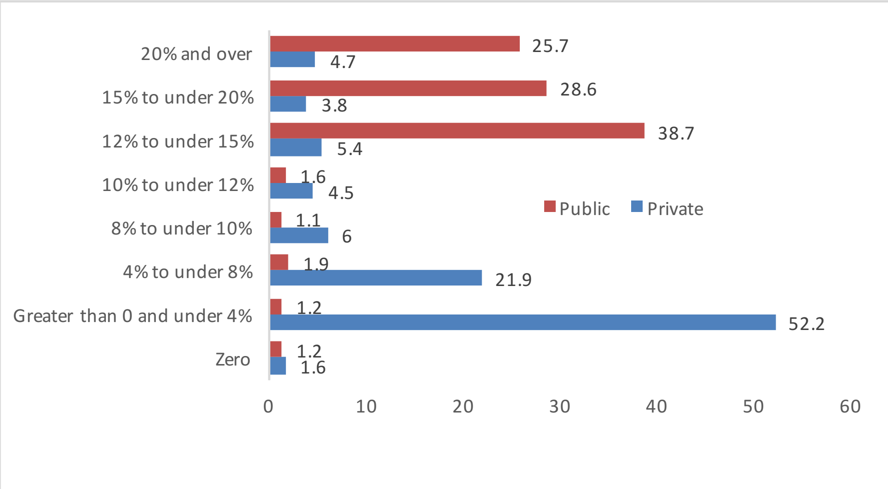
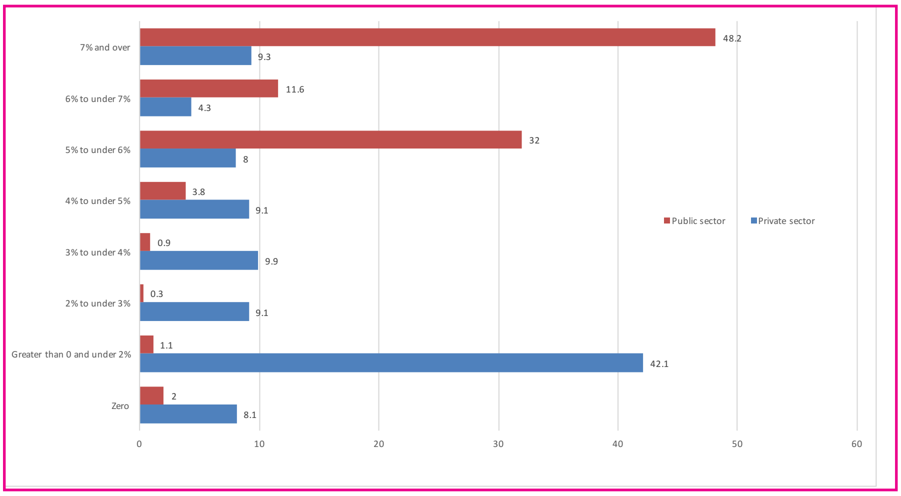


Figure 27: Employees with workplace pensions: percentage employee contributions (banded) by sector, 2016, Office for National Statistics Annual Survey of Hours and Earnings



Borrowing

As we have stressed in previous reports, 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 again important to note that different terms and definitions are used here. Some data sources refer to all 'borrowing' as 'debt' while others refer to 'credit' and still others to 'indebtedness'. 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 2008–09 and so cannot show the impact of the recession/recovery on borrowing. A new national survey of 'credit and debt' is urgently needed.

The annual rate of growth in credit card lending reached a particular low in 2012–13 but has since increased and is now at a higher level than at the peak of the financial crisis in 2008–09 but is still considerably lower than the levels in the late 1990s and early 2000s (see figure 29). The recent increases are probably due to long interest-free periods on credit cards and an increase in loan limits as banks have been given 'funding for lending' to stimulate borrowing and spending following the fall in lending in 2012–13.

If we look at similar figures for consumer credit which exclude credit cards (and student loans), we also see a massive increase in lending since 2010. Much of this increase is probably accounted for by car finance. The very latest figures for 2016 suggest that this growth in lending is now tailing off (see figure 30).

Figure 29: Monthly 12 month growth rate of total sterling net credit card lending to individuals (in percent) seasonally adjusted

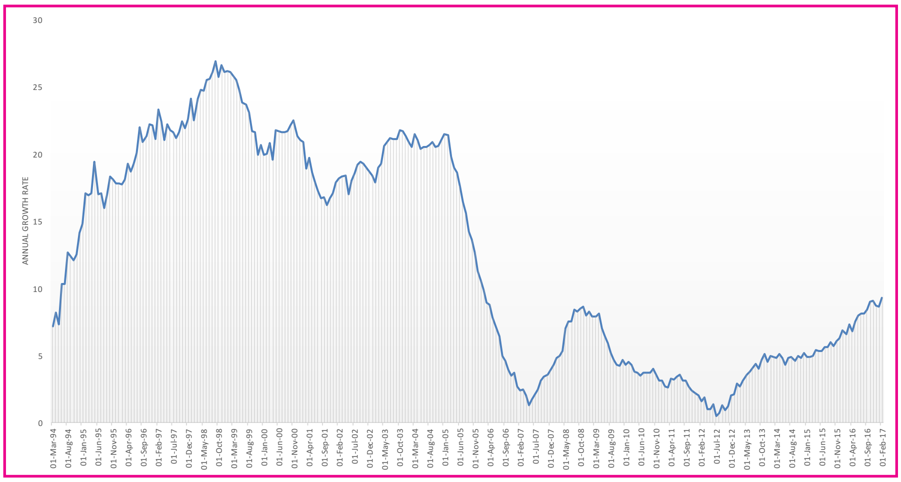


Figure 30: Monthly 12 month growth rate of total (excluding the Student Loans Company) sterling net consumer credit (excluding credit card) lending to individuals (in percent) seasonally adjusted

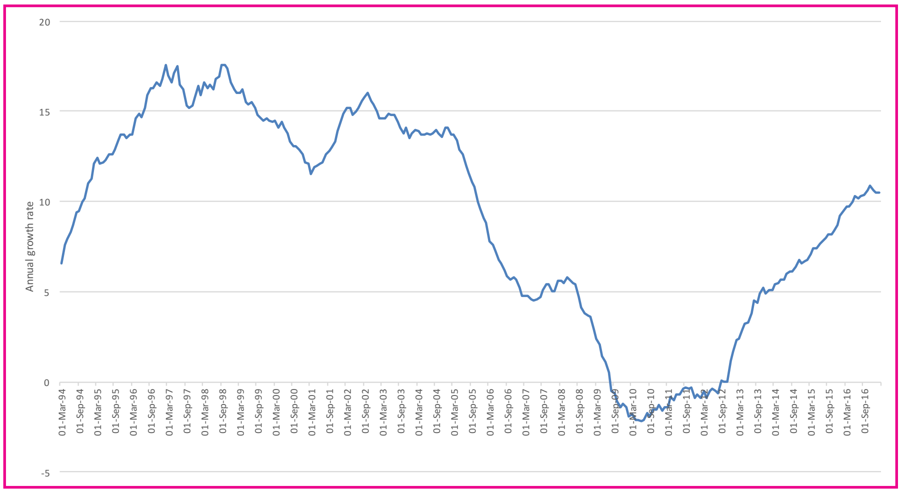


Figure 31: Total amount outstanding at the end of the financial year, including loans not yet due for repayment, Student Loans Company

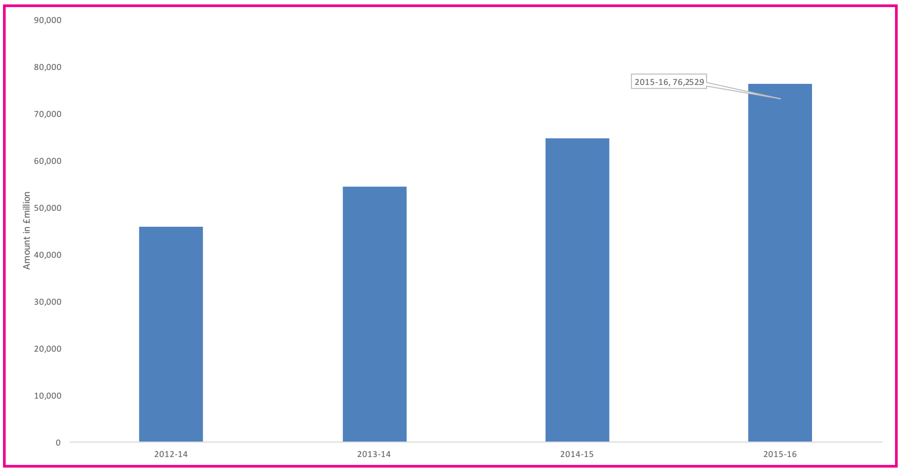
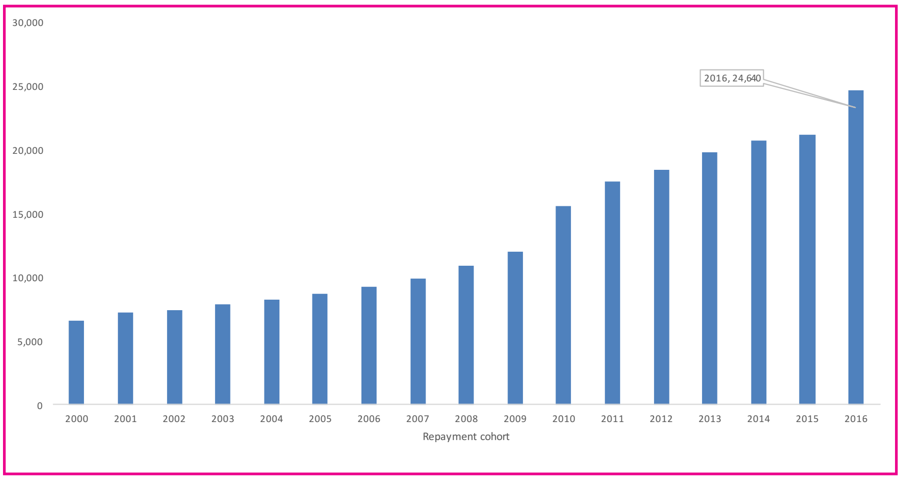


Figure 32: The average Loan Balance for those entering into repayment, Student Loans Company



The Financial Times pointed out, in April 2017, that consumer credit accounts for a much smaller proportion of bank lending than mortgages but that consumers were more likely to default on credit-card repayments in a downturn. Last year, UK banks had £19 billion of impairments on credit cards, compared with £12 billion on mortgages[39].

There is no new data this year from the Wealth and Assets Survey but we reported last year that the proportion of people with any form of credit liability had actually declined from 65 per cent in 2006–08 to 61 per cent in 2012–2014. These figures might seem to run counter to the Bank of England data on increased borrowing but the apparent contradiction is explained by the fact that, while fewer people are borrowing money, those who are, are borrowing more. 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.

A rather different form of borrowing is student loans. These are only paid back once the borrower earns over a certain threshold. Nevertheless, it is worth reflecting on the amount borrowed. In 2015–16, a total of £11.8 billion was borrowed, an increase of 11% when compared with 2014–15. Net repayments posted to customer accounts amounted to £1.8 billion in the financial year 2015–16, an increase of 11% compared with 2014–15 (including £233.8 million repaid earlier than required). The balance outstanding (including loans not yet due for repayment) at the end of the financial year 2015–16 was £76.3 billion, an increase of 18% when compared with 2014–15 (see figure 31). At the end of 2015–16 there were five million borrowers; of these, 2.9 million had accounts liable for repayment. These figures represent an increase of eight per cent and sevn per sent respectively compared with the position at the end of 2014–15.

The average Loan Balance for the 2016 repayment cohort on entry to repayment was £24,640 (see figure 32). Full time students entering HE in 2012–13 who completed three years of study are included in this average, but the average balance is diluted by other borrower types in the same repayment cohort

[39] Financial Times (2017) Bank of England warns of fast rate of consumer credit expansion, **www.ft.com/content/0f0a554a-1913-11e7-a53d-df09f373be87**

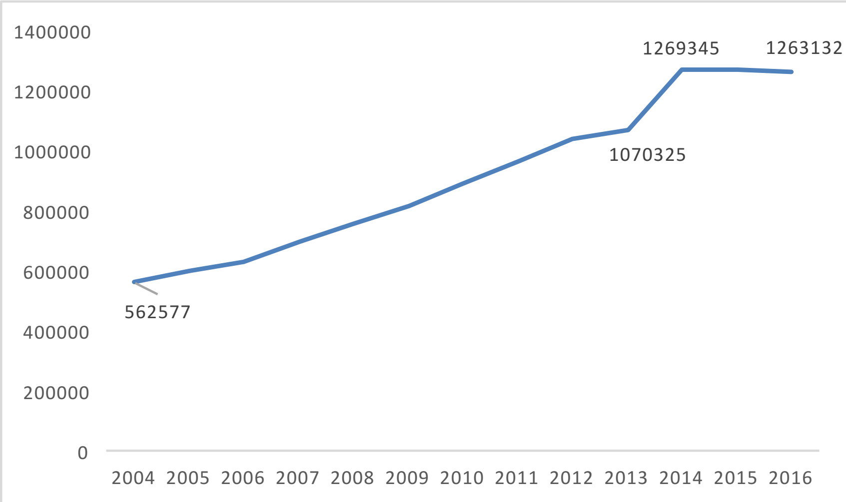
So far, we have focused on mainstream sources of credit (student loans, personal loans, credit cards) but some of those on the lowest incomes cannot access this form of credit, turning instead to payday lenders, home collected credit and so on. Previous reports have mentioned payday lending in depth given the recent reforms (including the introduction of a cap on the cost of such lending) which seemed to lead to a reduction in this form of lending. We do not have any new data on this here and so turn to data on another, albeit much cheaper, form of alternative credit: credit from credit unions.

Over 1.2 million people (including young people) were members of credit unions at the end of 2016 in England, Scotland and Wales, more than double the number just ten years ago (see figure 33). However, the last two years have seen a stabilization in numbers overall and when we dig down into the data further, we actually see a decline in membership in England while membership continues to rise in Scotland and Wales. The reasons for this decline are not clear. The total figure for 2016 also increases to nearly two million (1.9 million to be precise) if Northern Ireland is included (where membership levels have also continued to increase in recent years).

While the number of credit union members has risen every year since 2004 (except in England), the number of credit unions continues to fall, year on year, from 569 to 302 between 2004 to 2016 in Britain as credit unions have merged to lower the costs of administration[41].

Alongside credit unions, another potential source of low-cost (actually no-cost) credit has, traditionally, been the Social Fund. Until 2013, this provided grants and interest-free loans to those on means-tested benefits in certain situations. However, this system has been fundamentally reformed as Community Care Grants (CCGs) and Crisis Loans were replaced with locally based support[42 43]. According to the National Audit Office, between 2010–11 and 2015–16, the government reduced its core funding to councils by an estimated 37 per cent as part of its deficit-reduction strategy[44]. At the same time, councils faced increasing demand due to demographic and economic changes.

Figure 33: Total number of members of credit unions in Britain[40] (excluding Northern Ireland) (including 'Juvenile Depositors'), Bank of England Data



This section of the report has focused mostly on unsecured credit but secured borrowing (primarily mortgages) is by far the largest debt that most people have during their lifetime and this form of debt has been increasing in recent years. The Council of Mortgage Lenders estimates[45] that gross mortgage lending reached £20.4 billion in December 2016. This is 4% higher than December 2015 (£19.7 billion). This brings the estimated total for 2016 to £246 billion, a 12% increase on 2015's £220 billion and the highest annual gross lending figure since 2008.

[40] www.bankofengland.co.uk/pra/Pages/regulatorydata/creditunionsstatistics.aspx
[41] www.bankofengland.co.uk/pra/Pages/regulatorydata/creditunionsstatistics.aspx
[42] 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
[43] Gibbons, D (2013) Local Welfare Provision, Low-Income Households, and Third Sector Financial Services Provision, London: Friends Provident Foundation
[44] www.nao.org.uk/wp-content/uploads/2016/01/Local-welfare-provision.pdf
[45] www.cml.org.uk/news/press-releases/gross-mortgage-lending-increases-by-12-in-2016/

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 2008–09 when the Department for Trade and Industry/Business Innovation and Skills carried out a series of surveys. We therefore suggest, again this year, that the government should collect better evidence on problem debt.

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. We have no new data from the Wealth and Assets Survey (WAS) this year but we reported in last year's findings that the proportion of households who were behind with two or more payments on a fixed-term non-mortgage loan remained stable at four per cent between 2006–08 and 2012–14[46].

The 2015 Financial Capability Survey by the Money Advice Service asked respondents to what extent they felt that keeping up with your bills and credit commitments was a burden. This survey found that 39% said it was somewhat of a burden and a further ten per cent said it was a heavy burden. Younger people were most likely to see this as a burden but the age groups most likely to report facing a 'heavy burden' were those between 35 and 54 (see figure 34).

Of course, people may find it a burden to pay bills but nevertheless manage to do so. Figure 35 shows how many people, in the same survey, said that, in the last six months, they had missed any payments for bills for any three or more months. Overall, 11 per cent of the population had done so. This time, it was the 25–34 year olds who were more likely to have fallen behind with bill payments.

Figure 34: Views about keeping up with bills and credit commitments, Financial Capability Survey 2015

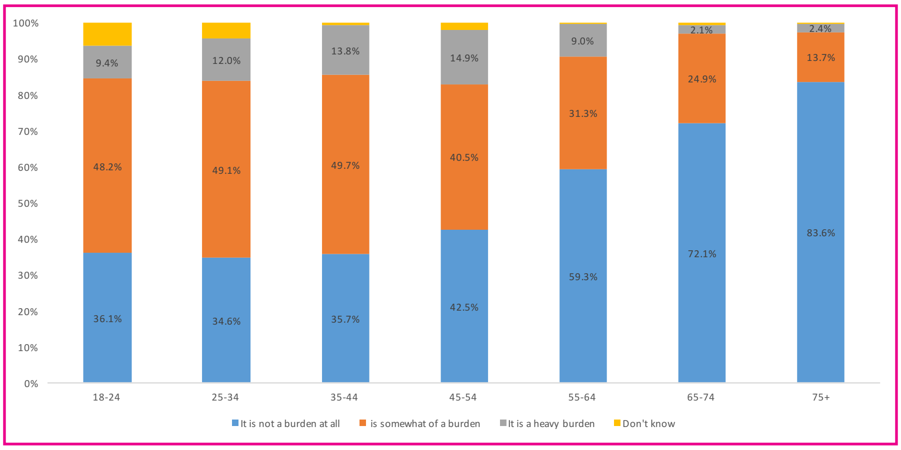
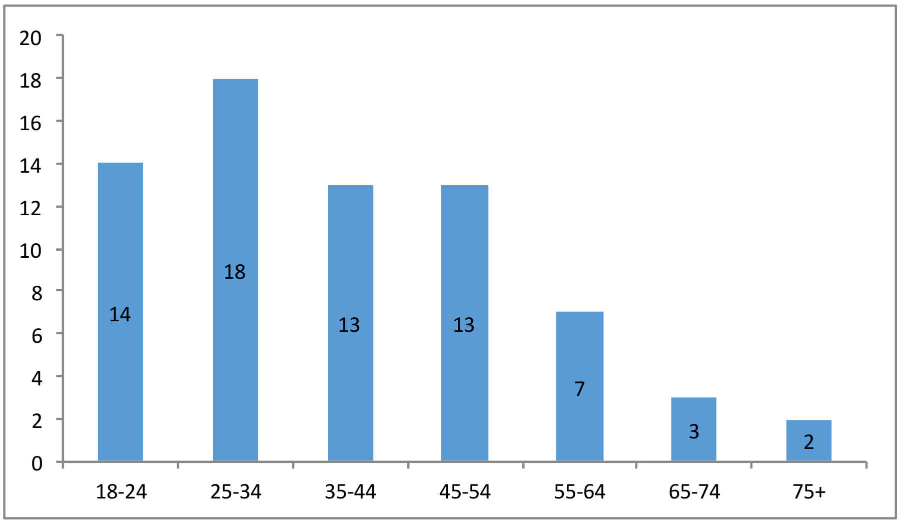


Figure 35: Percentage of people who said they had difficulties keeping up with your bills and credit commitments, Financial Capability Survey 2015



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

Figure 36: Individual insolvencies in UK, quarterly data

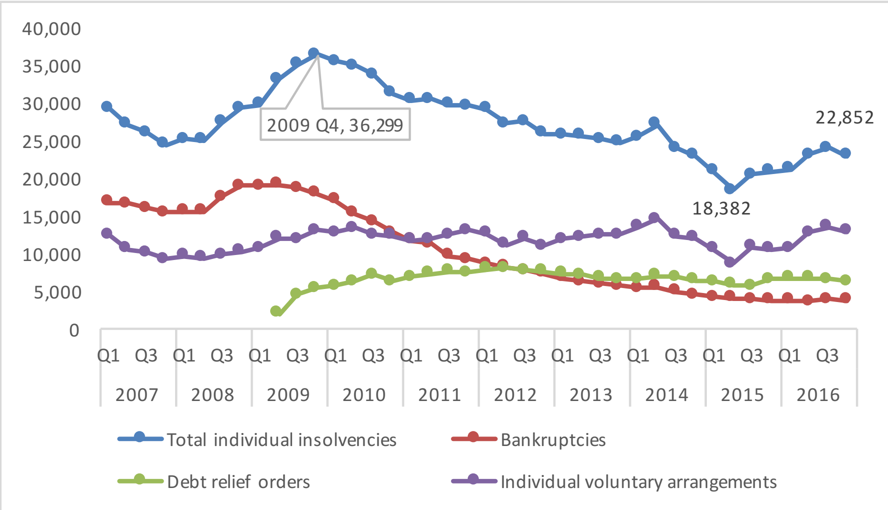
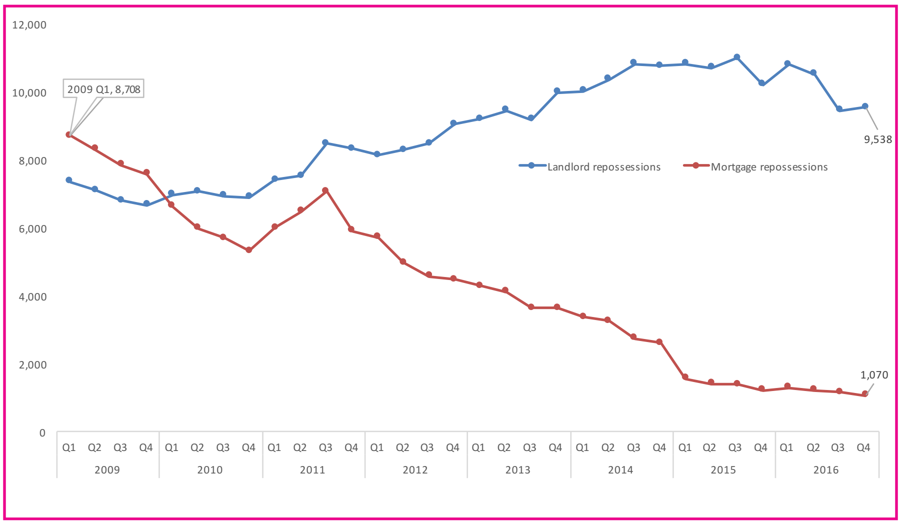


Figure 37: Mortgage repossessions and landlord possessions 2009-2016



In a different survey, the Family Resources Survey, we see that eight per cent of the population said that they could not keep up with bills and regular debt payments, according to in 2015–16 data. This figure has dropped slightly from ten per cent in 2012–13 but it seems that around one in ten of the population have consistently faced significant problems with bills and debt payments over the last few years.

If people are not able to keep on top of their debts there can, of course be serious consequences. Linked to this, another indicator of serious problem debt is the rate of insolvency[47]. 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 – 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.

Data from the Insolvency Service[48] shows that the total numbers of individual insolvencies declined from a peak of over 35,000 in the last quarter of 2009 to 18,000 in the middle of 2015 but in the last year this figure has risen to just under 23,000 in the last quarter of 2016. Rates of bankruptcy have been steeply declining since 2009 while debt relief orders have increased and individual voluntary arrangements have fluctuated slightly (see figure 36).

Another, quite extreme, indicator of problem debt is the number of properties taken into possession over time. Figure 37 shows this trend both for mortgage repossessions and landlord possessions with a considerable difference in the trend. Mortgage repossessions have been declining steadily since 2009 while the reverse is true of landlord repossessions.

[47] See the Insolvency Service website: **www.bis.gov.uk/insolvency**
[48] **www.gov.uk/government/statistics/insolvency-statistics-january-to-march-2015**

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 38 shows, all parts of this process – for mortgages(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 less than 20,000[49]. Actual (re)possessions by county court bailiffs were around 7,000 in 2003 but then rose to a peak of 36,000 in 2008 before falling to below 5,000 in 2016.

These decline in repossessions might seem surprising given the extent of the recession and austerity in the UK but it appears to be the result of actions taken by government, regulators and other key actors[50]. Low interest rates have certainly helped along with increased help with mortgage payments when people lose their jobs. The government also introduced new protocols to ensure that lenders exercised greater forbearance when borrowers found themselves in arrears. However, some of this support for mortgagors is due to end in 2016 so this may cause some difficulties, particularly if interest rates rise and the cuts in tax credits begin to affect people further.

We see a different trend with evictions from rented properties (technically referred to as landlord possession)[51]. Figure 39 reports on landlord possession claims (which may not necessarily lead to evictions). These actually declined among social landlords during the early 2000s with a total of 90,000 in 2010 but increased quite dramatically to113,000 in 2013. They have subsequently declined again to just over 80,000 in 2016. Accelerated possession claims are used when the tenant is near the end of their lease. It is not possible to split this into private and social landlords. They have increased every year since 2009 from 17,000 to 38,000 in 2015 but fell in 2016 to 34,000.

Figure 38: Mortgage possession statistics in County Courts in England and Wales, Ministry of Justice data

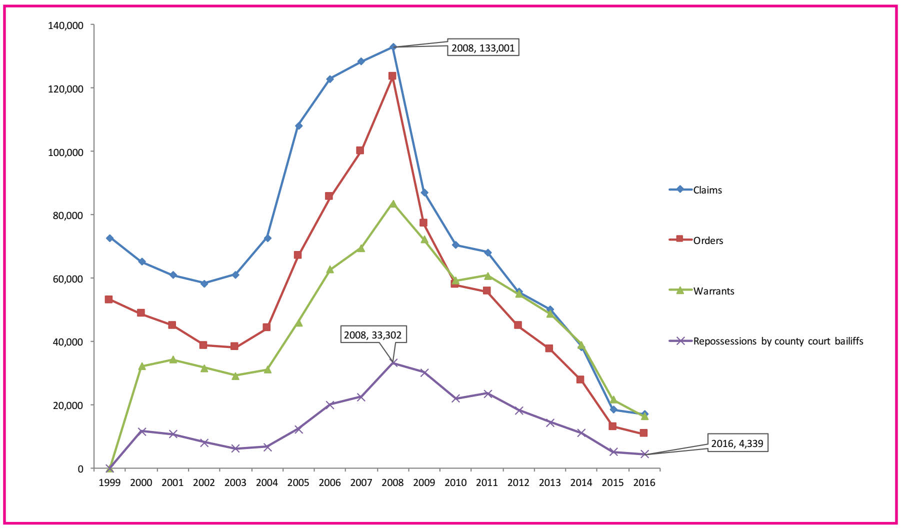
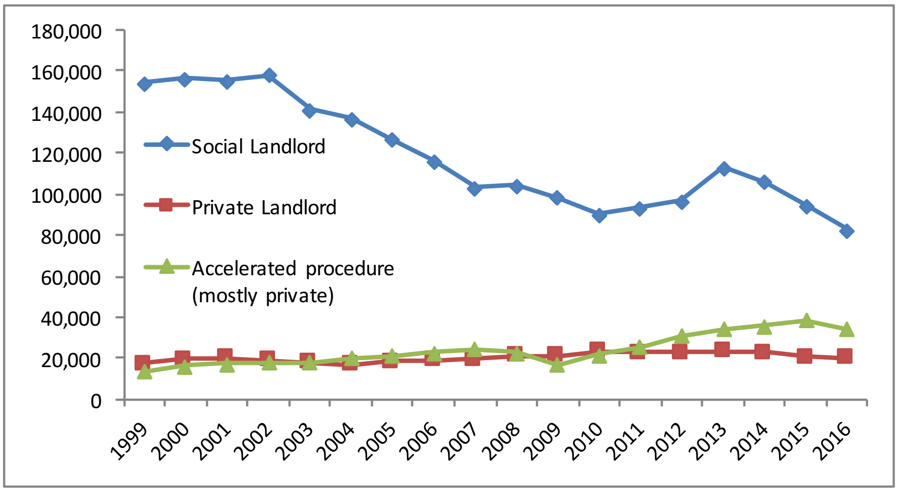


Figure 39: Landlord possession claims in the county courts of England and Wales by type of procedure and landlord, 1999 - 2016, Q4

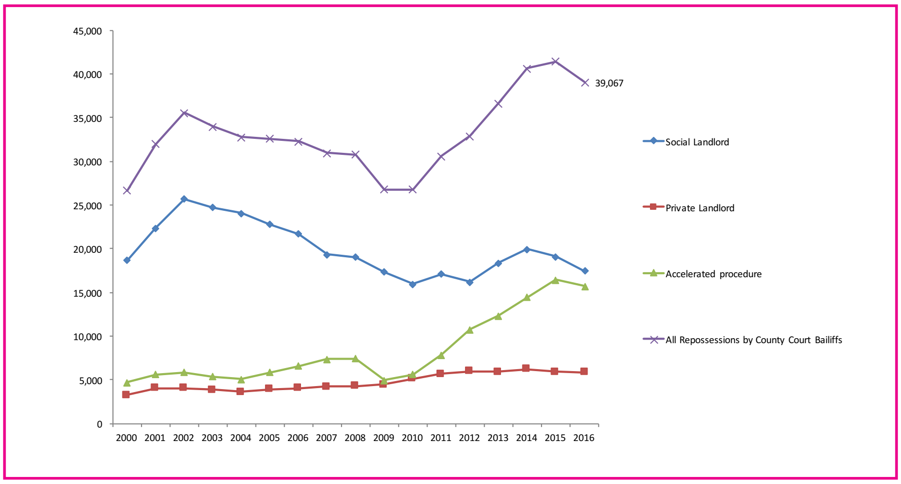


[49] www.gov.uk/government/statistics/mortgage-and-landlord-possession-statistics-october-to-december-2014

[50] Kempson, E (2016) What explains the low impact of the financial crisis on levels of arrears among UK households? in Ferretti, F (ed) Comparative Perspectives of Consumer Over-Indebtedness; A View from the UK, Germany, Greece, and Italy, Eleven International Publishing

[51] 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-possessions-statistics-october-december-2014.pdf

Figure 40: Landlord possession workload in the county courts of England1,2, 1999 - 2015, Q4, HM Courts and Tribunals Service CaseMan and Possession Claim On-Line (PCOL)



Not all claims lead to evictions but figure 40 shows that in 2016, there were just under 40,000 landlord (re-)possessions/evictions in England and Wales, a dramatic increase from the 27,000 in 2010 but a slight fall on 2015.

These figures are very positive but, as of autumn 2016, there were an estimated 4,134 people a night sleeping rough on England's streets, more than double the number in 2010 and a 16 per cent increase on the year before[53]. It is very difficult to accurately and reliably measure street homelessness but these figures suggest that levels of destitution are increasing, as also discussed in last year's report.

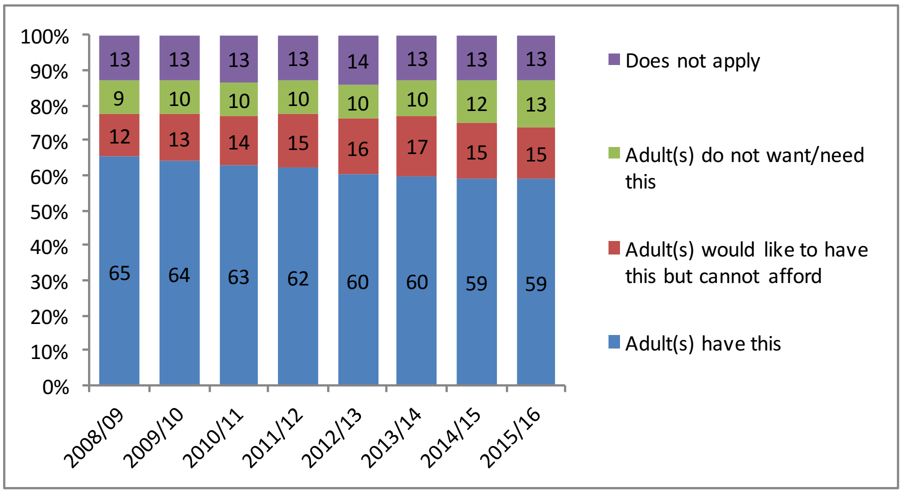
[53] www.bbc.co.uk/news/uk-politics-39745253

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 sector[54] 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 a continuing slow decline in the proportion of households with home contents insurance. According to figures from the Family Resources Survey suggest the proportion of working adults who had home contents insurance between 2008/9 to 2015/16 from 65 per cent to 59 per cent (see figure 41).

Figure 41: Home contents insurance for working-age adults 2008/9 to 2015/16, Source: Family Resources Surveys



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

Looking ahead: views about the impact of Brexit and the 2017 General Election

This year's report highlights some new data from the Bank of England/NMG's survey which was conducted in September 2016 (see figure 42). It asked people for their expectations of the impact of the Brexit vote on them and the economy more generally.

While this is a very general subjective question and did not specify the kind of impact it was interested in, the findings are nevertheless interesting, with a higher proportion of the public saying that the vote would make the economic situation worse than better (38 per cent compared with 14 per cent). Most of these people thought the impact would either be a little better or worse. But one in ten of the population thought it would be a lot worse.

Figure 43 shows a similar pattern in terms of people's expectations that the impact of Brexit on unemployment will be detrimental, overall, with 34 per cent of the population saying that unemployment would increase over the next 12 months as a result of Brexit with 15 per cent thinking it would decrease and 39 per cent believing it would make no difference.

Figure 42: How do you expect the vote for Brexit to affect the general economic situation of this country over the next 12 months compared to how things would have been if the UK had voted to remain in the EU? Source: Bank of England/NMG survey, September 2016

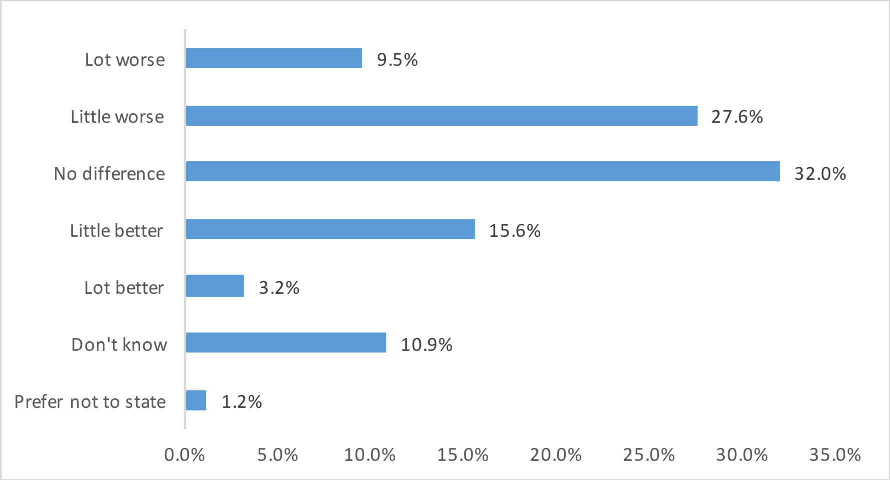
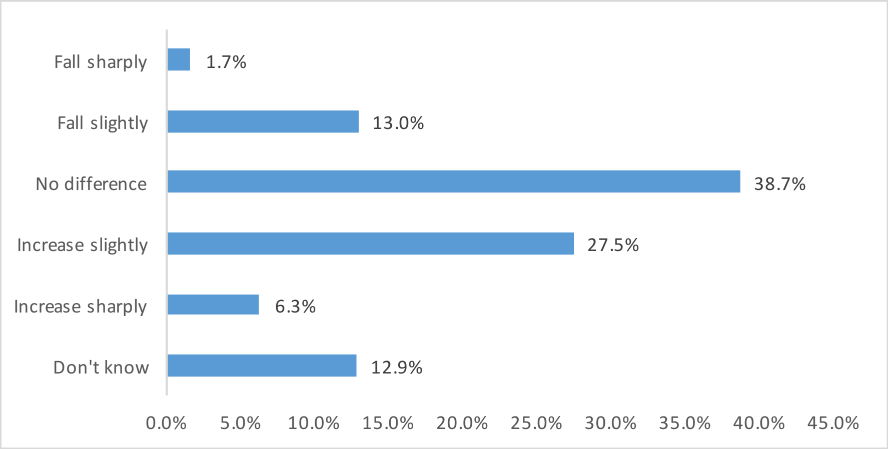


Figure 43: How do you expect the vote for Brexit to affect the number of people unemployed in this country over the next 12 months compared to how things would have been if the UK had voted to remain in the EU? Source: Bank of England/NMG survey, September 2016



[53] Collard, S, Coppack, M, Lowe, J and Sarkar, S (2016) *Access to financial services in the UK*, London: FCA, **www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf**

Turning now to how people thought Brexit would affect themselves and their families more directly, we again see a pessimistic outlook, overall, with 16 per cent predicting that their household's financial position would worsen over the next 12 months as a result of the vote for Brexit – see figure 44. This compares with nine per cent thinking it would be better and 55 per cent who think it would make no difference.

And, finally, when people were asked about the likelihood of them losing their own job as a result of the Brexit vote, we again see a degree of pessimism with a staggering 20 per cent thinking that the chances of losing their job as a result of the vote had increased and only five per cent thinking it had decreased – see figure 45. Two thirds, however, (66 per cent) thought it would make no difference to their chances of becoming unemployed.

These views were expressed three months after the referendum result, before there was much opportunity to see any actual economic impact apart from the drop in the value of sterling, and perhaps the expectation (now being realised) that this would feed through into higher inflation. Overall these figures show that more people believed that the economic consequences would be negative rather than positive – both for the country as a whole and their own families in particular.

More recently, we added two questions to the Ipsos/Mori survey carried out between 23rd June and 3rd July 2017 following the General Election on June 8th. These questions were designed to gauge people's views of the impact of the outcome of the Election on both the economic position of the country as a whole and on the financial position of their own household over the next year. As figure 46 shows, people were largely pessimistic about the impact, particularly for the country as a whole. More than half thought the Election result would make the economic position of the country as a whole worse, with one in five saying it would be 'much worse'. Nearly half thought that their own household's finances would suffer as a result of the election. Very few thought that the Election would have a positive impact in economic terms. Those in the lowest income quartile were twice as likely to predict that their finances would be 'a lot worse' compared with those in the highest income quartile (23 per cent compared with 11 per cent)

Figure 44: How do you expect the vote for Brexit to affect the financial position of your household over the next 12 months? Source: Bank of England/NMG survey, September 2016

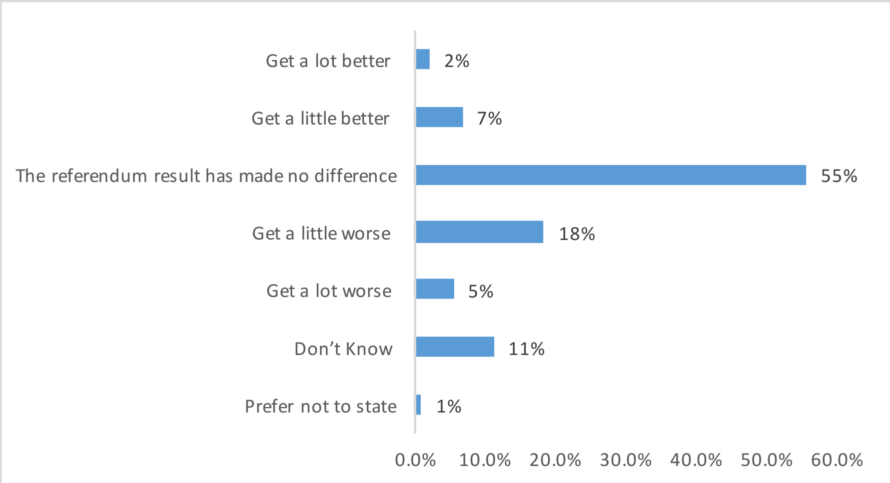
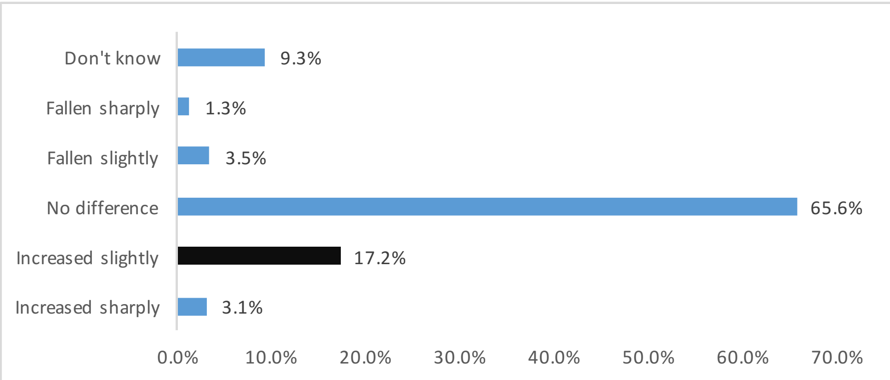
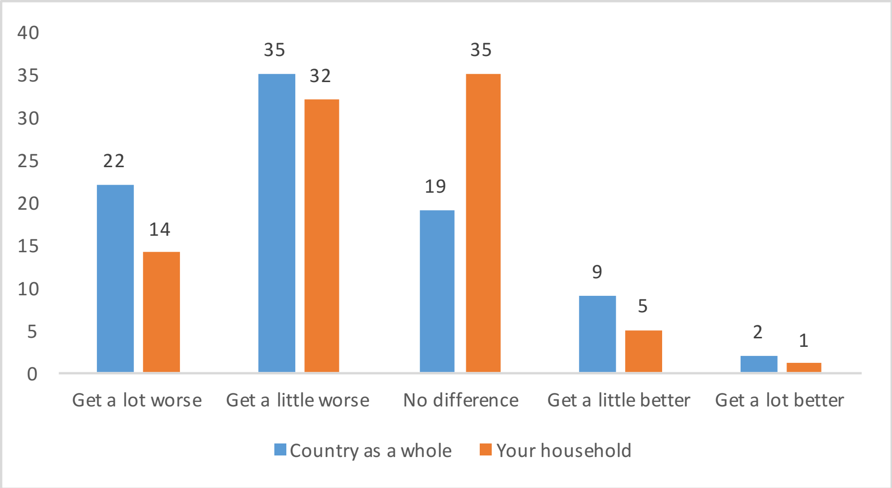


Figure 45: Compared to how things would have been if the UK had voted to remain in the EU, has the likelihood of you losing your job…? Source: Bank of England/NMG survey, September 2016



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

Figure 46: How do you expect the result of the 2017 General Election to affect the economic/financial situation of the country as a whole/your household over the next 12 months?



Conclusions

This is the last in a series of five annual reports on financial inclusion commissioned by the Friends Provident Foundation in 2012. In producing these reports, we have defined financial inclusion broadly as the ability: to manage day-to-day financial transactions; meet expenses (both predictable and unpredictable expenses); manage a loss of earned income; and avoid or reduce problem debt. This report, and the Executive Summary at the beginning, provide facts and figures from a wide range of datasets on all aspects of financial inclusion. These conclusions draw out some key themes.

Compared to last year there are some positive signs. For example, unemployment has fallen and employment has increased. Some groups in the population have reduced their debts and the number of people with a workplace-based pension increased dramatically in the last two years. Insolvencies have fallen, as have mortgage and landlord possessions. This evidence suggests that financial inclusion has increased for some groups as they are now better able to: manage a loss of earned income (particularly in retirement); and, avoid or reduce problem debt.

Other signs are less positive, however. Real wages continue to fall and incomes are being further squeezed, particularly at the bottom of the income distribution – as a cap on benefit rises confronts a recent spike in prices. As a result, some people are struggling more, not less, to meet their expenses and avoid or reduce problem debt. Basic benefits have been cut even further for those of working age. Progress has stalled in the last few years on reducing the number of people who are 'unbanked' which suggests that the ability to manage day-to-day financial transactions will be reduced. For those who borrow money, the amount is increasing and it is difficult to afford even the basics.

Our research tentatively suggests that there are four groups within the population in relation to financial inclusion:

- A group of people who are the most excluded. Some of this group have no access to financial services at all, including basic bank accounts, let alone savings, pensions or loans. Many in this group will be out of work, struggling to pay for basic bills and goods, including food, fuel and shelter.
- The next group might be referred to as the 'just about managing' or even 'barely managing'. This group is likely to have a bank account and access to credit though much of this credit will be high-cost. They may have a savings account but very little in it and they are unlikely to have much money, if any, in a personal or workplace pension. Many of those in this group who are of working age are likely to be in paid work but on low and insecure incomes. They will also be struggling to keep up with bills and basic goods.
- Then come those on, and slightly above, average earnings either in work or in retirement. This group will also have access to some financial services but have relatively little liquid or pension savings. This group will be 'doing alright'.
- Finally, we have the group who are generally finding life quite comfortable, financially, including some whose incomes and levels of wealth are very high, relative to the average. Some of this group will be the 'super-included' who have access to low-interest mortgages and loans, even zero-interest loans for some goods. They will be home owners who have money saved in liquid forms as well as in relatively generous occupational pensions. Many will be older than average.

While it is difficult to put figures on the proportion of people in each of these groups, it is likely that the first group is relatively small though the most financially excluded and therefore the one most in need of policy response to support. Such support must come in the form of raising the level and security of their incomes as well as ensuring that they have access to appropriate and affordable financial services, particularly basic bank accounts. Those 'barely managing' require similar policy responses but with the emphasis on affordable credit. And those 'doing alright' at the moment need further support to build up adequate savings and pension pots for future financial security.

It is similarly difficult to provide robust figures for how numbers in these groups have changed over the last five years, not least because there have been contrary trends during this time. But we certainly appear to be seeing a higher proportion of people struggling at the bottom and being squeezed in the middle. Those who have managed to remain at the top, however, appear to have improved their positions relative to others. Looking ahead, people generally are far more pessimistic than optimistic about the future following the 2016 Brexit vote and the 2017 General Election result. This provides even more impetus to tackle the fundamental causes of financial exclusion going forward.

We very much welcome the introduction of a Parliamentary Under-Secretary of State for Pensions and Financial Inclusion. We hope that this appointment will see the start of a renewed government focus on increasing financial inclusion so that the divisions and exclusions in our society can be reduced to the benefit of all. We particularly highlight the report from the House of Lords Select Committee on Financial Exclusion for providing both an evidence-based analysis of the nature of the problem of financial exclusion and a policy roadmap for how to reduce it.

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. Four waves have been produced, covering 2006-08, 2008-10 and 2010-12 and 2012-14[55 56]. 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. The fourth wave of the survey ran from 2012 to 2014 and comprised 20,247 responding households. It returned to responding households who gave their permission to be re-interviewed. Households who were eligible but who could not be contacted in the previous wave were approached again at wave 4. A new cohort was introduced (8,000 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 held . 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 then . 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 year.

- **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 Britain[61] based on data from the YouGov DebtTrack survey, a series of on-line surveys carried out between July 2008 and July 2009 with a sample size of around 3,000. Another source of data here is the NMG survey for the Bank of England, carried out in 2012-2016[62 63].

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55 Office for National Statistics. Social Survey Division, Wealth and Assets Survey, Colchester, Essex: UK Data Archive [distributor], March 2013. SN: 7215, **www.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**

56 **www.webarchive.nationalarchives.gov.uk/20160105160709** and **www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-4/2012-2014/index.html**

57 **www.webarchive.nationalarchives.gov.uk/20160105160709** and **www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-4/2012-2014/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, **www.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: 6614, **www.dx.doi.org/10.5255/UKDA-SN-6614-4**

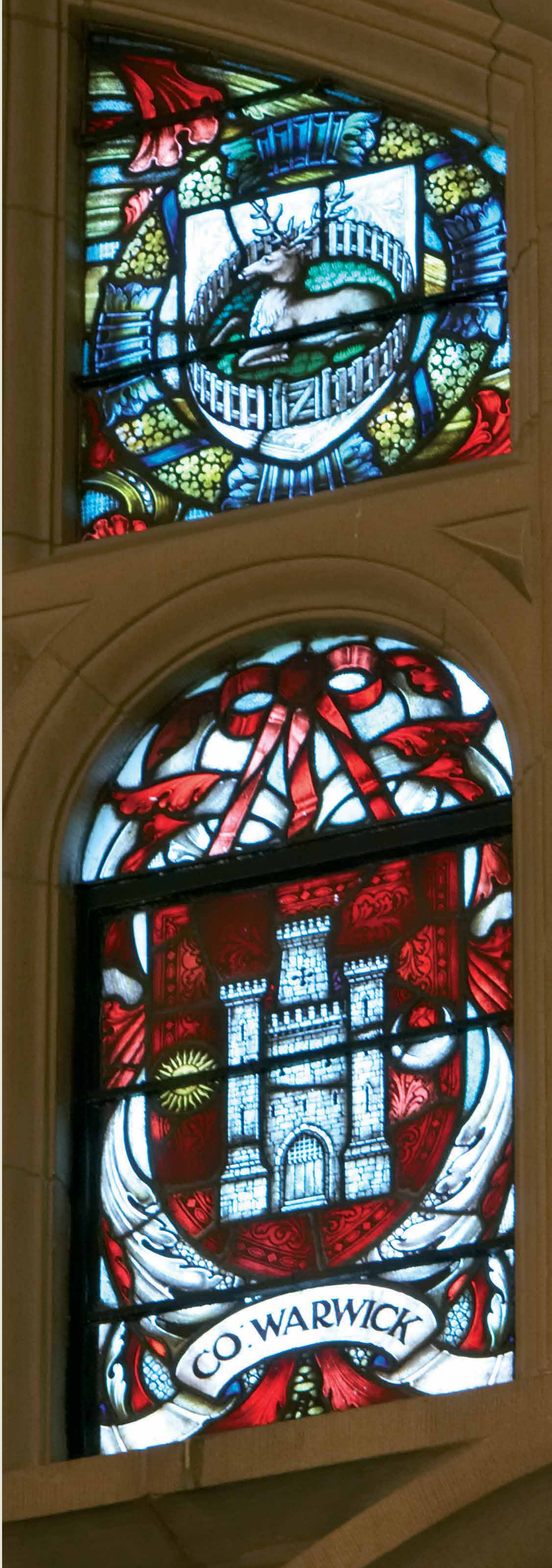
61 BIS (2010) Over-indebtedness in Britain: second follow-up report, **www.bis.gov.uk/assets/BISCore/consumer-issues/docs/10-830-over-indebtedness-second-report.pdf**

62 Between 12 and 30 September 2013, NMG Consulting carried out an online survey of around 6,000 UK households on behalf of the Bank and asked them a range of questions about their finances See: **www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130406.pdf**

63 **http://www.bankofengland.co.uk/research/Pages/onebank/datasets.aspx#2**

- **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 unemployed[64]. These data are Crown Copyright.

- **Ipsos/MORI omnibus survey 2013-2017**
  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 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, and again in April 2016 with 927 adults, and finally in June/July 2017 with 973 adults.



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[64] 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, **www.dx.doi.org/10.5255/UKDA-SN-7174-1**

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