UNIVERSITY OF BIRMINGHAM | CHASM Centre on Household Assets and Savings Management

# Financial Inclusion Annual Monitoring Briefing Paper 2018

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## Executive Summary

Financial inclusion is driven, in large part, by levels of income and there have been some positive signs here in recent years with unemployment falling and full-time employment and wages increasing. However, the most recent data suggest that growth, and wages, are starting to stall again. Furthermore, poverty is increasing, both in and out of work, with those out of work particularly affected by benefit cuts and delays. Attention has indeed now turned to levels of severe deprivation in the UK, with more than 1.5 million people experiencing destitution in 2017 and the numbers turning to food banks for emergency help reaching a record high.

When we turn to more specific indicators of financial inclusion, we also see some initially positive signs, with the number of people 'unbanked' reaching an all-time low in 2017 at 1.23 million, and the number of people evicted from rented properties falling in 2017. However, there were still as many as 36,000 evictions in 2017 and the number of individual insolvencies actually increased to nearly 100,000. Furthermore, the Money Advice Service estimate that in 2017, about 8 million people were struggling to keep up with bills and credit commitments and just over 4 million had fallen behind with payments in three or more of the last six months. Only 1 million people received debt advice.

Levels of personal borrowing in the UK remain very high. Unsecured credit is still increasing such that almost half of the population were in debt in this way in 2014–16. And while some forms of high cost credit have declined as a result of key policy changes, more than 10 million people had used an unarranged overdraft between 2015–16 and these could cost more than ten times as much as a payday loan.

Given the high levels of credit and debt, it is not surprising to find that, on average, people were saving less of their incomes in 2017 than at any point in the past 20 years though better-off savers were increasing the amounts they had saved. Pension savings, however, have become much more widespread in the last couple of years as a result of a key policy change, automatic enrolment into workplace pensions. This shows the power of policy change though there are concerns about whether people will have enough saved in these pensions to provide for a decent standard of living in retirement.

## Introduction

This briefing paper builds on five previous annual reports commissioned by the Friends Provident Foundation to measure changing levels of financial inclusion in Britain from 2013–2017. This year's briefing paper is funded by Friends Provident Foundation and Barrow Cadbury Trust. The paper presents data from a number of different datasets. Where possible, we have shown data from previous years to highlight trends in these indicators. Links to infographics and data sources are included throughout this briefing paper.

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. In order to achieve financial inclusion, people need both a sufficient level of income and access to appropriate financial services. This briefing paper therefore reviews evidence on the broad economic picture in terms of growth, employment and incomes as well as the more specific data on access to financial services.

## 1/The economy

After the economic crash of 2008/9, the rate of economic growth (GDP) increased and was relatively strong by 2014 but this rate of growth has been falling and indeed appears to be stalling in most recent data – the first quarter of 2018 **(1.1)**. Inflation fell quite dramatically between 2012 and 2015 and has risen in the last couple of years but now appears to be falling again according to most recent data **(1.2)**. In August 2018, the Bank of England's Official Interest Rate was raised to 0.75%. This is the first time it had reached more than 0.5% since 2009 **(1.3)**.

## 2/Employment levels, types and earnings

Unemployment has fallen to levels even lower than those last seen before the 2008 economic crash but there were still 1.4 million people out of work who were available for, and seeking, a job in 2018 **(2.1)**. Growth in full-time employment continues and, since 2014, has well out-stripped growth in part-time working and self-employment **(2.2)**. The rapid growth in zero hour contracts, witnessed since 2012, has now stopped. But there were still nearly 1 million people on such contracts in 2018 **(2.3)**. For the first time since the economic crash of 2008, there were as many people who wanted to work fewer hours as there were people who wanted to work more hours **(2.4)**. After six years of decline, average weekly earnings increased from £442 per week in 2014 to £461 per week in 2016 but have remained broadly the same since then **(2.5)**.

## 3/Poverty and destitution

Poverty has increased since 2010. In 2016/17, 30 per cent of all children and 16 per cent of all pensioners were living in poverty **(3.1)**. Furthermore, 1.5 million people, including 365,000 children, were destitute at some point during 2017. This means that they could not afford to buy the bare essentials that we all need to eat, stay warm and dry, and keep clean **(3.2)**. Means-tested benefits are failing ever more to help people reach a Minimum Income Standard. People of working age received only one third of what they needed to reach this standard in 2018 and a lone parent with a one year-old received only half of what they needed **(3.3)**. According to the National Audit Office, the Department for Work and Pensions paid around 113,000 new Universal Credit claims late in 2017, approximately 25% of all new claims. On average, these were paid four weeks late **(3.4)**. The Trussell Trust gave out 1.3 million emergency food parcels to people in 2017/18 **(3.5)**.

## 4/Subjective financial wellbeing

Roughly a third of the population said they were living comfortably in 2015/16. About two in five said they were 'doing alright' and a quarter said they were 'just about getting by' or 'finding it difficult' or 'very difficult' to do so **(4.1)**. Those aged between 35–54 were most likely to say they are just about getting by or finding things difficult, financially, in 2015/16 **(4.2)**. On balance, people think that their personal financial situation has worsened over the last 12 months following a brief period of positivity in 2016–2017 **(4.3)**.

## 5/Access to bank accounts

The number of people 'unbanked', that is without a transactional bank account, reached an all-time low in 2017. Nevertheless, there were still 1.23 million adults without their own access to a current or basic bank account, or savings account **(5.1)**. In 2014/16, most people had current accounts in credit and over half had savings accounts. ISAs were by far the most popular type of savings account, particularly cash ISAs. More than one in ten had a current account in overdraft **(5.2)**.

## 6/Savings

People were saving less of their incomes in 2017 than at any time in the past 20 years. The household saving ratio in 2017 was half the level it had reached in 2009 **(6.1)**. In 2016/17, about one in eight (13% equating to 6.5 million) UK adults had no cash savings whatsoever. A further quarter (24%) had savings that were less than £1,000 in total (including all money held as savings in current accounts, as well as in savings accounts, cash ISAs, NS&I bonds or premium bonds) **(6.2)**. The gap between the amount saved by 'average' savers and better-off savers is increasing. The average (median) saver had at least £9,000 in 2014/16, up from £7,000 in 2006/8. Those in the top quarter of savers, had at least £46,000, up from £34,100 in 2006/8 **(6.3)**.

## 7/Pensions

Following a long period of decline, there has been a dramatic increase in the number of people with private sector workplace pensions since the introduction of auto enrolment in 2012. There has also been an increase in the number of people with public sector pensions since the late 1990s **(7.1)**. There has been a dramatic increase in active pensions with 'defined contributions' alongside a steady fall in those with 'defined benefits' **(7.2)**. Young people were much less likely to have defined benefit pensions than older people in 2017 **(7.3)**. The vast majority of those in public sector jobs, at all levels of earnings, have an occupational pension. In 2017, those in private sector jobs were much less likely to have occupational pensions overall and particularly if they were on low incomes **(7.4)**.

## 8/Borrowing

Mortgage lending (approvals) dropped dramatically in 2007/8. They have increased slowly since then but are now tailing off and still lie well below the levels seen before the crash **(8.1)**. In 2014–16, nearly half (47 per cent) of the population had some form of unsecured lending with credit and charge cards the most popular followed by formal loans, hire purchase and overdrafts **(8.2)**. Net credit card lending to individuals is now growing at a rate of about 10 per cent per year. This rate of growth is the highest it has been in a decade though not as high as it was leading up to the credit crunch in 2004/5 **(8.3)**. Net consumer credit lending (excluding credit cards and student loans) is now growing at a rate of about 9 per cent per year. This rate of growth fell slightly in 2017/18 but was at a similar level to that witnessed just before the credit crunch in 2004/5 **(8.4)**.

There has been considerable interest in high cost credit recently, particularly payday lending and rent-to-own products. As an example, the total cost of a fridge freezer from BrightHouse in 2016 was £1,326 (comprising £478.33 purchase price, interest of £478.33 and the rest covering various warranties, delivery charges etc). The same fridge freezer from the non-profit provider, Fair for You, was £583.68 (comprising £373.99 purchase price, interest of £120.38, other charges of £89.31) **(8.5)**.

The Financial Conduct Authority has pointed out that the cost of unarranged overdraft fees is regularly ten times higher than fees for payday loans. Furthermore, fewer than 1 million people take out payday loans compared with at least 10 million using unarranged overdrafts **(8.6)**.

Student debt is very different to other forms but nevertheless it is worth noting that the Loan Balance on Student Loans (Higher Education) tipped over the £100b mark for the first time ever in 2017. This is half the level of all other unsecured consumer credit put together (£197b) **(8.7)**. The average amount students owe, as they start to pay off their loans, has increased to just over £32,000 in 2017, double the amount in 2011 **(8.8)**.

At the end of 2017, there were 1.75m members of credit unions in the UK **(8.9)**.

## 9/Problem debt

About 8 million people were struggling to keep up with bills and credit commitments in 2017. Of these, only about 1.1 million people received advice **(9.1)**. About 8 per cent of the UK adult population, or 4.1 million people, said that they had actually fallen behind with domestic bills or credit commitments in three or more of the last six months in 2017 **(9.2)**.

Those on the lowest incomes are much more likely to be in arrears on utility bills and credit commitments: 16 per cent of those on the lowest incomes (lowest 10 per cent of incomes) were in arrears in 2012/14 compared with only 1 per cent of those with the highest incomes (highest 10 per cent of incomes) **(9.3)**.

There has been an increase in the number of individual insolvencies from 20,742 in the first quarter of 2015 to 27,388 in the first quarter of 2018. In 2017, nearly 100,000 people became insolvent **(9.4)**. The number of landlord repossessions (evictions) by county court bailiffs has declined slightly from a peak of nearly 53,000 evictions in 2015 to 36,000 in 2017. Mortgage repossessions remain at a relative low of around 7,000 per year **(9.5)**. The overall decline in landlord repossessions (evictions) is largely driven by a decline in evictions by social landlords (and some decline in accelerated evictions). The number of evictions by private landlords has remained fairly constant over the last few years **(9.6)**.

## 10/Insurance

Only six in ten working-age adults had home contents insurance in 2016–17. Of those who did not have it, the reasons given were equally split between those saying it was not relevant to them, those saying it was relevant but they did not want it and those saying they could not afford it **(10.1)**. Very few 16–24 year olds have home contents insurance and fewer than half of 25–34 year olds have it **(10.2)**. The average household had £34,900 worth of home contents in 2016 which equates to about 1.4 times annual household disposable income. The median spend on contents insurance was £128 per year which is the same as was spent on cleaning materials over the same period **(10.3)**.

To see all the data from this paper, please visit our **website**.

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