Financial Inclusion: Annual Monitoring Report 2021

Stephen McKay, University of Lincoln.

Karen Rowlingson, University of Birmingham.

October 2021

UNIVERSITY OF BIRMINGHAM

CHASM
Centre on Household Assets and Savings Management

Contents

Executive summary iii
Introduction 1
Towards a financially-inclusive society 1
The policy context 2
Detailed findings 6
1. THE ECONOMY 6
2. THE LABOUR MARKET 9
3. INCOMES 15
4. SUBJECTIVE FINANCIAL WELLBEING 20
5. BANK ACCOUNTS 25
6. SAVINGS 29
7. PENSIONS 34
8. BORROWING 38
9. PROBLEM DEBT 44
10. INSURANCE 49
Conclusions 51
Appendix: Data sources and research methods 52
Stakeholder engagement 52
Secondary analysis of existing data sources 52
Administrative data 52
Survey data 53

Key notes

-19% output

The dramatic fall in GDP in the second quarter of 2020 due to lockdown where the economy shrank by 19%, an unprecedented amount in modern times

14.5 million people in poverty *before* lockdown

Equating to more than one in five people. This includes 8.4 million working-age adults, 4.2 million children and 1.9 million pensioners (2019/20)

Universal Credit caseload doubled from 2019-2020

From 3 million to 6 million

One in five have seen savings decrease

during the pandemic, despite the fact that the household savings ratio quadrupled as a result of lower spending by many during lockdowns

1 million people on zero hours contracts

in the first half of 2020 – the first time this level has been reached

Furlough scheme supported 11.7 million employments

between March 2020 and September 2021

2.5 million emergency food parcels

and support provided by the Trussell Trust in 2020/21

4.3 million adults in debt with household bills

in January 2021

£45,000 student debt

= the average Student Loan Company Balance for those who finished their courses in 2021.

Executive summary

The economy

- We have seen dramatic economic change in the last year, with GDP nose-diving by 19 percentage points in the second quarter of 2020 before bouncing back by 16 percentage points in the third quarter before plunging again and rising again to 5.5% in the second quarter of 2021.
- Inflation fell to very low levels in 2020 as a result of the lockdown and then 'eat out to help out' discounts but then rose dramatically in 2021 as the economy recovered and some of the fallout from Brexit began to affect prices.
- Interest rates remain at historic lows: 0.1 per cent.

The labour market

- The labour market has also seen dramatic change with a significant increase in unemployment despite the introduction of the furlough scheme in March 2021 'Overemployment' has started to decline for the first time in five years as 'underemployment' has started to rise.
- Full-time employment has continued to rise even during the pandemic but we have seen dramatic falls in part-time work and part-time self-employment. Perhaps linked to this, the number of people on zero hours contracts has also declined in recent data but did reach over 1 million in the first half of 2020 – for the first time ever.
- The Coronavirus Job Retention Scheme (CJRS or Furlough scheme) supported 11.7 million employments between March 2020 and September 2021
- Despite the introduction of the Furlough scheme, Universal Credit caseloads were nearly twice as high in December 2020 than one year earlier, ie before the pandemic

Incomes

- While many people have lost jobs during the pandemic, average wages for those in work have actually increased no doubt at least partly signalling that job losses have occurred among the lowest paid.
- Official data on relative poverty levels is not particularly timely but shows that poverty was increasing before the pandemic with nearly 31 per cent of children and 18 per cent of pensioners living in poverty after housing costs in 2019/20.
- The £20 uplift to Universal Credit increased the ability of those on means-tested benefits to attain a minimum income standard though they were still a long way off and further away than they were last year.

- Use of food banks has soared still further in 2020/21 with 2.5 million emergency food parcels being provided by the Trussell Trust alone compared with 1.9 million in 2019/20
- In January 2021, 3 million children were living in families struggling to buy food and other essentials.

Subjective financial wellbeing

- There were clear signs of strain on people's finances pre-Covid. The pandemic has added to this very considerably. According to the Financial Conduct Authority, 38 per cent (or 20 million adults) had seen their financial situation worsen during 2020 due to Covid, with 7.7 million of them seeing it worsen a lot.
- Nearly 10 million people were forced to cut back on essentials like food and clothing due to the pandemic.
- Some groups have fared worse than others including Black, Asian and minority ethnic adults, the self-employed, adults with a household income of less than £15,000 per year, families with children (particularly single parents), and those aged 18-54.

Bank accounts

- In 2019/20, there were just over half a million adults living in households without access to a transactional bank/savings account. This was a slight increase on the previous year.
- Just under a million people in 2019/20 personally lacked a transactional bank/savings account
- Online and mobile banking are increasingly being used but cash remains critical for many with more than 2 million people reporting being reliant on cash to pay for essential products in February 2021 and a further 7 million reporting that they would struggle without cash.
- Despite the need to retain access to cash, many free-to-use cash machines have been lost and, in many cases, replaced by cash machines that charge for withdrawals. Disadvantaged areas are more likely to lose cash machines than other areas despite the fact that the need for them is greater there.

Savings

- On average, personal savings have actually increased during the pandemic as many people have been unable to spend their money on holidays, leisure, entertainment and other forms of consumption. But there is much variation around this average.
- About 235,000 people have saved money in the government's Help to Save scheme, targeted at people on low income, with the amount deposited monthly doubling during the pandemic to £8m in March 2021. But take-up of Help to Save is estimated to be below 10 per cent as there are around 3 million people eligible to join it.

- While some have increased their savings during the pandemic, one in five have seen their savings decrease as their incomes have fallen and/or their spending has increased. This means that wealth inequality has grown further as a result.

Pensions

- Pension savings continue to increase not least as a result of the introduction of workplace pension schemes in 2012, with most of the increase in Defined Contribution pensions with relatively small levels of contribution, particularly in private sector DC pensions.
- The Resolution Foundation estimates median private pension wealth in 2016-18 for workers in the bottom half of the income distribution to be only £2,391 for those close to retirement aged 45 to 54. This amount is very far below what would be needed to achieve an adequate standard of living in retirement.
- The Resolution Foundation estimate that a full-time Living Wage earner needs to save £3,000 a year to fund an adequate standard of living in retirement. This is £1,500 a year more than the current minimum auto-enrolment requirements and equivalent to an additional 8 per cent contribution rate.

Borrowing

- On average, unsecured borrowing has decreased in the last year, as consumers spend less on holidays, leisure, entertainment and other forms of consumption. However, as with savings, there is much variation around this average. And there are also problems for people who had borrowed prior to the pandemic but now face difficulties repaying their loans due to falls in income
- The Resolution Foundation found that 17% of the public who experienced a drop in income during the pandemic borrowed money to cover their living costs, reflecting low levels of savings.
- The Financial Lives Survey found that a fifth of those with a loan product in October 2020 had taken up the opportunity for a credit deferral rising to half of those with high-cost credit
- Mortgage lending dropped massively in March 2020 as the first lockdown was imposed but soon bounced back by the end of 2020
- One in six mortgage holders had taken up a mortgage payment deferral by October 2020
- Student loan debt continues to increase (to £160 billion in 2020/21) but, for the first time ever, the number of people making repayments decreased as did the amount repaid, no doubt due to the impact of the pandemic on young people’s employment and earnings.

Problem debt

- Consistent, reliable, real-time trends in problem debt are difficult to find but it is clear that problem debt has increased still further as a result of the pandemic.
- In January 2021, the Standard Life Foundation reported 10 per cent of the public had fallen behind with household bills and 15 per cent had fallen behind with unsecured credit commitments. The most common bills to struggle to pay include council tax, rent, electricity and water.
- The Financial Conduct Authority have also estimated that there were 8.5 million adults in financial difficulty in October 2020 (up from 7.2 million in February 2020 ie pre-Covid).
- Stepchange Debt charity estimated that 10.1 million adults were in financial difficulty in January 2021, with 4.3 million behind on household bills
- Various policies to support incomes (eg furlough/Universal Credit uplift) and reduce the existence or consequences of problem debt (eg ban evictions/repossessions and deferral of loan payments) have helped to reduce problem debt but most of these have now ended and the consequences of this are likely to cause further financial distress.

Insurance

- There has been little change in the percentage of adults with home contents insurance over the past year.
- Figures show that more people have (compulsory) car insurance than home contents insurance and renters were much less likely to have home contents insurance than owner-occupiers (31 per cent compared with 88 per cent).

Introduction

Towards a financially-inclusive society

This report is the ninth in a series of ten planned annual monitoring reports commissioned by the Friends Provident Foundation and Barrow Cadbury Trust to monitor progress towards, or indeed, away from financial inclusion in Britain. In order to provide a comprehensive picture, this report takes the same framework as the 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 (e.g. 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 (e.g. 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.

Much of the official focus on financial inclusion surrounds the second of these – access to financial services and in their *Financial Inclusion Report 2018/19*, HM Treasury and the Department for Work and Pensions stated that *''Financial inclusion' means that individuals, regardless of their background or income, have access to useful and affordable financial products and services.'* This begs the question of which products and services are 'useful' rather than 'harmful' and which are 'affordable' rather than 'unaffordable'. It also begs the question of barriers to access which the FCA in 2016[3] used three metaphors to describe: the void - physical

---

[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 Loughborough University, see http://www.minimumincomestandard.org/index.htm

[3] 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: https://www.fca.org.uk/static/documents/research/vulnerability-exposed-research.pdf.

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[4]. 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.

We briefly review the policy context to financial inclusion in this chapter. 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.

The policy context

Financial inclusion first emerged on the policy scene in the UK under the New Labour government from 1997 onwards. Key policy milestones under New Labour included: the establishment of Policy Action Team 14 in 1999 by the Social Exclusion Unit to focus on financial exclusion; the introduction of Basic Bank Accounts in 2003; publication of '*Promoting Financial Inclusion'* by HM Treasury in 2004; and then the formation of the Financial Inclusion Taskforce in 2005 to advise HM Treasury on access to banking, access to affordable credit, savings and insurance, and improve access to appropriate money advice[5]

The Coalition Government (2010-2015) retained an interest in this issue but had no overall strategy[6]. 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))[7]. Mortgage lenders also had to change their practices to conform to tighter regulation of affordability checks in the wake of the financial crash. The government also made changes to ISAs, allowing people to save more in such tax-free accounts. And the introduction of auto enrolment in workplace

---

[4] See, for example: Prabhakar, R (2021) *Financial Inclusion: Critique and Alternatives*, Bristol: The Policy Press; 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

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

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

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

pensions was a significant change in pensions policy alongside the extra freedom given to people to access the whole of their Defined Contribution pension pot on retirement. Alongside these 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 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 chaired by Sir Sherard Cowper-Coles which produced a report in March 2015[8] arguing for, among other things, greater leadership from government. The election of a Conservative government in May 2015 did not initially see a particular policy focus on financial inclusion. Austerity policies remained in terms of further cuts to benefits and tax credits causing hardship for some[9] but government policy was active in other related fields, not least: basic bank accounts; workplace pensions; new savings schemes; and local welfare assistance.

In a report published by the FCA[10] (2016: 18), the authors echoed the call for a stronger strategic lead from government and this call was again reinforced by the House of Lords Select Committee on Financial Exclusion in 2017[11]. Following on from this, in June 2017, the government established two ministerial roles with responsibility for financial inclusion: the Parliamentary Under Secretary of State (Minister for Pensions and Financial Inclusion) in the Department for Work and Pensions and the Economic Secretary to the Treasury, with the two departments producing the first of what was intended to be an annual report on financial inclusion in 2019. They also established the Financial Inclusion Policy Forum which is co-chaired by both Ministers and meets twice a year.

A series of reforms and changes in regulation have taken place since then. For example, the FCA introduced a cap on the cost of rent-to-own products from July 2019 and a package of reforms relating to overdrafts culminating in a change from April 2020 such that banks could only charge a simple annual interest rate for overdraft users – without additional fees and charges. The FCA have also acted in relation to a growing form of high-cost credit, Buy Now Pay Later (BNPL) offers. From the end of 2019, providers were obliged to give clearer information to customers and to prevent interest payments being backdated. And in 2021, HM Treasury announced that other, interest-free, BNPL credit agreements which currently sit outside the scope of regulation will be regulated by the Financial Conduct Authority (FCA) in order to protect consumers[12].

---

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

[9] 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.

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

[11] https://www.parliament.uk/financial-exclusion

[12] https://www.gov.uk/government/news/buy-now-pay-later-products-to-be-regulated

HM Treasury[13] has also been active in other ways in this space, with the Help to Save scheme launched in September 2018, to support people on low incomes to build up a savings buffer. A pilot of a new Prize-linked Savings Scheme took place between October 2019 and March 2021 (i.e. largely during the pandemic). Fifteen credit unions took part, and nearly 14,000 accounts were opened. The independent evaluation of the scheme[14] suggested that it did help increase awareness and positive attitudes towards credit unions while also helping individuals to save more than they otherwise would have done. The Association of British Credit Unions is now working with credit unions to continue the scheme[15]. The government also announced in the March 2021 budget a £3.8m pilot of a No Interest Loans Scheme[16]. And in terms of access to affordable credit, Fair4All Finance[17] established a Covid-19 Resilience Fund in 2020 which deployed over £3.8m of grant finance, supporting 31 providers who collectively lent £138m each year and serve 136,000 customers.

While government leadership on financial inclusion has increased since 2017, follow-up work from the House of Lords Select Committee on Financial Exclusion reported[18], in April 2021, that there was still a need for a coherent published government strategy on financial inclusion. The Committee also made further recommendations in relation to access to cash, digital inclusion, Basic Bank Accounts, the role of the Post Office, affordable credit, the Help to Save scheme, financial education and so on.

Despite all this activity on the policy and regulatory fronts, the last two years have been dominated first by Brexit and then, even more so, by the COVID-19 pandemic, with major impacts for people's finances, as we shall see in this report. Relevant policies to financial inclusion, since the COVID-19 crisis began, include asking lenders to provide mortgages payment deferrals and similar deferrals for other loans where borrowers are struggling to make payments. Renters have received some temporary protection from eviction but there have been no formal deferral schemes for rent payments. There has also been an unprecedented government response to supporting those in and out or work. This includes the 1,000 per annum Universal Credit uplift, a re-alignment of Housing Benefit with 30th percentile local rents to increase support for rent payments and a relaxation of the sick pay rules. In addition, local authorities have received extra funds to help vulnerable households with costs for essentials such as food, clothing and utilities and council tax bills.

---

[13] HM Treasury (2019) *Financial Inclusion Report 2018-19* https://www.gov.uk/government/publications/financial-inclusion-report-2018-to-2019

[14] IFF Research for HM Treasury (2021) PrizeSaver Evaluation: Final Report https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004208/IFF_Research_PrizeSaver_Evaluation.pdf

[15] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004209/20210701_PrizeSaver_summary_report.pdf

[16] https://www.moneyadvicetrust.org/blog/5-things-we-learned-from-todays-budget/

[17] https://fair4allfinance.org.uk/

[18] https://committees.parliament.uk/work/1052/financial-exclusion-followup/publications/

For those in debt, the government launched[19] a new ‘breathing space’ (Debt Respite) scheme in May 2021 to give people in problem debt time (60 days for a standard breathing space) to get their finances back on track. For those eligible, creditors will not be able to add interest or fees to any debts, or take enforcement action, for 60 days. But debtors will still need to keep making their regular payments if they can afford to do so. The scheme also includes a mental health crisis breathing space, extending these protections for the duration of an individual’s mental health crisis treatment, plus a further 30 days space’. Changes to Debt Relief Orders announced in 2021 will also provide further help for some in debt.[20]

Another flagstone policy has been the Coronavirus Job Retention Scheme (CJRS) which had supported 11.7 million employments between March 2020 and September 2021[21], protecting jobs and reducing the risk of large losses in incomes through wage support to furloughed employees. There was also support for the self-employed through the Self-Employment Income Support Scheme (SEISS). As of 15 September, the scheme had supported 2.9 million[22] people targeting those on lower income and those at people who are most reliant on their self-employment income, leaving some ineligible, Adjustments to the social security safety net have also been made including a However, many of these policies have now ended and, as we shall see, have not prevented many from suffering poverty and accumulating debt.

While this report focuses on updating our usual statistics on financial inclusion we have also highlighted data relating to the COVID-19 crisis to keep the analysis as timely as possible.

[19] https://www.gov.uk/government/news/new-scheme-to-give-people-in-problem-debt-breathing-space-launched

[20] https://www.stepchange.org/policy-and-research/response-to-dro-eligibility-changes.aspx

[21] https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-7-october-2021/coronavirus-job-retention-scheme-statistics-7-october-2021

[22] https://www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-october-2021/self-employment-income-support-scheme-statistics-october-2021

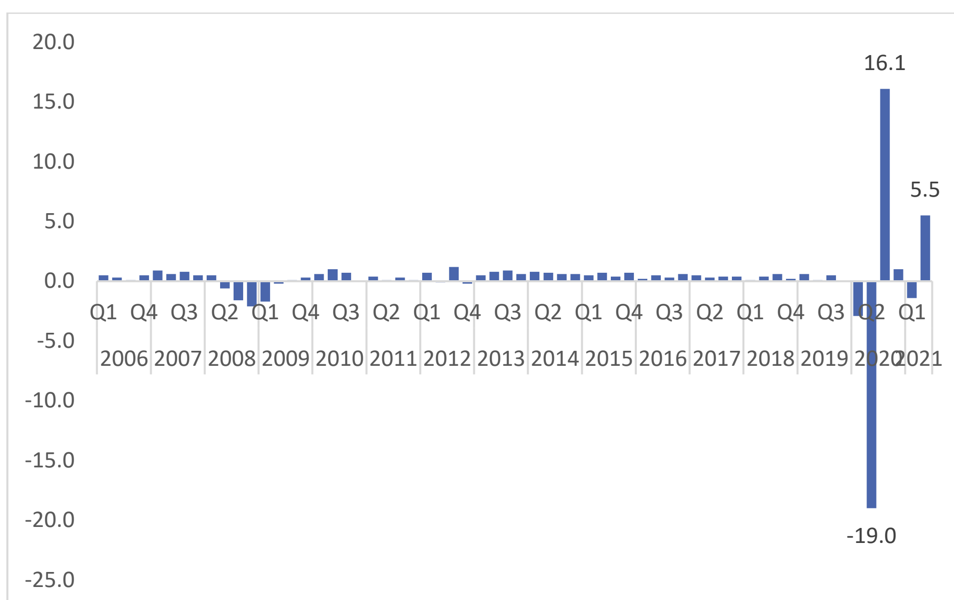
Detailed findings

1. THE ECONOMY

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.

One of the most fundamental indicators of the state of an economy is GDP (Gross Domestic Product) which is the amount an economy produces each year. Figure 1.1 starts in 2006 and shows the dramatic fall in GDP in the second quarter of 2020 due to lockdown where the economy shrank by 19%, an unprecedented amount in modern times. It then bounced back by 16.1% in the third quarter before dropping again below zero and then bouncing back again in the second quarter of 2021 to 5.5%. The scale of these changes dwarfed the previous declines in GDP witnessed after the Global Financial Crisis in 2008/9. And the dramatic figures have also obscured the fact that, since 2015, GDP had been trending downwards and, indeed, was completely stagnant in parts of 2018 and 2019, well before the global pandemic crisis.

Figure 1.1. Gross Domestic Product: Quarter on Quarter growth. Source: ONS[23]



Inflation is another useful economic indicator to monitor in relation to financial inclusion. When inflation is high, people face higher costs and so may struggle to manage money unless their incomes also rise. As we see in figure 1.2, inflation had been trending down from a recent peak of

[23] https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyq/qna

2.8 per cent in November 2017 to 0.5 per cent (Consumer Price Index including Housing costs of owner-occupiers - CPIH) in August 2020 (see figure 1.2). But CPIH rose by 3.0% in the 12 months to August 2021, up from 2.1% to July, the largest ever recorded change in the CPIH 12-month inflation rate. This is partly due to the fact that, in August 2020, many restaurants and cafes reduced their prices because of the government's Eat Out to Help Out scheme but this was only temporary so the upward shift in the August 2021 12-month inflation rate is also likely to be temporary. On a monthly basis, however, CPIH rose by 0.6% in August 2021, where price rises in transport, recreation and culture, food and non-alcoholic beverages, and restaurants and hotels contributed to the monthly rate.

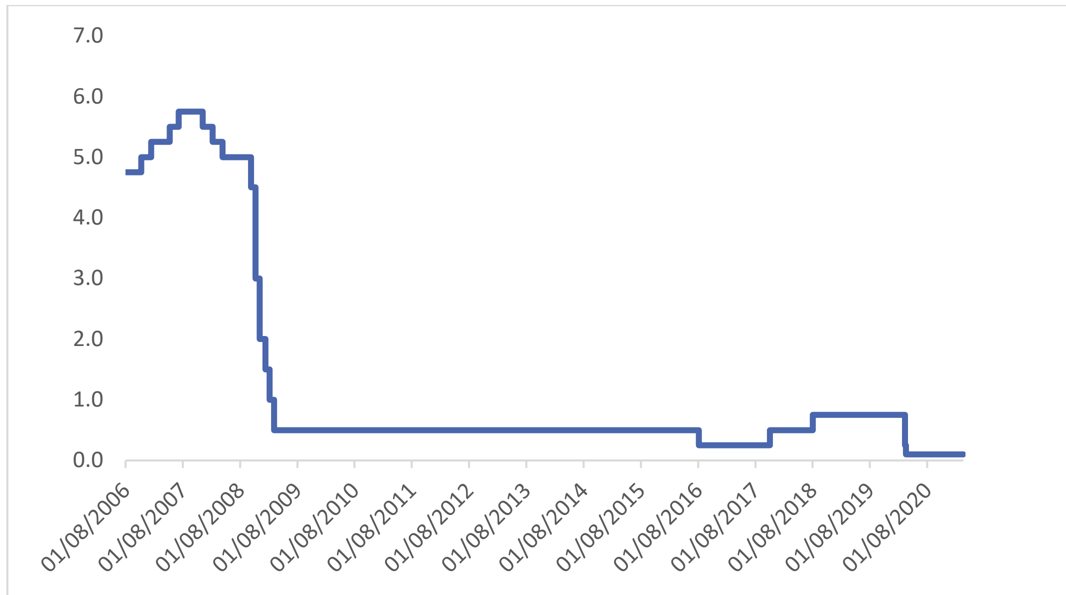
Figure 1.3. Annual Consumer Price Inflation (CPI) and CPIH (including owner occupiers' housing costs). Source: ONS[24]

The third economic indicator considered here is the Bank of England Base Interest Rate which affects the cost of borrowing. Interest rates have been at historic lows since the Global Financial Crisis of 2008/9 (at 0.5 per cent). But in 2017, the Bank of England Base Rate rose, albeit very slightly, for the first time in nearly a decade. A further slight increase took place in 2018 and the

24 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/august2020

Base Rate reached 0.75 per cent. But, in response to the global pandemic, the rate was reduced again in March 2020 to the lowest it has ever been in the Bank of England's 325 years: 0.1 per cent. And it has remained at that point since then.

Figure 1.4. Bank of England Base Rate. Source: Bank of England[25]

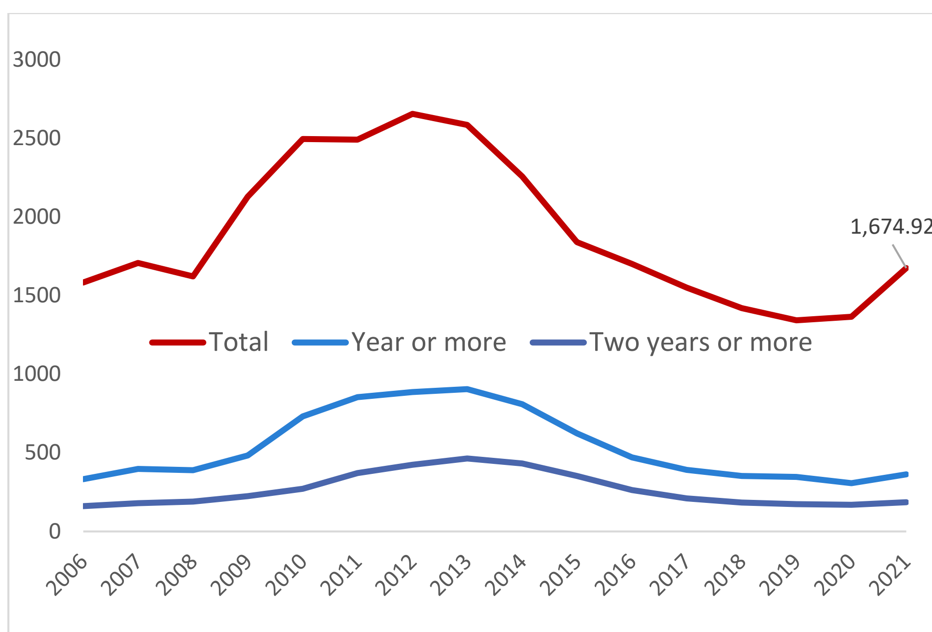


[25] https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate

2. THE LABOUR MARKET

The lockdown of the economy in 2020/21 would clearly have a major impact on the labour market as we shall see in this chapter, though the impact has been tempered by various government interventions such as the Coronavirus Job Retention Scheme (CJRS), commonly called 'furlough'. . In Jan-March 2021, nearly 1.7 million people were unemployed, the highest number since 2016 though still well be below the peak of 2.7 million in 2012 following the Global Financial Crisis (see figure 2.1). There had been signs that unemployment was starting to increase before the COVID-19 crisis, possibly in response to Brexit-related developments but the dramatic rise was no doubt linked to the impact on the economy of the various lockdowns. Long-term unemployment (over 1 year and over 2 years) also increased from 2020 to 2021 indicating longer-term labour market trends. More recent figures for the first six months of 2021 suggested that unemployment was declining from the recent peak at the turn of 2020/2021.

Figure 2.1. Unemployment increases dramatically as a result of the COVID-19 crisis. Source: ONS Labour Force Survey[26]



Underemployment[27] also increased from 2.5 million at the end of 2019 to 2.9 million workers 'under-employed' at the end of 2020 (see figure 2.2). But this was still lower than the recent peak

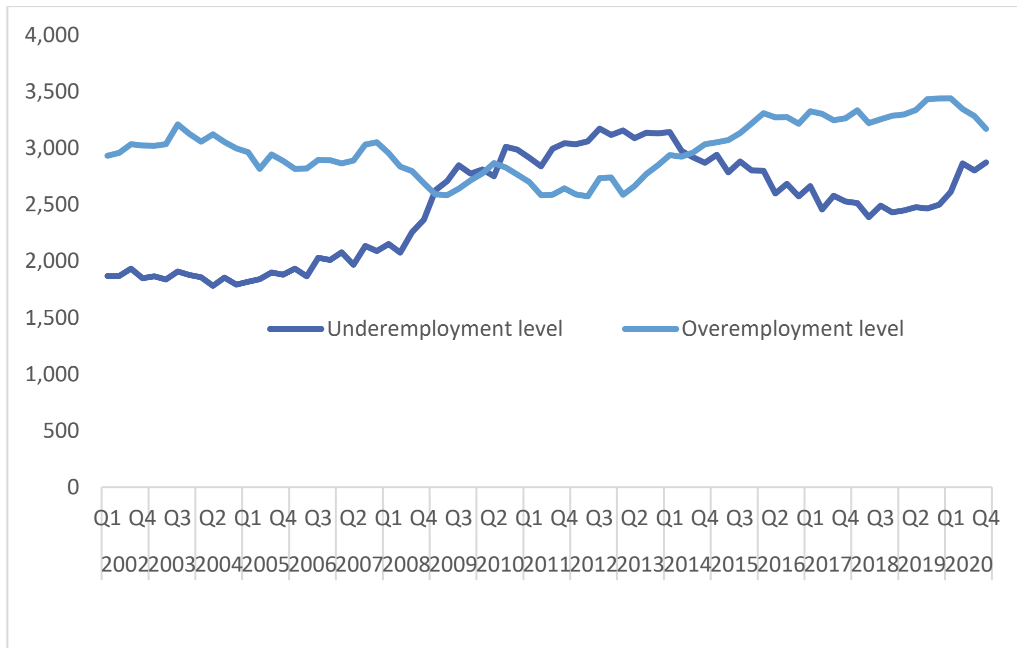
---

[26] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentunemploymentandeconomicinactivitybyagegroupseasonallyadjusteda05sa

[27] 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'.

of over 3 million in 2012-2013. And there were still more workers considered themselves 'overemployed' (in other words they wanted to work fewer hours and would be willing to take a commensurate cut in pay) – nearly 3.2 million - at the end of 2020 – though the gap between the two is clearly narrowing.

Figure 2.2. Underemployment began to increase slightly at the end of 2020. Source: Labour Force Survey[28]

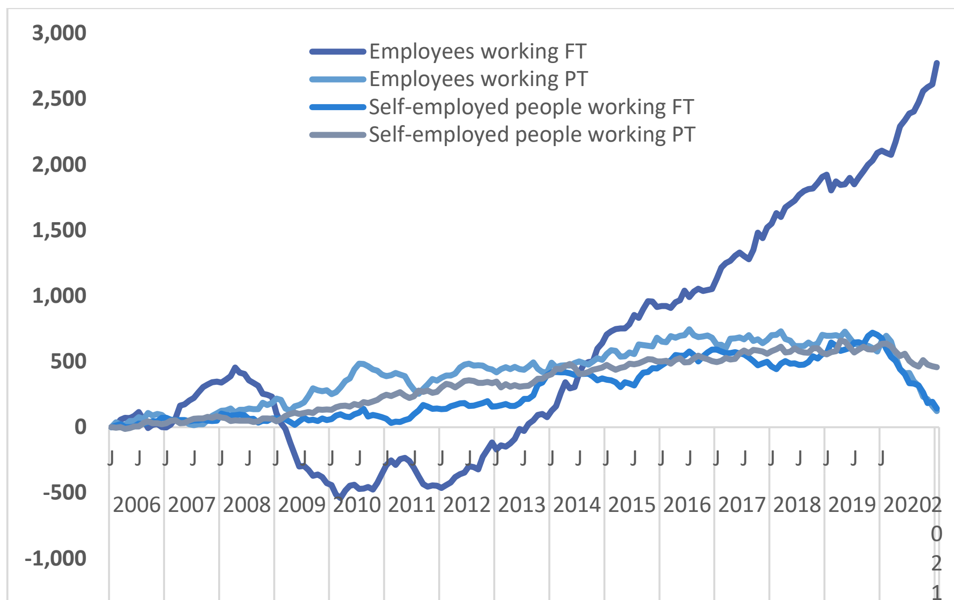


Underemployment is linked to part-time jobs and self-employment, and figure 2.3 shows that during 2020, there were quite dramatic falls in part-time employment and full-time self-employment – almost back to the number in the economy in 2006 which acts as a baseline for this chart. There was also a small decrease in part-time self-employment but a continued increase in full-time employment.

---

28 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/underemploymentandoveremploymentemp16

Figure 2.3. Full-time employment has continued to grow but 2020 saw declines in part-time employment and full-time self-employment (taking 2006 as a baseline). Source ONS Labour Force Survey[29]

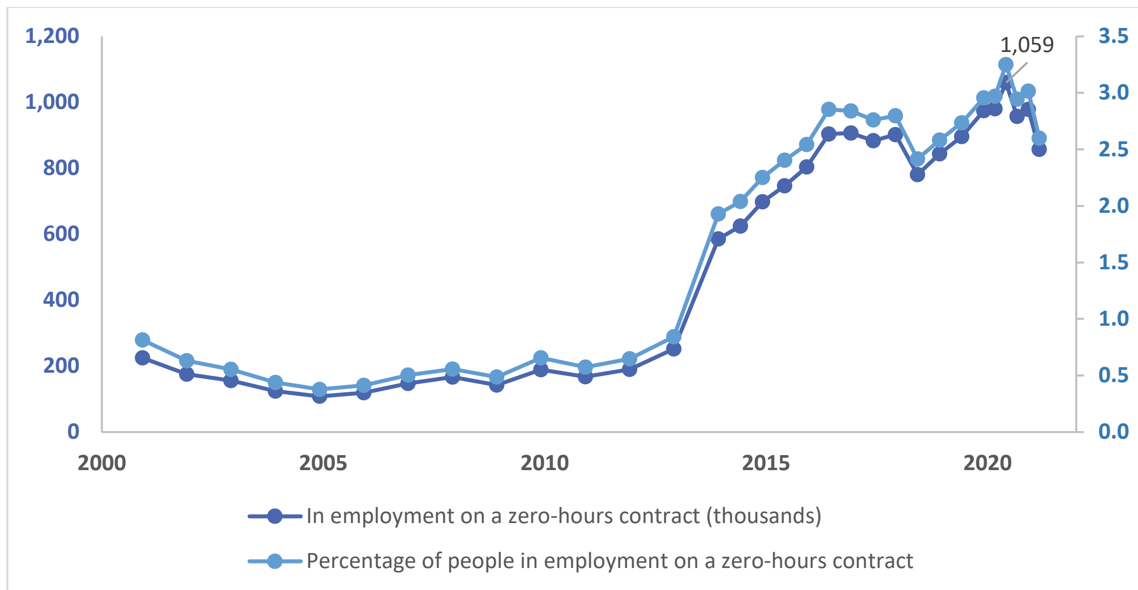


Alongside 'underemployment', we have also seen a growth in zero hours contracts. Once again, definitions and measurements of such contracts (also referred to as 'contracts with no guaranteed minimum number of hours' – NGCHs) varies over time but the Office for National Statistics (ONS) has estimated, from a survey of individuals (the Labour Force Survey), that the number of people with a zero hours contracts rose to 907,000 or 2.8 per cent of workers at the end of 2016 – see figure 2.4. The numbers then fell by 2018 to 781,000 or 2.4 per cent of the labour force before picking up again and reaching a record high in May—June 2020 at over 1 million or 3.3 per cent. The first quarter of 2021 (Jan-March) saw a decline to 857,000 or 2.7 per cent on these contracts as a result of the lockdown. It is worth noting that these numbers are lower than those estimates based on data of 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.

---

29 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#data

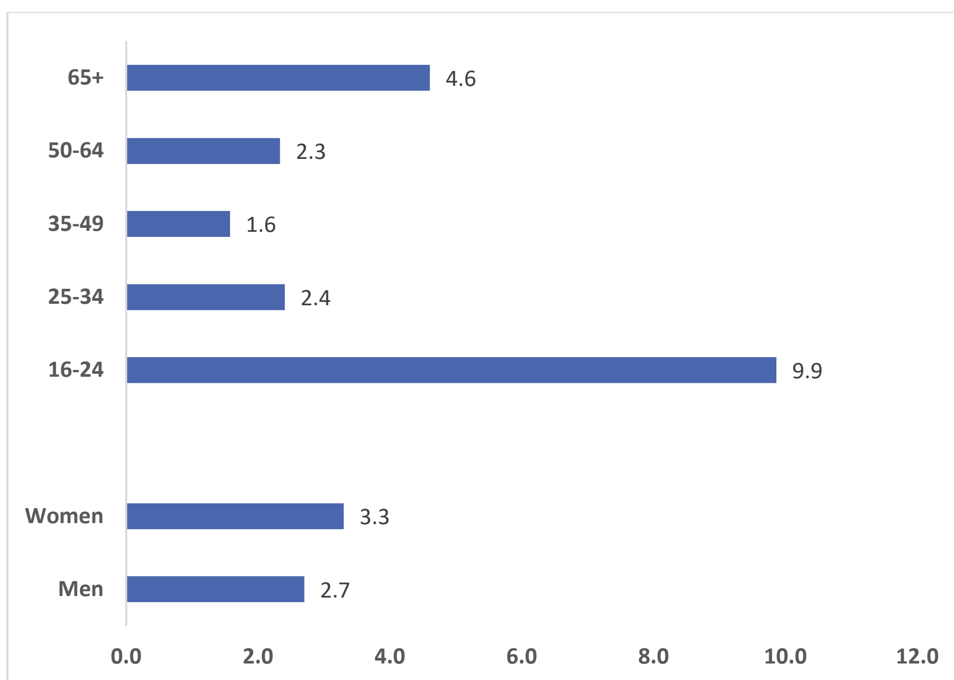
Figure 2.4. Percentage and number of workers on "zero hours contracts" reached record high in mid 2020 before declining. Source: ONS[30]



It is often assumed that zero hours contracts are most commonly taken by younger people and it is indeed true that workers aged 16-24 are more likely to have a zero hours contract than any other age group (9.9 per cent) but the second age group most likely to have such a contract are those aged 65 or more (4.6 per cent). 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. There is little difference between men and women here (3.3 versus 2.7 per cent) – see figure 2.5.

30 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts

Figure 2.5. Zero hours contracts are most common among 16-24 year-olds and those aged 65 and over, October-December 2020. Source: ONS Labour Force Survey[31]



In terms of the impact of COVID-19 on the labour market, the government's introduction of the Coronavirus Job Retention Scheme (CJRS) supported 11.7 million employments between March 2020 and September 2021[32]. ONS data has also revealed that, from 23 March to 5 April 2020, 27 per cent of the workforce had been furloughed across 6,150 businesses that responded to the Business Impact of Coronavirus (COVID-19) Survey (BICS) and were still trading or had temporarily paused trading[33]. According to the Resolution Foundation, at the end of May 2020, 8.4 million jobs had been furloughed[34] – one-third of all private sector employees. And research by the University of Birmingham[35], analysing Understanding Society data from April 2020 to April 2021, found that, on average, people were furloughed for 4.8 months and experienced a 17 per cent reduction in their net monthly income, equivalent to £292. The majority (61 per cent) of furloughed individuals were not in severe financial difficulties. However, the remaining two in five of those on furlough were in severe financial difficulties and the research found that this was

---

[31] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts

[32] https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-7-october-2021/coronavirus-job-retention-scheme-statistics-7-october-2021

[33] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/furloughingofworkersacrossukbusinesses/23march2020to5april2020

[34] https://www.resolutionfoundation.org/comment/three-big-decisions-for-the-chancellor-on-the-future-of-the-job-retention-scheme/

[35] https://committees.parliament.uk/writtenevidence/36613/pdf/

either because their hourly income declined while on furlough or because they had little financial headroom prior to the pandemic.

According to research by the Bank of England/NMG[36] carried out in August/September 2020, only 43 per cent of those on furlough expected to resume employment with their current employer on the same hours and pay. More than a third (36 per cent) expected to resume work on either fewer hours (at the same pay) or the same hours at a lower rate of pay.

The furlough scheme prevented severe financial distress for millions but it did not completely prevent an increase in unemployment nor an increase in claims for Universal Credit. According to the Resolution Foundation[37], Universal Credit caseloads in December 2020 were nearly twice as high as they had been pre-pandemic (6 million compared with fewer than 3 million one year earlier). Over half of all single parents were in receipt of UC in August 2020 and four in ten recipients were in paid work. A third of new UC recipients reported their family income (including UC) to be at least 40 per cent lower in January 2021 than pre-pandemic. And one in five had fallen behind with essential bills.

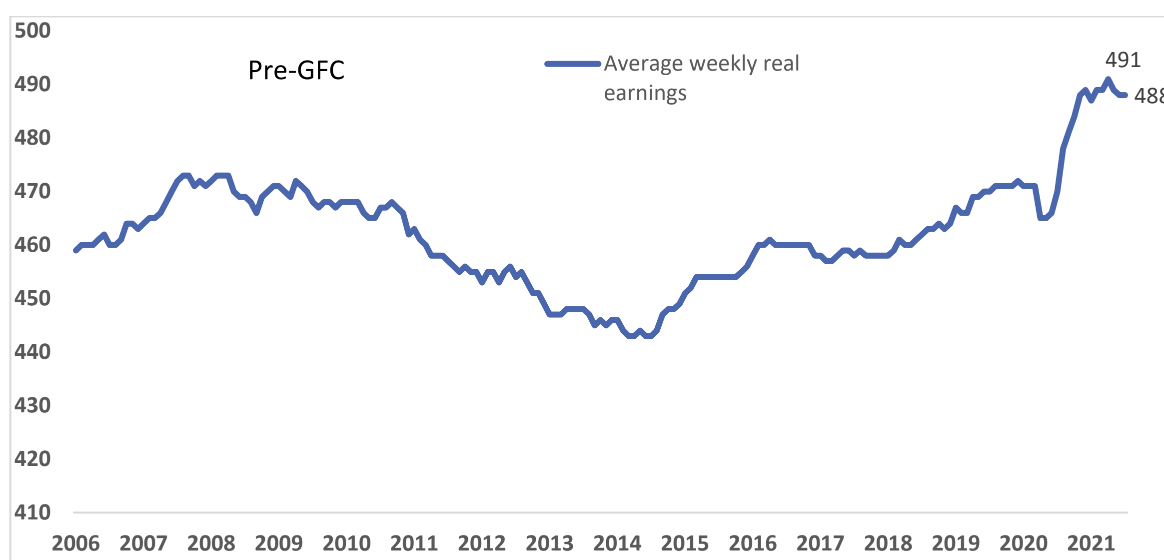
[36] https://www.bankofengland.co.uk/statistics/research-datasets

[37] https://www.resolutionfoundation.org/publications/the-debts-that-divide-us/

3. INCOMES

The increase in unemployment and Universal Credit claims, highlighted in Chapter 2, signal that many families will have experienced a significant drop in income over 2020/2021. We will explore this further in this chapter. But for those who remain in paid work, there was a marked rise in levels of average real weekly pay in the second half of 2020 after they dipped in the first half. Indeed, by August 2020, weekly pay had recovered to the level it had been at in 2007 just prior to the Global Financial Crisis. It then continued to rise over the next few months to reach a new height in April 2021 at £491 before dropping slightly to £488 in July. This could be a positive effect of employers raising wages to attract workers, but could also be something of a statistical artefact of more lower paid and precarious workers either being let go, or dropping out of the labour market.

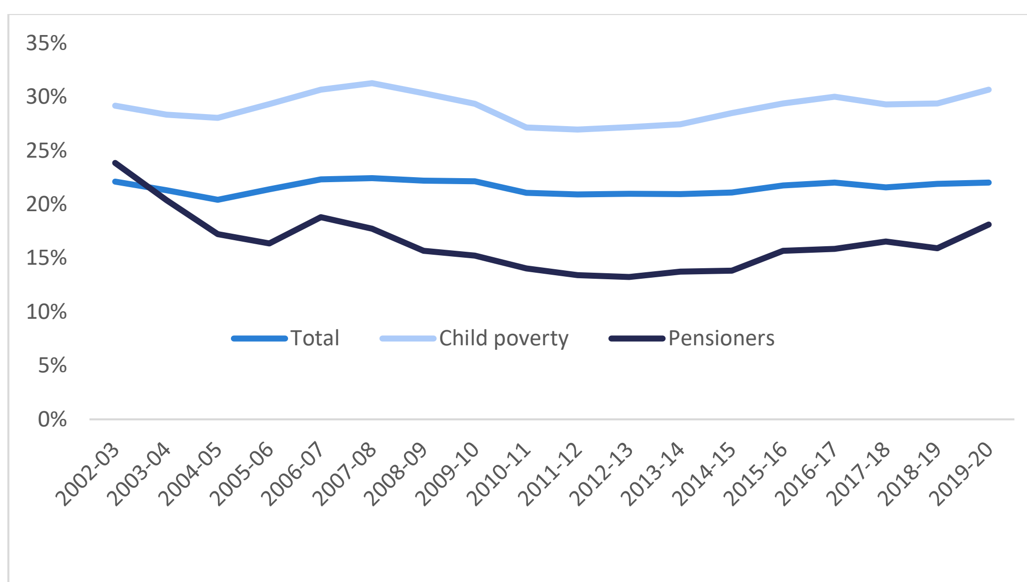
Figure 3.1. Levels of average real weekly pay dipped in the first half of 2020 but then rose markedly to reach a higher level in 2021 than at any time since the GFC (adjusted by inflation – Consumer Prices Index). Source: ONS[38]



Our data on wages and the labour market is always fairly timely due to the nature of the survey (Labour Force Survey) from whence it comes. Data on broader incomes and poverty levels, however, derives from a different survey, the Family Resources Survey, and is much less timely. We cannot therefore measure the impact of COVID-19 on poverty from these official figures and will not be able to do so for another year. Longer-term trends are of interest, however, and figure 3.2 shows that there has been a rise in poverty levels from 2011/12 to 2019/20, particularly among pensioners but also among children. By 2019/20, nearly 31 per cent of children were living in poverty After Housing Costs and 18% of pensioners.

[38] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/a2fc/lms?referrer=search&searchTerm=a2fc

Figure 3.2. Relative poverty levels have increased since 2011/12 particularly among pensioners and children (incomes below 60 per cent median AHC). Source: IFS[39]



According to the Joseph Rowntree Foundation,[40] before coronavirus, 14.5 million people in the UK were living in poverty, equating to more than one in five people. This includes 8.4 million working-age adults, 4.2 million children and 1.9 million pensioners. Child poverty and in-work poverty had been on the rise for several years and many of the groups already struggling most were also the groups most likely to suffer from the health impacts of COVID-19 including:

- part-time workers, low-paid workers and sectors where there are much higher rates of in-work poverty, such as accommodation and food services
- Black, Asian and minority ethnic households
- lone parents – mostly women, many of whom work in hard-hit sectors – who are more reliant on local jobs, and are more likely to have struggled with childcare during lockdown
- private renters, who have higher housing costs, and social renters, who tend to have lower incomes, both leading to higher poverty rates. Renters in work are also more likely to be in a sector more affected by coronavirus
- areas of the UK where there were already higher levels of unemployment, poverty and deprivation.

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 3.3 focuses on people of working-age and shows that, since 2009, there had been a massive drop in the adequacy of means-tested benefits to provide a minimum income for those on ‘legacy benefits’ (income support, employment support allowance, jobseeker’s allowance)[41]. For example, a single person of working age on these benefits only had 42 per cent of a minimum income standard in 2009 but this dropped to 32 per cent in 2021.

---

[39] Living standards, poverty and inequality in the UK - Institute For Fiscal Studies - IFS

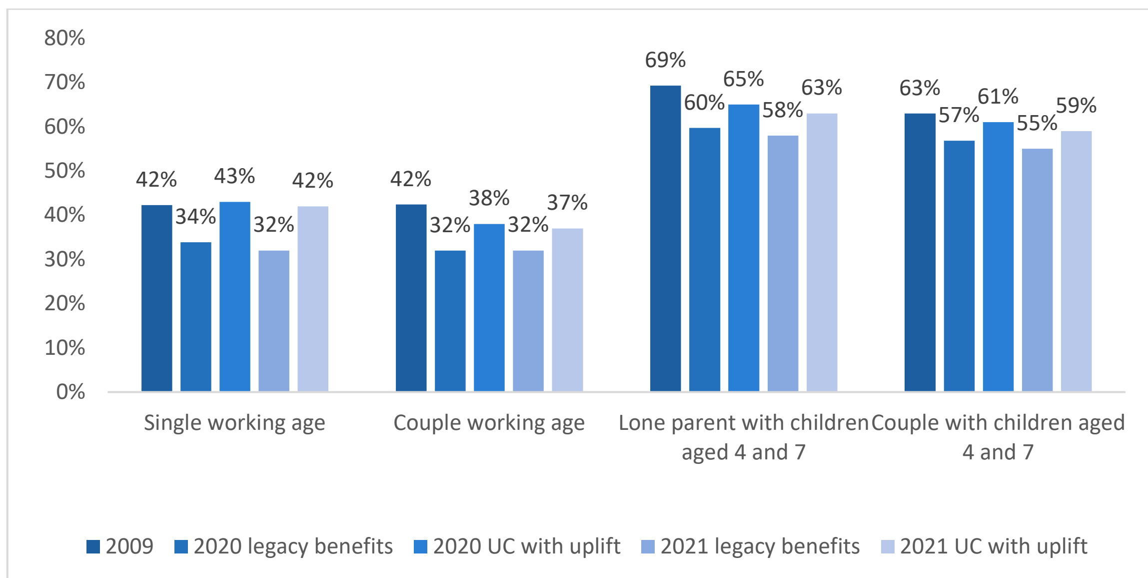
[40] https://www.jrf.org.uk/report/uk-poverty-2020-21

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

Single working-age people on Universal Credit benefitted, however, from the temporary £20 uplift put in place during the pandemic and this helped return them to the previous 42 per cent level of benefit adequacy. Other working-age families have experienced similar drops in adequacy levels since 2009 though from different initial points. For these families, however, even the £20 uplift has not been enough to return them to their 2009 position (see figure 3.3). Thus couples (without children) only have 37 per cent of what they need to meet a minimum income standard even with the £20 uplift. Lone parents with two children only have 63 per cent even with the uplift and couples with two children only have 59 per cent. Those without the uplift have considerably less and this is the position that all working-age families will be in when the uplift ends (due end of September 2021).

As well as showing the longer-term decline in benefit adequacy since 2009, figure 3.3 also compares 2021 with the previous year and we see here a further slight decline in benefit adequacy for both those on legacy benefits but also those receiving the Universal Credit uplift. One of the reasons for this is that benefit upratings were somewhat lower than CPI inflation (fixed in September, implemented in April when inflation was picking up a bit), and because for families with children, who have cars, the sharp rise in petrol costs helped drive an overall MIS inflation rate higher than the overall CPI. For working age private tenants without children the failure to uprate local housing allowances also had a small effect.

Figure 3.3. Means-tested, out-of-work benefits as a percentage of Minimum Income Standards. Source: CRSP, Loughborough University[42]



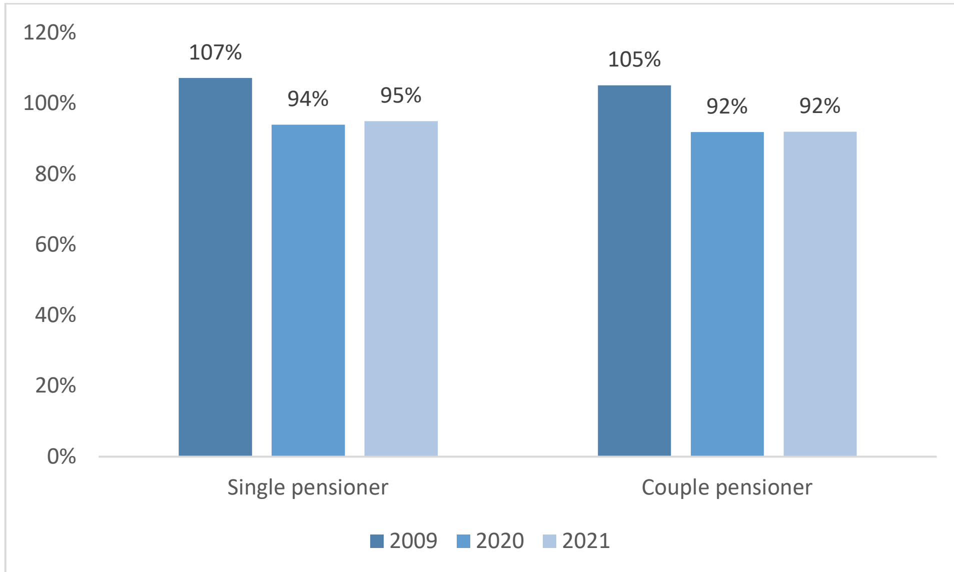
As far as pensioners are concerned, we can see in figure 3.4 that means-tested pensioner benefits (e.g. Pension Credit) also dropped massively in adequacy levels between 2009 and 2019 and have stayed the same in the last year. They do, however, continue to provide incomes much closer to the Minimum Income Standard level than for other groups. For example, single pensioners, if

---

[42] Data sent by email from Donald Hirsch on 4th June 2021. MIS reports can be found here: https://www.lboro.ac.uk/research/crsp/mis/reports/

claiming all they are entitled to, will reach 95 per cent of the level they need for a minimum income standard and pensioner couples reach 92 per cent in 2021.

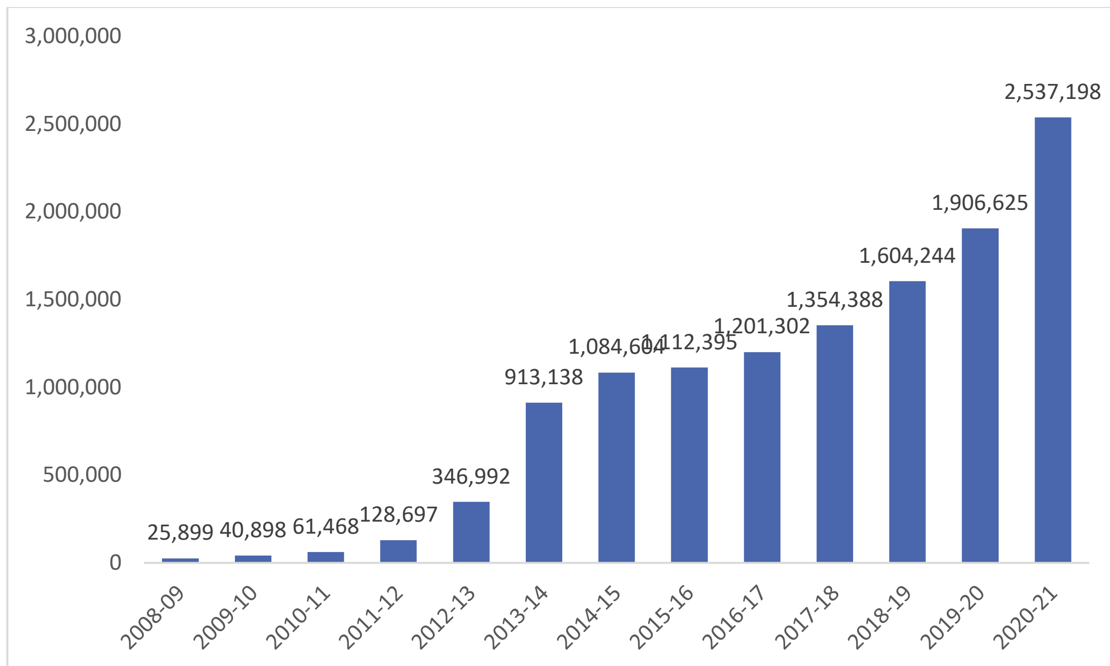
Figure 3.4. Means-tested benefits for pensioners as a percentage of Minimum Income Standards[43]



While it is difficult to find very timely official data on income levels, it is nevertheless clear that some groups are suffering particularly severe levels of poverty and thus turning to emergency sources of help, such as foodbanks. Figures from the Trussell Trust, for example, show a dramatic increase in the number of 3-days emergency food parcels given out over the past few years with an increase from 1.9 million in 2019/20 to a staggering 2.5 million (see figure 3.5). The primary reason for use of food banks was, according to the Trussell Trust: low income; benefit delays; and benefit changes (including sanctions).

[43] Data sent by email from Donald Hirsch on 1st June 2020. MIS reports can be found here: https://www.lboro.ac.uk/research/crsp/mis/reports/

Figure 3.5. Number of people given 3-days emergency food and support by the Trussell Trust increases to 2.5 million[44]



And according to Standard Life Foundation's Coronavirus financial tracker[45], families with dependent children have particularly suffered financially during the pandemic. In January 2021, around three in ten UK families with children (27%) were living on a lower income than a year previously, as a direct result of a pandemic-related loss of earnings. This equates to around four million of the UK's 14 million children living in a family that has a reduced household income because of the pandemic; and 1.6 million of these children living in a family that has lost a third or more of its total household income over the same period. This has left 3 million children living in families that are struggling to buy food and other essentials; 4.5 million live in a family that is using consumer credit to make ends meet.

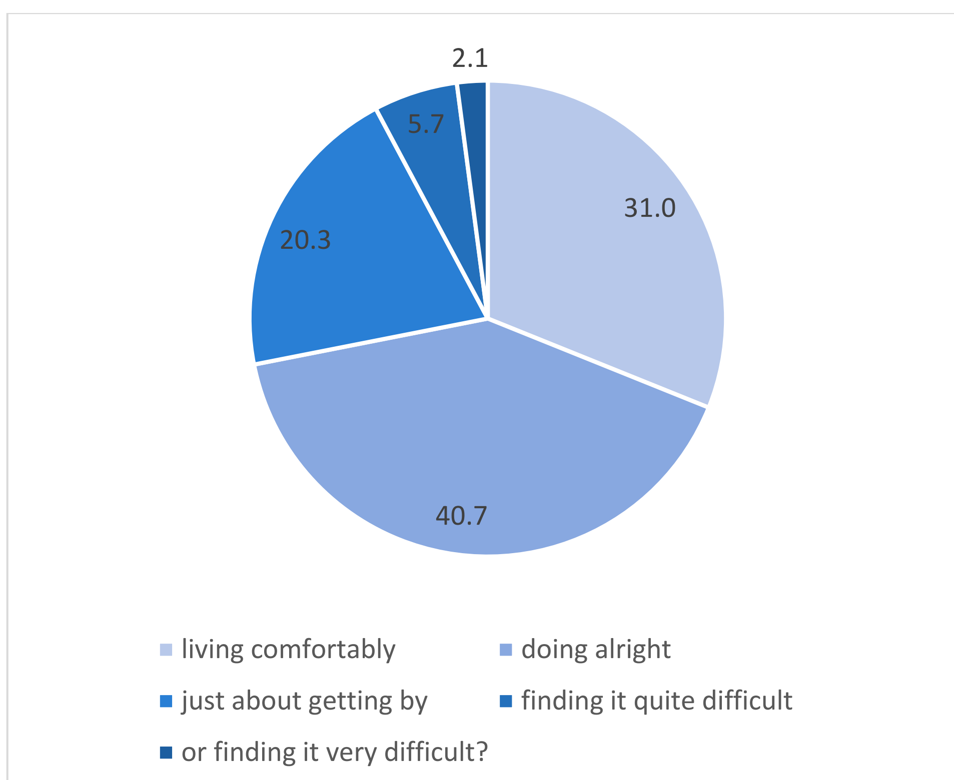
[44] https://www.trusselltrust.org/news-and-blog/latest-stats/end-year-stats/

[45] https://www.standardlifefoundation.org.uk/docs?editionId=d1d29721-a5fd-48d6-811e-a755e572fce2

4. SUBJECTIVE FINANCIAL WELLBEING

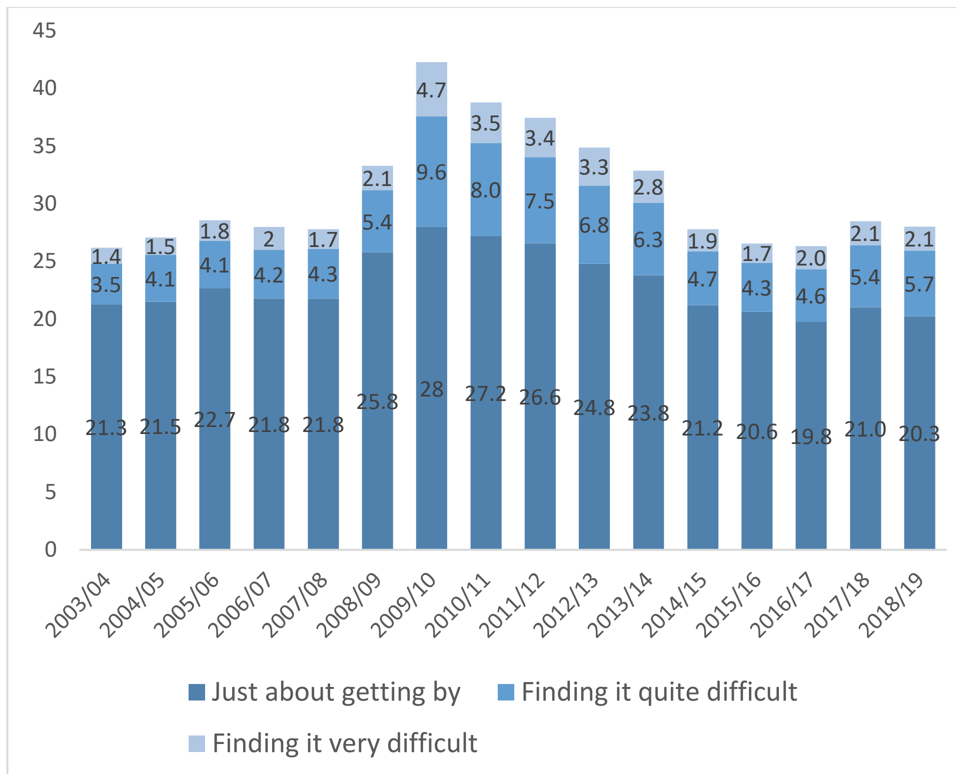
So far in this report we have looked at objective measures of income and employment and shown increasing pressures on families to manage their finances. But how are they feeling about all of this? The Understanding Society survey provides long-term trend data on this, asking people about how they are managing, financially. According to our most up-to-date figures (which unfortunately still predate the pandemic), 7.8 per cent of households in 2018/19 were finding it either very or quite difficult to manage financially and a further 20.3 per cent were 'just about getting by' – a combined total of 28.1 per cent (see figure 4.1).

Figure 4.1. Subjective financial wellbeing in 2018/19, source: Understanding Society



If we look at trends over time with these figures, we see, in figure 4.2, that from 2007/8 to 2009/10 there was a major increase in the number of people just getting by or finding it difficult to do so. The following 7 years saw a decline in these figures but in the last two years for which we have data we have seen a reversal of the trend here, with more people now saying that they are just getting by or finding it difficult to do so compared with the previous year (see figure 4.2).

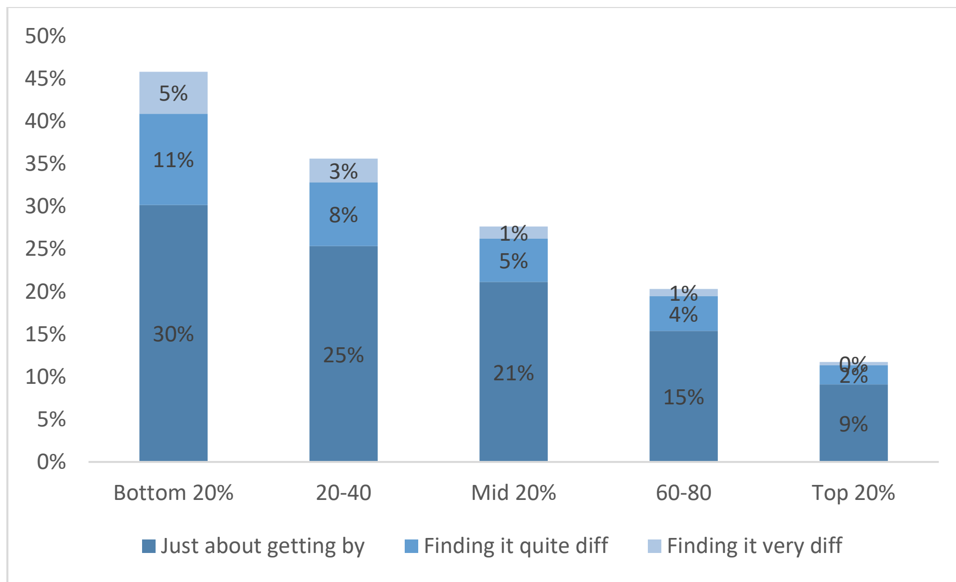
Figure 4.2. Trends in finding it difficult to manage/just about getting by, financially, Understanding Society[46]



Of course, some groups are struggling more than others and we see in figure 4.4 that 46 per cent of those on the lowest incomes (those in the bottom 20 per cent of the income distribution) were finding it very or quite difficult to manage, financially, or were just about getting by in 2018/19.

[46] https://www.understandingsociety.ac.uk/

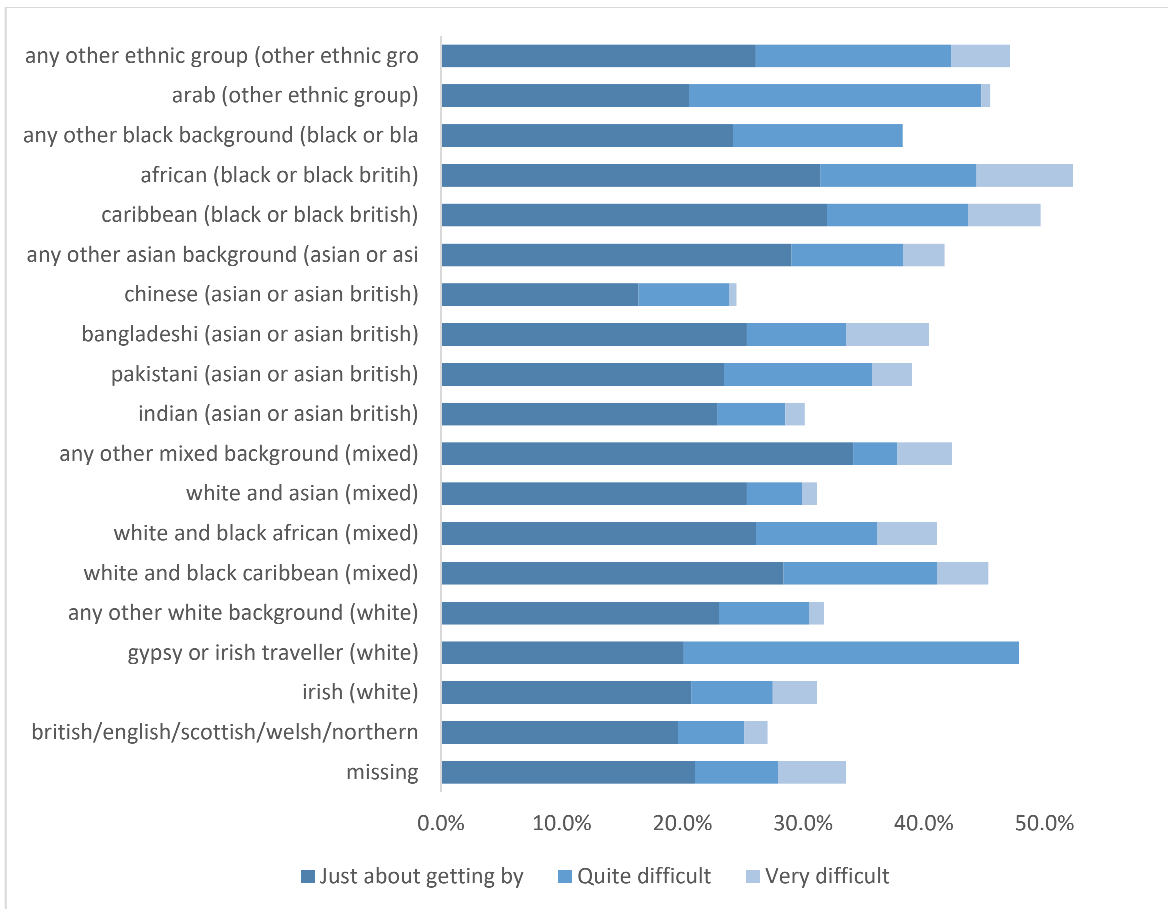
Figure 4.3. Finding it difficult to manage/just about getting by, financially, by income quintile in 2018/19, Understanding Society[47]



There were also variations by ethnicity here with those who identified as 'British' (or identities naming their country within the UK) tending to report lower levels of difficulties than those with other identities (see figure 4.4). Levels of difficulty were particularly high for those describing themselves as 'African', 'Caribbean' or 'Arab', from the list of options with which they were presented. Similarly, respondents who identified as 'Pakistani' or 'Bangladeshi' also had high levels of difficulty managing.

[47] https://www.understandingsociety.ac.uk/

Figure 4.4. Finding it difficult to manage/just about getting by, financially, by 'ethnic group': Understanding Society, 2018/19



Note: groups with <50 cases are excluded.

These statistics are from 2018/19 and so cannot tell us about financial wellbeing during the COVID-19 crisis. The Financial Conduct Authority, however, has carried out some additional research in October 2020 to update its Financial Lives data survey[48], finding that three in eight adults (38 per cent or 20 million) have seen their financial situation overall worsen due to Covid-19, with 7.7 million seeing it worsen a lot. Nearly 10 million people reported cutting back on essentials like food and clothing. Some groups have fared worse than others of course including the self-employed, adults with a household income of less than £15,000 per year, those aged 18-54 and Black, Asian and minority ethnic adults.

The Standard Life Foundation have also been monitoring a range of indicators with their Coronavirus finances tracker[49]. According to this, one third of UK households (10 million) in January 2021 were managing but at risk of financial difficulty due to low savings or high borrowing. A further two in ten (4 million) were struggling to keep up with living costs, bills and commitments but had mostly avoided falling into arrears. And a further one in ten (almost 3

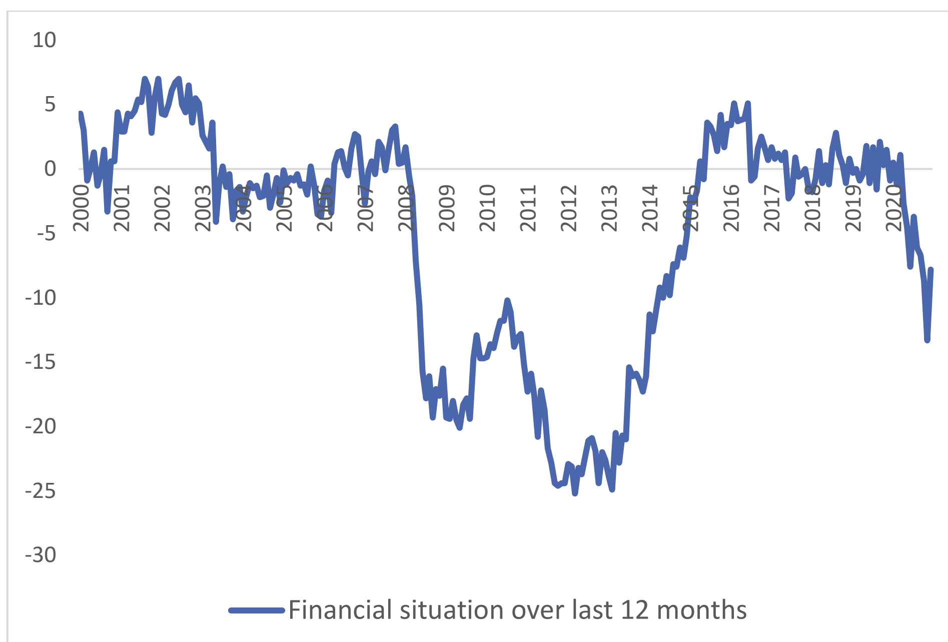
[48] https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

[49] https://www.standardlifefoundation.org.uk/docs?editionId=d1d29721-a5fd-48d6-811e-a755e572fce2

million) reported serious financial difficulty, with the majority in arrears on at least one bill and almost all feeling anxious about money. Families with children were particularly struggling, particularly single parents; families on lower incomes; families in rented homes; and families with a parent whose daily activities are limited a lot by ill health or disability.

The European Commission has also been tracking how people feel about their own financial situation 'over the last 12 months' and has data on this going back to 2000 (see figure 4.4 for data on the UK). Where the line rises above the horizontal axis, it means that people reported that their own household's financial position has improved over the previous 12 months. Where the line falls below the axis, it means that people reported their situation getting worse. Figure 4.4 shows a very steep decline in 2020, particularly the second half of that year.

Figure 4.4. Views about 'own financial situation over the last 12 months': European Commission, data for UK



5. 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.[50]

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 5.1 we extend the series of estimates of the unbanked previously produced by the Financial Inclusion Taskforce (set up by HM Treasury)[51] to the latest data for 2019/20.

The first column shows the number of adults without their own 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 5.1 (see also figure 5.1) show that there has been a steady decline in the numbers of unbanked adults according to this measure from 2.85m in 2005/6 to a low of 1.5m in 2012-13. However, the figure then increased before falling the last few years to fall just below 1 million (996,000) in 2018-19 and then falling a little more to 935,000 in 2019-20 (the higher of the two lines in figure 5.1).

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 5.1 (and the lower line figure 5.1) 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. The trend for this group has also been downward over the period of study from 2005/6 to 2018/19 but not at the same rate. In 2018-19, the number of people in this position fell below 500,000 for the first time but in 2019-20, the number rose slightly to 557,000. This means that there are still half a million adults living in households who positively state that they do not have access to a transactional form of banking.

---

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

[51] HM Treasury, March 2007, *Financial Inclusion: The Way Forward.*

Figure 5.1. Trends in numbers of people without bank accounts (million people)

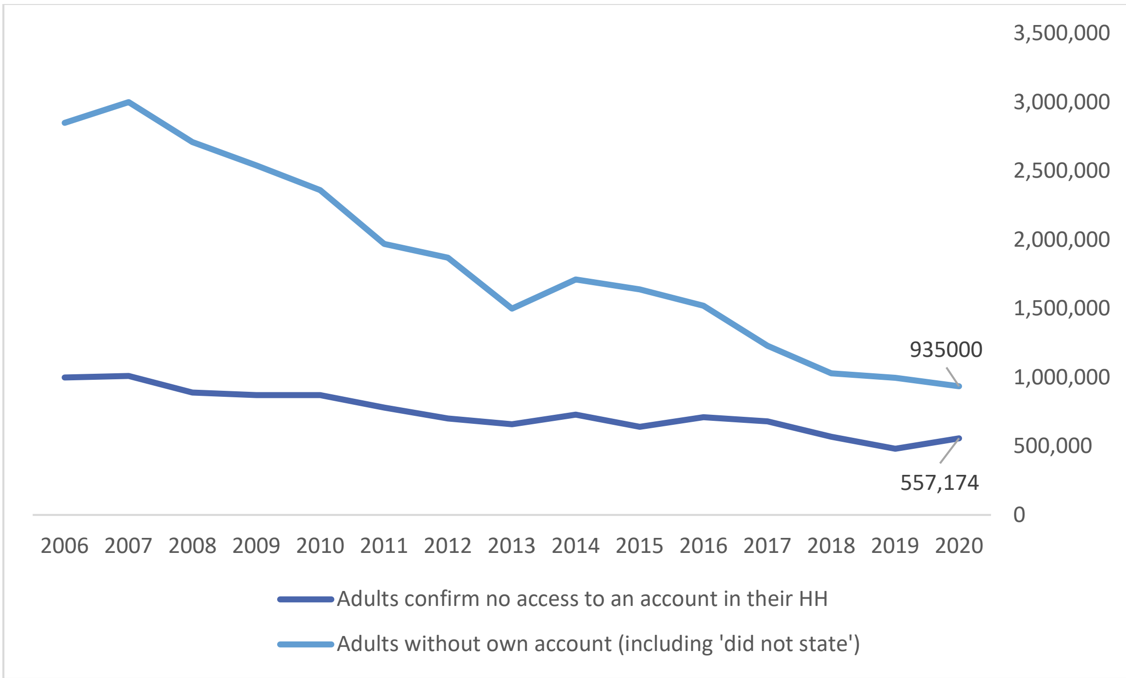


Table 5.1: Households and adults without access to a current or basic bank account, or savings account, Family Resources Survey[52], [53]

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
2019-20	0.935m	0.712m	0.557m
2018-19	0.996m	0.68m	0.48m
2017-18	1.03m	0.77m	0.57m
2016-17	1.23m	0.87m	0.68m
2015-16	1.52m	0.88m	0.71m
2014-15	1.64m	0.89m	0.64m
2013-14	1.71m	1.02m	0.73m
2012-13	1.50m	1.00m	0.66m
2011-12	1.87m	1.37m	0.70m
2010-11	1.97m	1.51m	0.78m
2009-10	2.36m	1.78m	0.87m
2008-09	2.54m	1.85m	0.87m
2007/08	2.71m	1.85m	0.89m
2006/07	3.00m	2.09m	1.01m
2005/06	2.85m	1.97m	1.00m
2002-03	4.38m	2.83m	2.02m

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

Traditional forms of banking are undergoing rapid change at present and, in particular, online accounts and e-money alternatives have increased over recent years. The Financial Conduct Authority's Financial Lives 2020 survey[54] found that:

- Online banking was increasingly used by older people up from 27 per cent of adults aged 75+ in 2017 to 54 per cent in February 2020

[52] 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 (http://www.hm-reasury.gov.uk/d/stats_briefing_101210.pdf).

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

[54] https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

- At the same time, younger people were moving from online to mobile banking with 88 per cent of 18-24 year olds using mobile banking in 2020, up from 73 per cent in 2017
- 4 per cent of adults had an e-money alternative account in 2020 – up from 1 per cent in 2017.

While many people now prefer to use digital payments and banking – and the pandemic has accelerated this trend, cash remains critical for many, including the most vulnerable. Analysis by Which?[55] published in February 2021, suggests that there are two and a half million people in the UK who are reliant on cash to pay for essential products. And a further seven million people say they would struggle without cash. Despite this, *Which?* has found that, since 2018, all regions across the UK have lost about a quarter of their free-to-use cash machines. And the rates of losing these machines is higher in more disadvantaged areas where the need for them is greater. This is consequently leading to a growth in the number of machines that generally charge up to £2 per cash withdrawal. For example, in both Northern Ireland and Scotland, the free-to-use network has shrunk by 23% and 25% since 2018 while the number of cashpoints that charge a fee has risen sharply, by 78% and 35% respectively. And since 2018, two Birmingham constituencies – Hall Green and Hodge Hill – have seen 44% and 40% reductions in free-to-use ATMs respectively, but both had a 59% increase in pay-to-use machines. These locations are within the top 10% for deprivation in England.

Of course, people can also access cash, without charges, via the Post Office or bank branches and the FCA/Payment Services Regulator estimated in July 2021[56] that 95.4% of the UK population were within 2km of a free cash access point and 99.7% were within 5 km. Nevertheless, access varies across the country and the increase in pay-to-use machines in more deprived areas is concerning. In the 2020 Budget, the Chancellor announced that legislation would be introduced to safeguard access to cash and the Financial Services Act 2021 sought to facilitate the wide-spread adoption of cashback without a purchase[57]. Further consultation took place over the summer of 2021 to seek views on: establishing geographic requirements for the provision of cash withdrawal and deposit facilities, the designation of firms for meeting these requirements, and establishing further regulatory oversight of cash service provision. We will monitor further changes on this in next year's report.

---

[55] Which? urges government to protect cash in the Budget – Which? News

[56] https://www.fca.org.uk/news/press-releases/fca-psr-publish-updated-evidence-cash-access

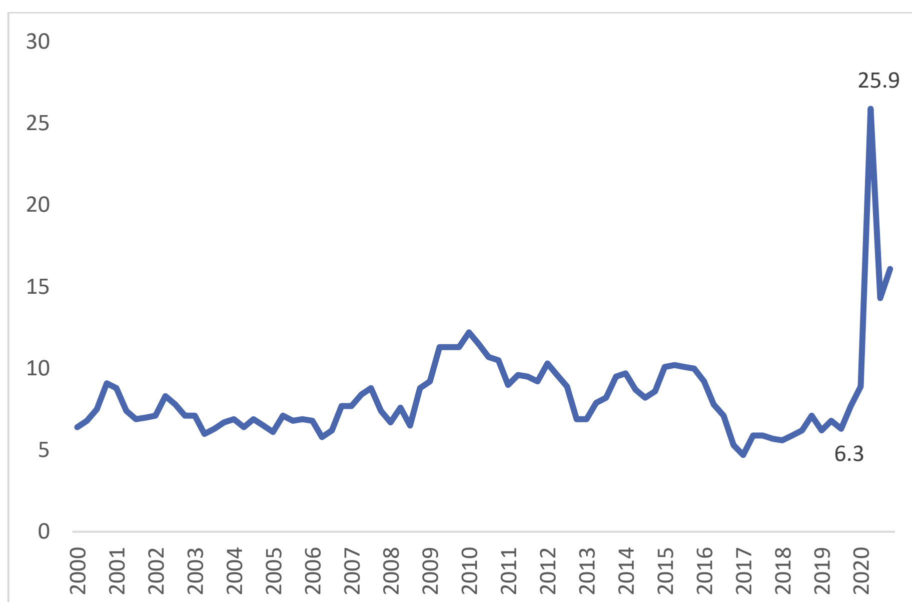
[57] https://commonslibrary.parliament.uk/research-briefings/cbp-9054/

6. SAVINGS

Savings are clearly important in relation to financial inclusion because they can help people, particularly during periods of economic turmoil, to manage a drop in income and avoid taking out high-cost credit and/or experiencing problem debt people. Savings therefore support financial resilience during times of personal or national economic crisis such as we have witnessed over the past year or more. However, as we shall see, the levels of saving in Britain was very low on the eve of the pandemic, particularly among people on low incomes who needed them most.

There are many ways to measure actual and potential saving. One approach is the household saving ratio as measured in the National Accounts[58] 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 6.1, the savings ratio reached its lowest since the turn of the century at 4.0% in Q1 of 2017. Since then, it changed little before pandemic in 2020 led to a huge spike to 25.9% during Q2 of 2020, when opportunities for spending were rather curtailed. Since then the savings ratio has fallen to 14.3% in Q3 and 16.1% in Q4, still very substantially higher than at any time this century. Latest data for the first six months of 2021 suggest the savings rate remains at about the same level as in the last six months of 2020 and is yet to fall back to pre-pandemic levels.

Figure 6.1. The Household Savings Ratio has increased since the recent low of 2017, with a lockdown spike. Source: Office for National Statistics[59]



[58] http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/nationalaccountsarticles/2015-07-01#the-saving-ratio-is-on-a-downward-trend. The Non-Profit Institutions Serving Households sector is currently measured alongside households, and comprises of institutions such as charities and trade unions. For the purposes of the data in this report, any mention of the household sector includes NPISH.

[59] https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/nrjs/ukea

This ratio is an aggregate figure for the population as a whole but we know, from previous data, that the amount people save is highly unequal. Some of our data on this predates the pandemic but is nevertheless useful to understand longer-term trends and patterns. For example, the Understanding Society survey asks people about their saving behaviour – both whether they save regularly or 'now and then' and, if so, how much. The latest findings, for 2018/19 show that 33 per cent of the population said they were saving regularly but this varied considerably by earnings level. Those with earnings in the top fifth of the distribution were more than three times as likely to save regularly compared with those in the bottom fifth (51 per cent compared with 15 per cent). Nevertheless, it is interesting to see that 15 per cent of those on the lowest earnings were still saving regularly.

Figure 6.2. 'Regular' saving in 2018/2019 was highest for those on the highest earnings. Source: Understanding Society

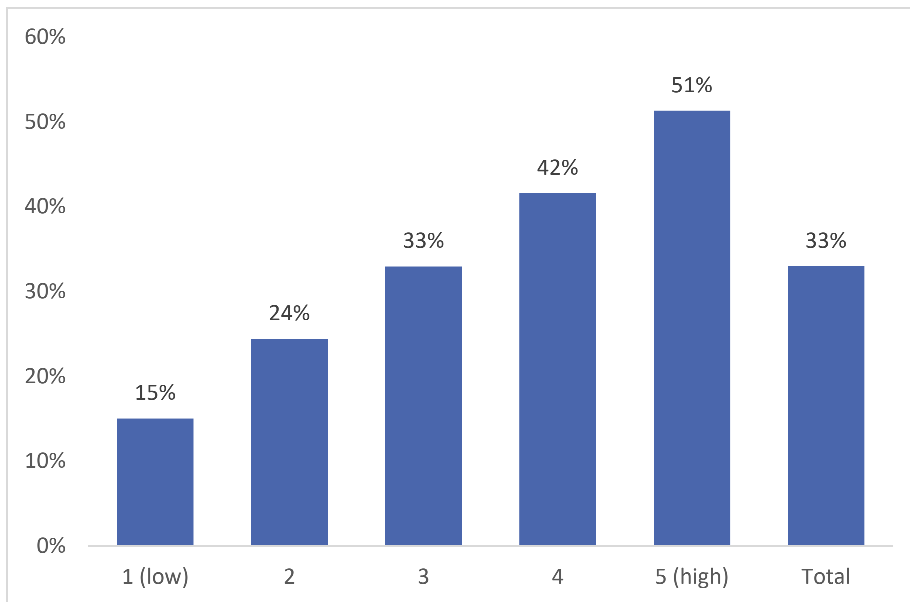


Figure 6.3 is based on all savers and shows that the average (mean) amount saved per month by savers was £297 in 2018/19. But savers in the top fifth of the earnings distribution were saving three times as much as those in the bottom fifth (£524 compared with £136).

Figure 6.3. Amount saved per month (mean) by savers is highest for those on the highest earnings. Source: Understanding Society, 2018/19

Levels of saving are not just related to the 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 (see Figure 1.3 above).

In 2018, the government introduced Help to Save accounts to encourage and reward saving among those entitled to Working Tax Credit or receiving Universal Credit. These savers receive, in general terms, a bonus of 50p for every £1 they save over 4 years[60]. Under the scheme, individuals can save up to £50 per month with the 50 per cent bonus payable at the end of the second and fourth years. According to data from HM Treasury[61], the total number of accounts in March 2021 was 284,000 and around 235,000 individuals had made a deposit into their Help to Save account. For those individuals making deposits, the average deposit per person per month was £48 (with 91% of accounts receiving the maximum £50 deposit). However, there were 49,000 accounts that had not received any deposit at all so far. In total, more than £141m had been saved by people on low incomes and monthly amounts deposited doubled during the pandemic to £8m in March 2021 (compared with £4.1m pre-pandemic in January 2020). But take-up of

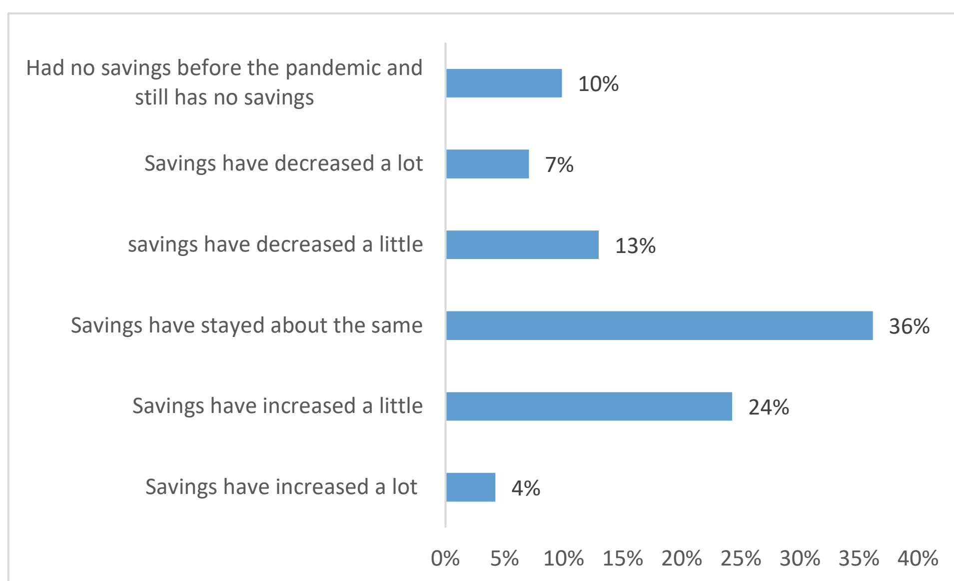
[60] More specifically, the year 4 bonus will be 50 per cent of the difference between the highest balance saved in the first 2 years and the highest balance saved in the last 2 years.

[61] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/991373/Help_to_Save_tables__June_2021_.ods

Help to Save is estimated to be well below 10 per cent as there are around 3 million people eligible[62].

The pandemic has clearly had an impact on people's savings with research by the Bank of England/NMG[63] carried out in August/September 2020 finding that a higher percentage of the public had seen their savings increase than decrease, no doubt due to lower expenditure (see figure 6.4). In total, 29% of the public have seen their savings increase but 20% have seen them decrease which, of course, means that wealth inequalities have increased during the pandemic.

Figure 6.4 On balance, more people had seen their savings increase than decrease in the first half of 2020, Source: Bank of England/NMG survey



Research by the Resolution Foundation published in July 2021[64] has also explored changes in savings (and housing) wealth during the pandemic, estimating that, in aggregate, households have increased nominal savings by around £125 billion more than would have been expected if the pandemic had not occurred. This aggregate figure masks inequalities here, of course, with around 30 per cent of families in the bottom 20 per cent of the income distribution seeing their savings decrease rather than increase. Those at the bottom of the income distribution were not only more likely to see savings decrease but also less likely to pay off debt, than families higher up the income distribution. The report concludes that these wealth gaps are likely to remain as households say they plan to maintain higher saving rates following the pandemic due to worries about the future economic outlook and changes in preferences.

[62] https://www.thisismoney.co.uk/money/saving/article-7411637/More-40-000-signed-Help-Save-six-months-say-HMRC.html

[63] https://www.bankofengland.co.uk/statistics/research-datasets

[64] https://www.resolutionfoundation.org/app/uploads/2021/07/Wealth-gap-year.pdf

Research by the Centre for Cities has also indicated a geographical dimension to wealth inequalities with an increasing North/South divide in terms of savings and debts. Those living in richer areas (for whom 'essentials' make up a smaller share of their spend), the guidance to work from home, alongside the closure of non-essential shops and services, has indirectly enabled them to reduce more of their spending. For every £1 decrease in spending in less affluent areas, there has been a £12 cut in richer ones which adds up to £150b 'covid-savings' in the country as a whole[65].

Research by the Resolution Foundation[66] has also, interestingly, compared the savings rates of Germany, France and the United Kingdom on the eve of the pandemic to get a picture of the varying levels of financial resilience in those countries. It found that, pre-Covid, Germany's gross savings rate was at 19 per cent, France was at 15 per cent and the UK at 8 per cent. And in terms of the distribution of savings among those with earnings, the report found that two-thirds of earners on the lowest incomes (bottom fifth) in France and Germany had sufficient financial assets to cover a 3-month 25 per cent reduction in earnings in 2017 compared with about a half of similar households in the UK.

---

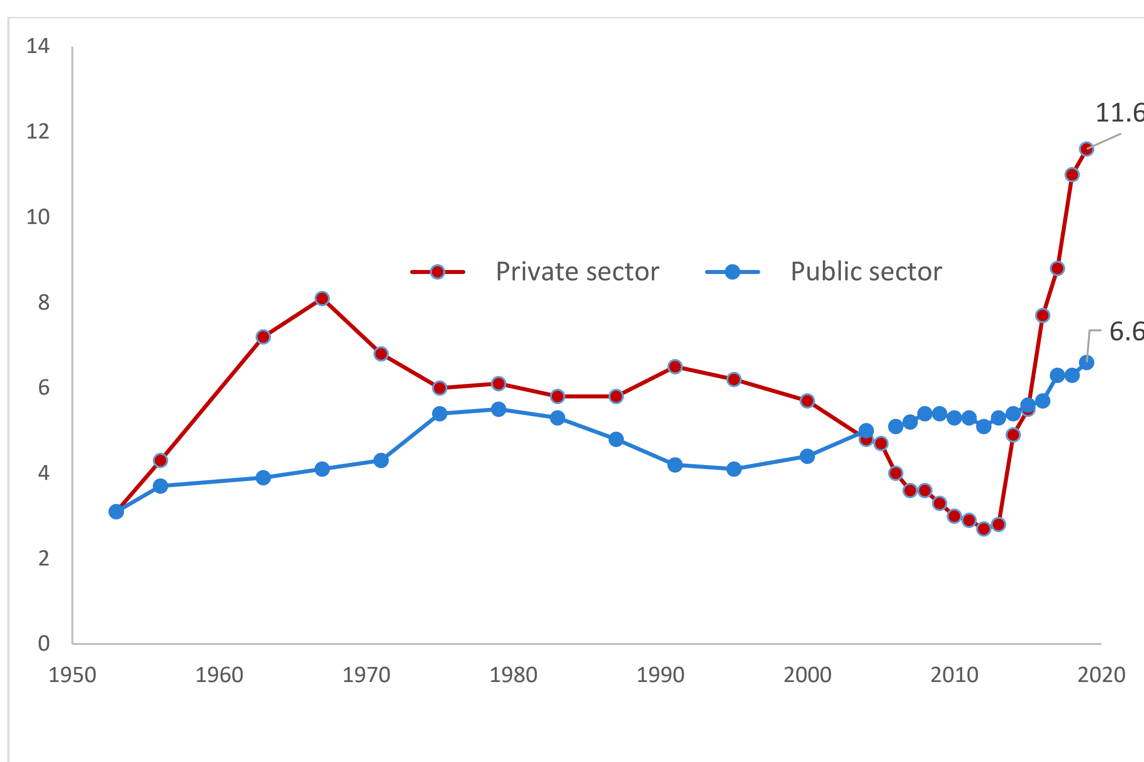
[65] https://www.centreforcities.org/wp-content/uploads/2021/06/An-uneven-recovery-how-covid-debt-and-covid-savings-will-shape-post-pandemic-cities.pdf

[66] https://www.resolutionfoundation.org/publications/after-shocks/

7. PENSIONS

Pensions are rarely included in discussions about financial inclusion, but they are clearly important in relation to financial security and inclusion in later life. Figure 7.1 provides data on the number of active members of occupational pension schemes[67] – with separate figures for those in the private sector and those in the public sector. Private sector schemes had been on the decline since the late 1960s but the mandatory introduction, in 2012, of auto enrolled workplace pensions has seen a massive increase so that, in 2019, 11.6 million people had such pensions. This is far higher than the number of people with public sector pensions, but this figure has also increased since 2012, albeit at a much slower rate to 6.6 million (see figure 7.1).

Figure 7.1. Active membership of occupational pension schemes by sector increased dramatically from 2012 to 2019 after a long decline. Source: Office for National Statistics Occupational Pension Schemes Survey[68]



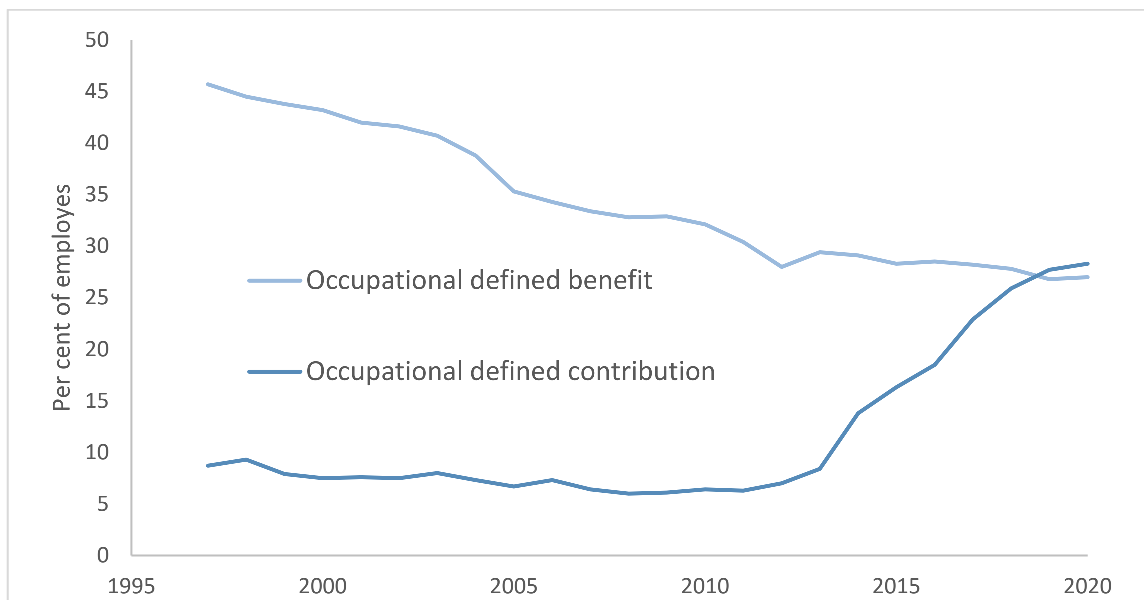
The newly-introduced workplace pensions from 2012 onwards are almost certainly all defined contribution (DC) schemes – hence the increase in such schemes shown in figure 7.2. DC schemes are typically much less secure and generous than defined benefit (DB) schemes. With DC schemes, the contributions paid in by the member and their employer are invested. From age 55

[67] In these ONS figures, 'active members are current employees who would normally contribute to the pension scheme (or have contributions made on their behalf)'.

[68] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/bulletins/occupationalpensionschemessurvey/uk2017

the member can then access the proceeds in one of four ways: to take a lump sum for the full amount of the pot, to purchase a drawdown product and access their money over several years, to purchase an annuity (regular income for life), or to take an uncrystallised pension fund lump sum (UFPLS) for a proportion of their pot and leave the remainder invested. The amount that will be available is very uncertain compared to DB schemes where the employer is obliged to pay a set amount (e.g. half the final or career average salary if someone contributes for 40 years).

Figure 7.2. Active membership of defined contribution occupational pensions now exceeds the numbers for defined benefit schemes (percentage of employees with workplace pension). Source: Office for National Statistics Occupational Pension Schemes Survey 2020



While the numbers with an active pension look promising in relation to financial inclusion, there are a couple of important points to bear in mind. First of all, figures from NEST[69] (who are a key provider of workplace pensions) show that, as at March 2021, they had 9.9 members but only 4.3m were 'active' members. The majority of their 'members', 5.6m, were 'inactive' meaning that they had either left the employer who had auto-enrolled them or stopped contributing or been transferred to another provider.

Among those who do contribute to a pension, contribution rates are much higher in public sector workplace pensions than private sector workplace pensions (see figure 7.3).

[69] https://www.nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html

Figure 7.3a. Employee average contribution rates in pension schemes are far higher in the public than the private sector, 2020, Office for National Statistics, Annual Survey of Hours and Earnings

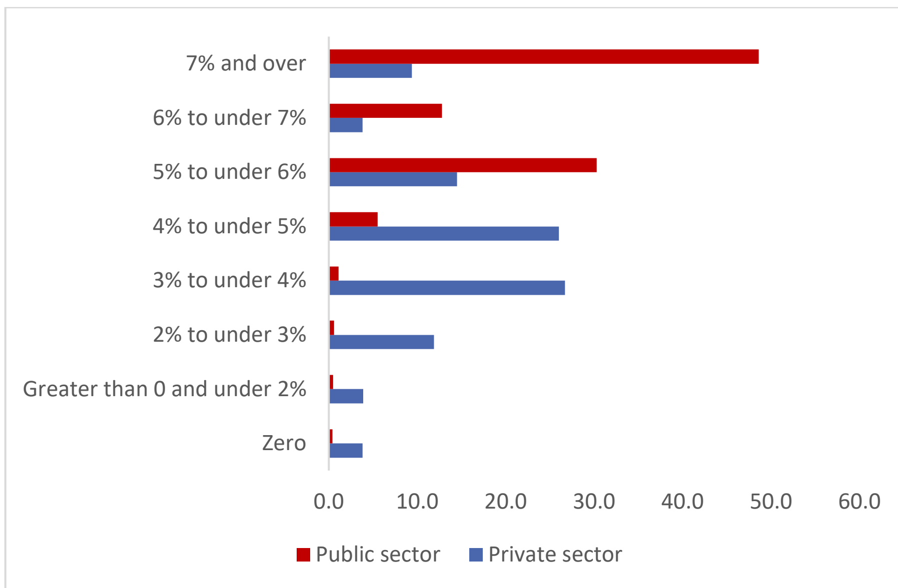
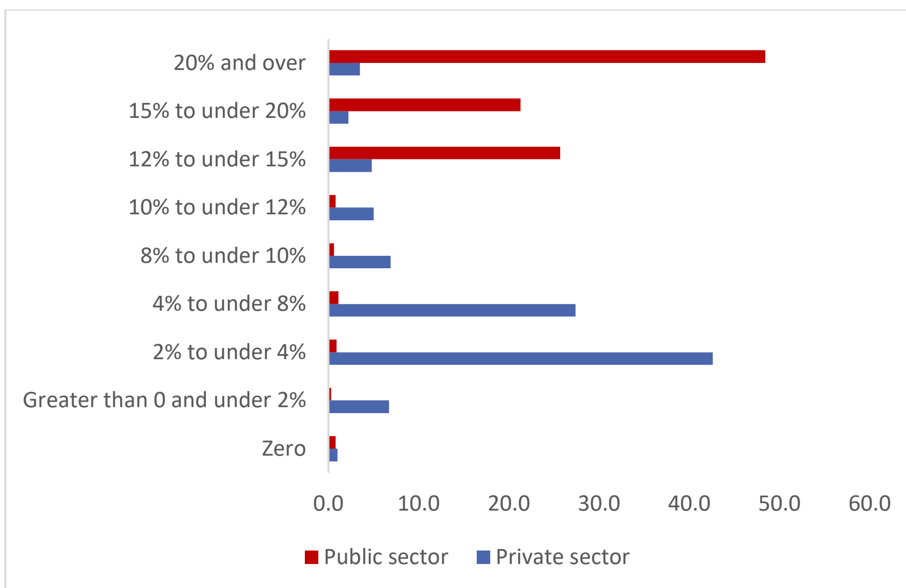


Figure 7.3a. Employer average contribution rates in pension schemes are far higher in the public than the private sector, 2020, Office for National Statistics, Annual Survey of Hours and Earnings



The Resolution Foundation[70] has found that median private pension wealth in 2016-18 for workers in the bottom half of the income distribution who lack substantial Defined Benefit pension savings was only £319 for those aged 25-34, £1,562 for those aged 35 to 44 and £2,391

---

[70] Building a Living Pension: Closing the pension savings gap for low-to-middle income families, David Finch & Cara Pacitti, January 2021 https://www.resolutionfoundation.org/app/uploads/2021/01/Building-a-living-pension.pdf

for those aged 45 to 54. So while there have been gradual increases in saving since 2012-14, reflecting the introduction of auto-enrolment, the amounts saved were still very low indeed by 2016-18.

The Resolution Foundation went on to calculate how much, on average, today's workers would need to save to achieve an adequate standard of living in retirement (what they term a 'Living Pension' similar to the concept of a Living Wage). This amounted to £3,000 a year and, for a full-time Living Wage earner, that is £1,500 a year more than the current minimum auto-enrolment requirements and equivalent to an additional 8 per cent contribution rate.

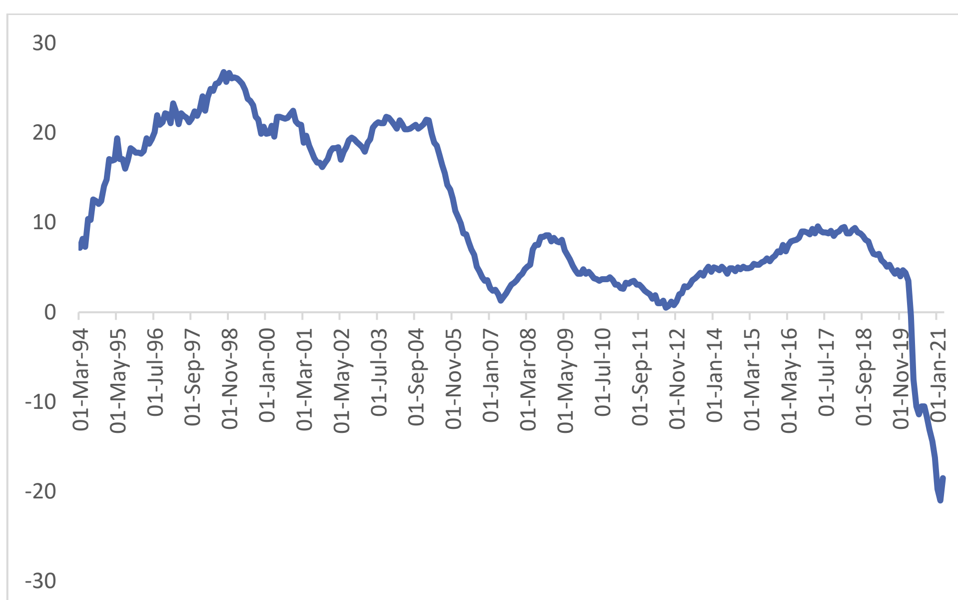
8. BORROWING

As we have stressed in previous reports, some forms of borrowing/debt may be very positive in some circumstances, 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'. 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.

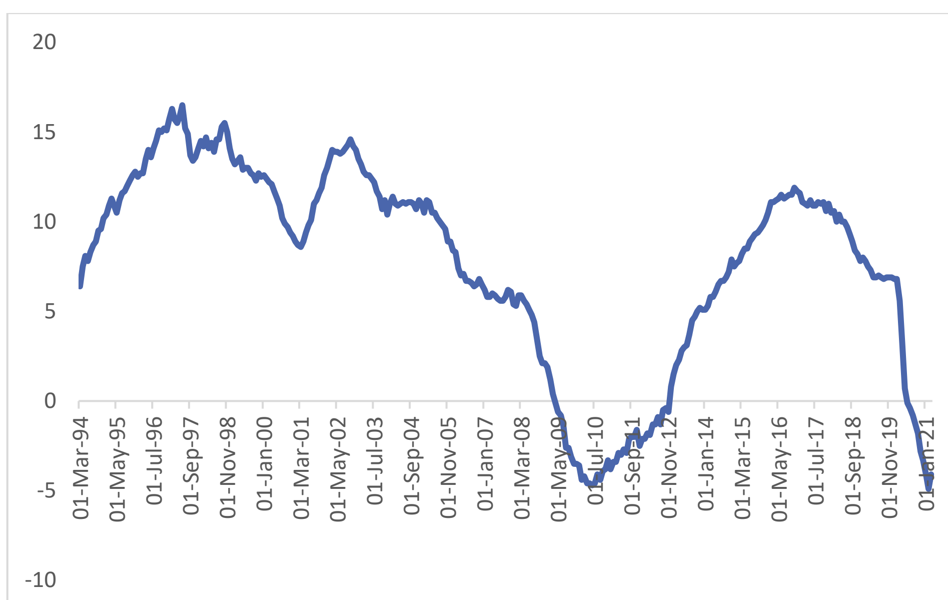
Our analysis shows that the annual rate of growth in credit card lending dropped dramatically in 2020 and the first three months of 2021 (see figure 8.1). Indeed, from March 2020, the growth rate has been actually negative for the first time in recent decades. In May, June, July and August of 2020, credit card lending was more than 10 percentage points lower than the same point in the previous year, and in January, February and March 2021 it was around 20 percentage points lower than the same point the previous year. Such falls are unprecedented.

Figure 8.1. Monthly 12-month growth rate of total sterling net credit card lending to individuals fells dramatically from March 2020 onwards. Source: Bank of England



If we look at similar figures for consumer credit which exclude credit cards (and student loans), we also see a similarly dramatic fall in lending (see figure 8.2), reaching -4% in each month of the first Quarter of 2021.

Figure 8.2. Monthly 12-month growth rate of total (excluding the Student Loans Company and credit card) sterling net consumer credit lending to individuals (in percent) falls dramatically from March 2020. Source: Bank of England



In terms of the different types of unsecured consumer credit, the Financial Conduct Authority's Financial Lives 2020 survey[71] reported a range of statistics for February 2020 (i.e. pre-pandemic) as follows:

- More than half (51 per cent) of adults used FCA-regulated consumer credit in February 2020 (up from 47 per cent in 2017)
- One in ten (5.1 million) adults were constantly or usually overdrawn
- One in ten (5.6 million) adults held one or more high cost loans (e.g. payday loans)
- Less than 0.5% (200,000) adults reported borrowing from an unlicensed lender
- Informal borrowing had increased from 2017 to 2020 particularly among young adults aged 18-24, 19 per cent of whom had borrowed from family or friends (compared with 12 per cent in 2017)

The report suggests that these figures were similar to those in the previous survey carried out in 2017.

Research by the Resolution Foundation[72] comparing the UK with Germany and France found that households in the UK that experienced a fall in income during the pandemic were more likely to borrow in order to cover living expenses than those in Germany or France (17 per cent compared with 9 per cent and 8 per cent respectively), linked to lower levels of saving in the UK.

Turning now to mortgage lending, figure 8.3 shows the monthly number of total sterling approvals for house purchase to individuals, seasonally adjusted, rather than the rate of growth. It shows another massive drop in mortgage lending in March 2020, with fewer than 10,000

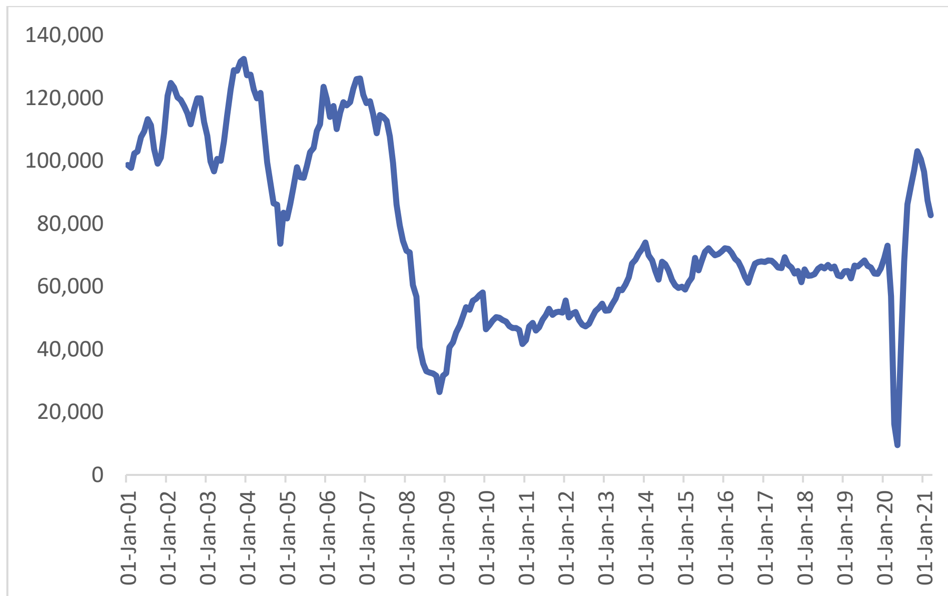
---

[71] https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

[72] https://www.resolutionfoundation.org/publications/after-shocks/

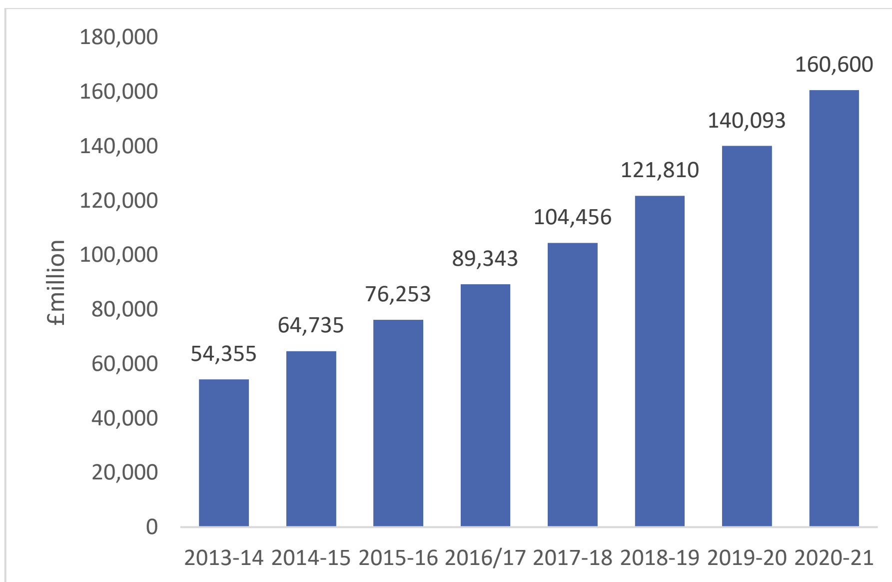
approvals in May 2020, far fewer than the low point following the GFC of 25,000 in November 2008 (though the level of approvals have been much higher prior to this crash). Mortgage approvals in most recent months have bounced back and, indeed, reached over 100,000 at the end of 2020 prior to the second lockdown.

Figure 8.3. Monthly number of total sterling approvals for house purchase to individuals seasonally adjusted, Source: Bank of England



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. The value of outstanding loans at the end of March 2021 reached £160.6 billion (see figure 8.5).

Figure 8.5. Total amount outstanding at the end of the financial year, including loans not yet due for repayment. Source: Student Loans Company and House of Commons[73], [74]



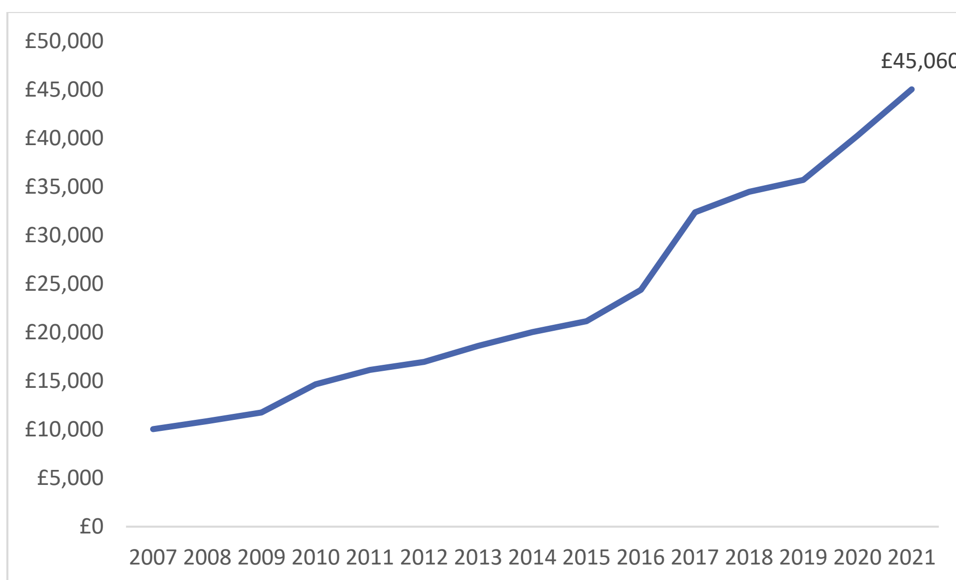
The average Loan Balance for those who finished their courses in 2021 was £45,000 (see figure 8.6). But the Government expects that (only) 30 per cent of current full-time undergraduates who take out loans will repay them in full[75]. Full time students entering HE from 2012/13 who completed three years of study are included in this average, but the average balance is diluted by other borrower types in the same repayment cohort.

[73] https://www.slc.co.uk/official-statistics/student-loans-debt-and-repayment/england.aspx, https://commonslibrary.parliament.uk/research-briefings/sn01079/

[74] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/992740/slcsp012021.pdf

[75] https://commonslibrary.parliament.uk/research-briefings/sn01079/

Figure 8.6. The average Loan Balance for those entering into repayment. Source: Student Loans Company[76], [77]



In terms of repayments, the data show that the number of those making scheduled repayments went down by 13,000 (10.3%) in financial year 2020-21 to 112,900 and the amount repaid reduced by £9.5 million (7.6%) to £115.7 million. This was the first time ever that there had been a reduction in comparison to the previous year in both the number of borrowers who made a scheduled repayment and the amount repaid via this method. Presumably this is another consequence of the pandemic. It is worth noting that the interest rate on most student debt is charged at RPI +3% from the point at which the loan is taken out until it is repaid in full.

Financial inclusion policies generally aim to increase access to affordable credit, including credit unions and over 2.1 million people (including young people) were members of credit unions in the UK with the vast majority (1.9 million) being adults. There has been a 4.5 per cent increase in adult members over the previous year but a drop of 2.3 per cent of young members (under 16). While most members are based in England (see figure 8.7) the percentage of the English population who are credit union members is actually very small (about 2 per cent). The percentage of Northern Irish population who are members is much greater at more than one in three (37 per cent) see figure 8.8.

[76] https://www.slc.co.uk/official-statistics/student-loans-debt-and-repayment/england.aspx

[77] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/992740/slcsp012021.pdf

Figure 8.7. Total number of members of credit unions in the UK (including 'Juvenile Depositors') in 2020. Source: Bank of England Data[78]

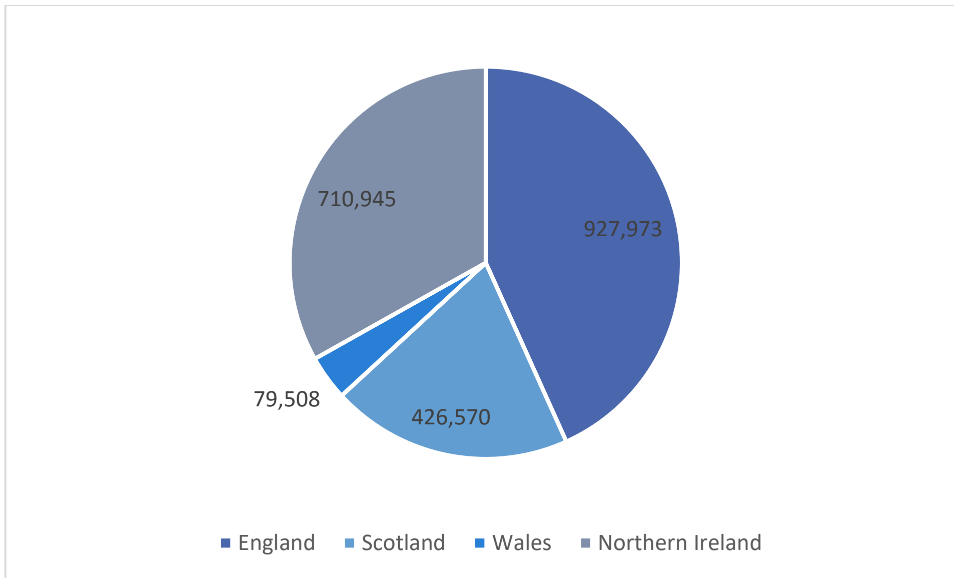
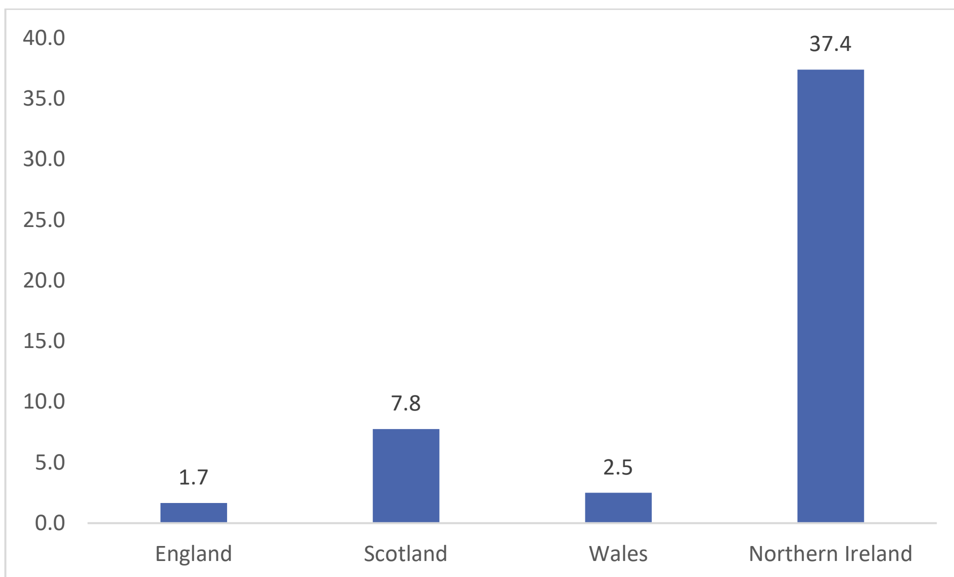


Figure 8.7. Percentage of people in each country who are members of credit unions (including 'Juvenile Depositors') in 2020. Source: Bank of England Data[79]



[78] https://www.bankofengland.co.uk/statistics/credit-union/2019/2019-q4

[79] https://www.bankofengland.co.uk/statistics/credit-union/2019/2019-q4

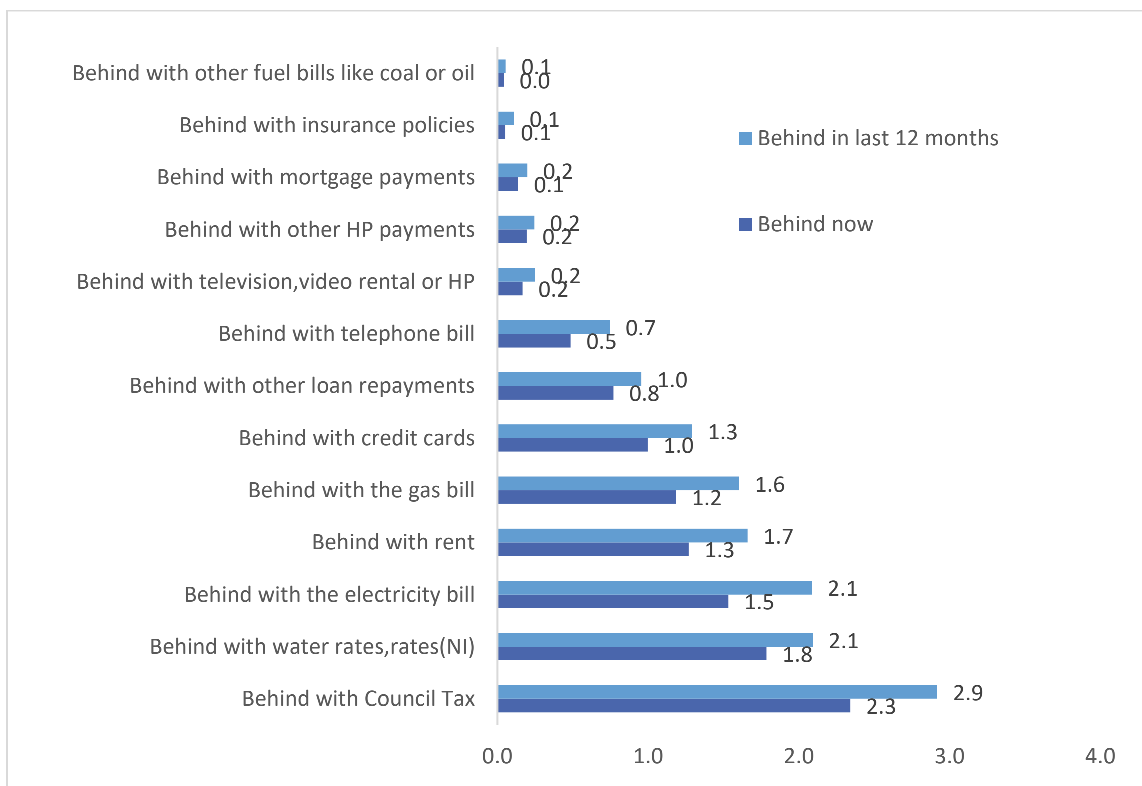
9. PROBLEM DEBT

Chapter 8 focused on levels of borrowing but borrowing does not always lead to financial difficulties. And some people are in financial difficulties without borrowing at all. This chapter reviews data on the difficulties people may have in paying their bills, including any credit commitments. We refer to these difficulties as '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. More timely data from other surveys, e.g. the Financial Conduct Authority's Financial Lives survey, is becoming available though, again, definitions, samples and fieldwork methods vary.

According to one of the more established sources of data, the Family Resources Survey 2019/20, 5 per cent of families (or 1.7 m out of 32m) said that they could not keep up with bills and regular debt payments prior to the Covid-19 pandemic. And 7 percent said that they had been unable to do so at some point in the previous year (2.2m).

Figure 9.1 breaks these figures down in relation to different types of problem debt, with council tax debt being the most common type, followed by water rates (or rates in Northern Ireland) then electricity and then rent. The numbers here are similar to those for 2018/19.

Figure 9.1. Problem debt in 2019/20, Family Resources Survey



The Financial Conduct Authority's Financial Lives 2020 survey[80] also has data from February and October 2020 on a range of measures linked to problem debt. It suggests that:

- 7.2 million UK adults (equating to 14 per cent of the population) were 'over-indebted' in February 2020 (i.e. pre-Covid) with 3.8 million of these defined as being in financial difficulty because they had missed paying bills or meeting credit commitments in three or more of the previous six months. By October 2020, this figure had risen to 8.5 million
- 2.8 million adults had persistent credit card debt because they were paying minimal amounts and so had paid more in interest, fees and charges over the previous 12-18 months than they had actually paid off on their card(s).
- A fifth of mortgage holders (3.5 million) had outstanding mortgage debt at least four times their annual household income – a significant increase on the 14% in 2017
- Only 1.7 million people had accessed debt advice between February and October 2020. Those in debt who had not taken up advice said it was primarily due to embarrassment, not wanting to face the problem and lack of awareness about support available.

The Standard Life Foundation's 4th Coronavirus financial tracker[81], also collected data on aspects of problem debt found, in January 2021 the following levels of debt:

- 7 per cent had fallen behind on their rent or mortgage
- 10 per cent had fallen behind on other household bills
- 15 per cent had fallen behind with unsecured credit payments

Research by Stepchange Debt Charity[82] found that, in January 2021:

- 10.1 million GB adults were showing signs of financial difficulty
- 6.2 million had experienced financial difficulty such as falling behind on household bills, particularly council tax, rent, electricity and water
- The estimated average arrears among those behind on household bills was £1,706
- 4.3 million people were behind on household bills including council tax, rent and utilities

A number of policies and schemes were introduced in 2020 to support people with problem debt including a ban on evictions, various loan deferral schemes, the Debt Respite scheme (or 'breathing space' and changes to Debt Relief Orders. The Financial Conduct Authority's Financial Lives October 2020 survey[83] measured how many people took up various payment deferral opportunities as follows:

- One in six (17 per cent) of mortgage holders (3.2 million) had taken up a mortgage payment deferral by October 2020, with another 14 per cent (2.6 million) considering doing so.

---

[80] https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

[81] https://www.standardlifefoundation.org.uk/docs?editionId=d1d29721-a5fd-48d6-811e-a755e572fce2

[82] https://www.stepchange.org/Portals/0/assets/pdf/Coronavirus-impact-dashboard-January-2021-StepChange.pdf

[83] https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

- A fifth of adults with a loan product (excluding overdrafts) had taken up a credit deferral rising to half (49 per cent) of those with high-cost credit.

Stepchange research[84] found that, by January 2021, an estimated 1.6 million had accessed a credit payment holiday. Among those who had taken a credit payment holiday that had ended: 38% said that they had resumed repayments without difficulty; 50 per cent said that they had resumed repayments with difficulty; and 23% had subsequently missed repayments.

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[85]. Individual insolvency procedures include bankruptcy, debt relief orders (with effect from 6 April 2009) and individual voluntary arrangements:

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

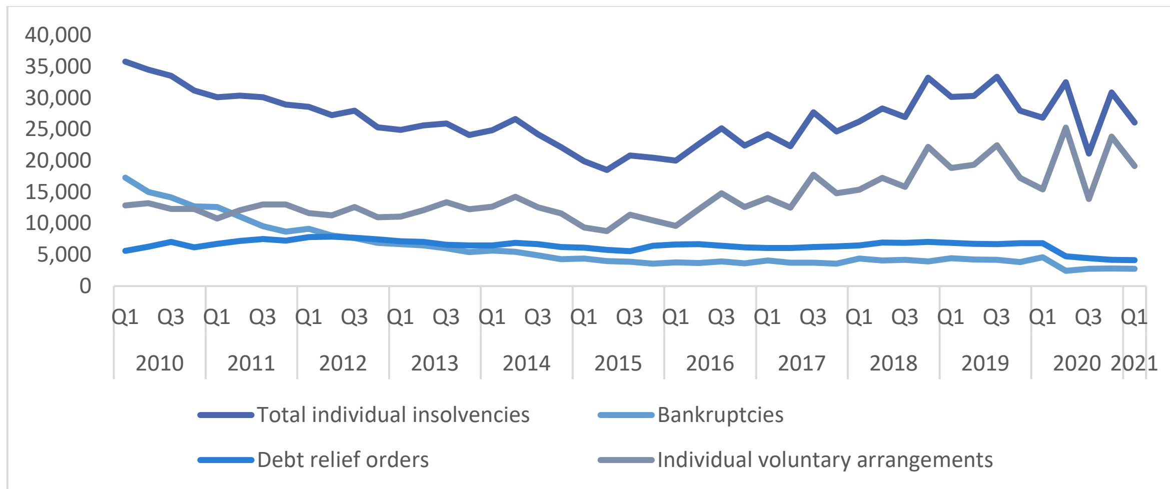
Quarterly data from the Insolvency Service shows that the total numbers of bankruptcies and debt relief orders declined over 2020. In total, over 12,000 people were declared bankrupt in 2020 and just over 20,000 signed a Debt Relief order. But Individual Voluntary Arrangements (which now form the vast majority of all types of insolvencies) fluctuated quite dramatically during 2020 and over the year as a whole reached a new high of over 78,000 (see figure 9.3).

---

[84] https://www.stepchange.org/Portals/0/assets/pdf/Coronavirus-impact-dashboard-January-2021-StepChange.pdf

[85] See the Insolvency Service website: http://www.bis.gov.uk/insolvency

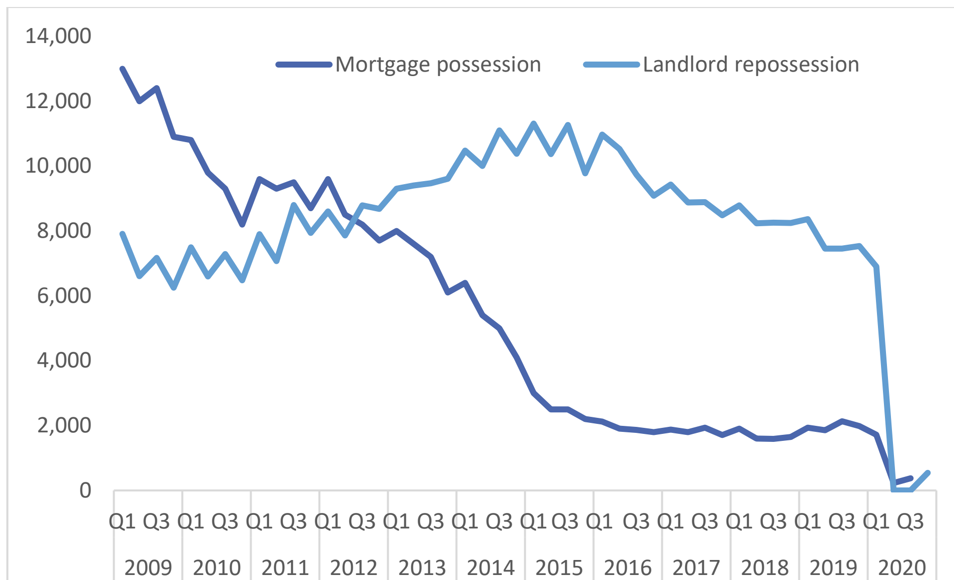
Figure 9.3. Individual insolvencies in UK, quarterly data. Source: Insolvency Service[86]



Another, quite extreme, indicator of problem debt is the number of properties taken into possession over time. Figure 9.4 shows this trend both for mortgage repossessions and landlord possessions with both dropping dramatically during the pandemic due to government bans on evictions (enforced by bailiffs) and lender forbearance with mortgage arrears. The government ban has now ended however and we will see the resulting levels of evictions in next year's report.

[86] https://www.gov.uk/government/statistics/individual-insolvency-statistics-january-to-march-2019

Figure 9.4. Mortgage repossessions and landlord possessions 2009-2020. Source: Government Statistics[87]



Despite the government's ban on evictions, at least 130,000 households in England were made homeless during the first year of the pandemic, according to data sourced by the Observer[88]. Analysis of published government homelessness statistics and figures collected under the Freedom of Information Act from around 70% of local authorities in England show that councils in England were approached 274,000 times for homelessness assistance during 2020-21. Half this number, 132,362 households, were assessed by councils as being owed the "relief duty", where a household is deemed to already be homeless. A further 106,000 were deemed to be owed the "prevention duty" as they were at risk of homelessness but not yet legally homeless. The number of homeless households rose slightly in 2020-21 compared with the previous year. The number of households applying for support rose sharply during the final quarter of 2020-21. In Cornwall, 44% of applications for support were made in that three-month period, and 64% in Bath and North East Somerset.

---

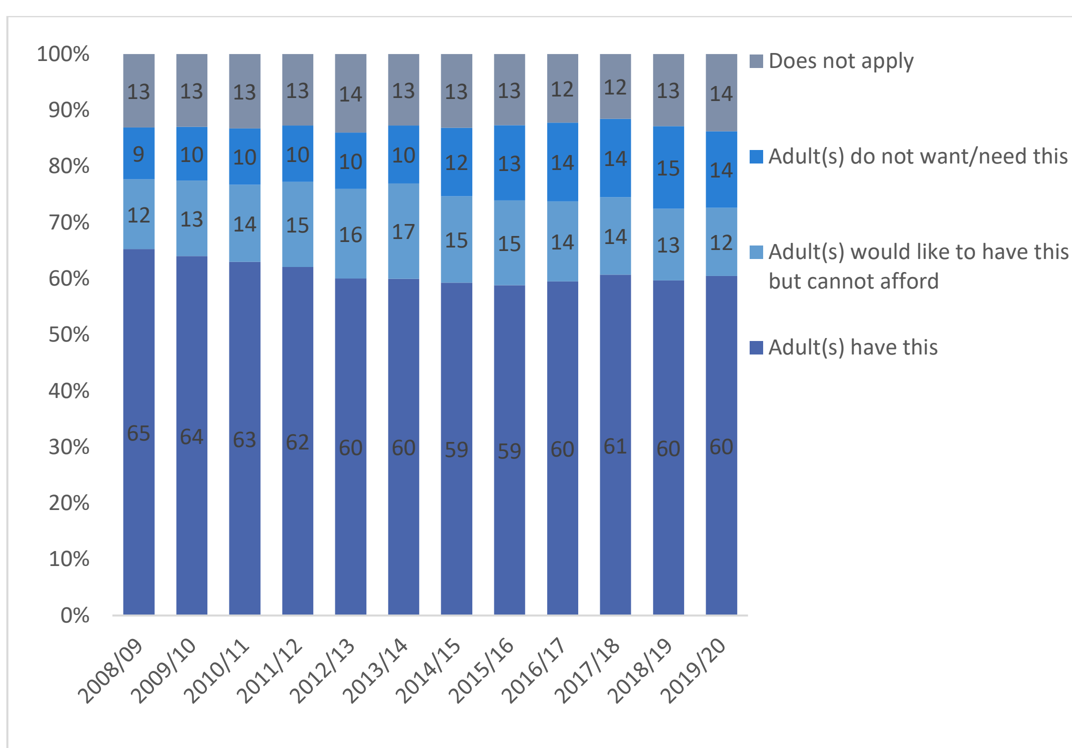
[87] https://www.gov.uk/government/statistics/mortgage-and-landlord-possession-statistics-october-to-december-2019

[88] https://www.theguardian.com/society/2021/jun/13/at-least-130000-households-in-england-made-homeless-in-pandemic?CMP=Share_iOSApp_Othe

10. 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[89] 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. Figures from the Family Resources Survey suggest the proportion of working adults who had home contents insurance in 2008/9 and 2019/20 dropped from 65 per cent to 60 per cent (see figure 10.1). The table excludes those who did not answer the question, saying that it was 'not applicable' (about 14 per cent in 2019/20)

Figure 10.1. Home contents insurance for working-age adults 2008/9 to 2019/20. Source: Family Resources Surveys



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

The Financial Conduct Authority's Financial Lives 2020 survey[90] reported that 88 per cent of adults held one or more insurance products in February 2020 (up from 81 per cent in 2017) with motor (68 per cent), home contents (66 per cent) and buildings (61 per cent) the most common forms. Renters were much less likely to have home contents insurance than owner-occupiers (31 per cent compared with 88 per cent).

[90] https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

Conclusions

This report confirms the unprecedented impact of the Covid-19 pandemic on both the national economy and household finances. Indeed, some of the charts in this report make the impact of the Global Financial Crisis in 2008 look like a minor economic blip compared to the pandemic.

Government intervention to support people in 2020/21 (e.g. the furlough scheme, the temporary £20 uplift to universal credit, time-limited eviction bans, payment deferral schemes and so on) have helped enormously in reducing the potential impact on household finances but these interventions have still not been enough to prevent millions from having to go without essentials such as food and clothing – or from falling behind with household bills. And most of these schemes have now ended, potentially plunging more people into (deeper) poverty and problem debt in 2021/22 and beyond.

Some groups have fared worse than others over the last year or so, including Black, Asian and minority ethnic adults, the self-employed, adults on the lowest incomes, families with children (particularly single parents), and younger people.

But the economic impact of the pandemic has not been negative for everyone. Indeed, on average, personal savings actually increased during the pandemic as many people have been unable to spend their money on commuting, holidays, leisure, entertainment and other forms of consumption. But one in five have seen their savings decrease as their incomes have fallen and/or their spending has increased. Wealth inequality has grown further as a result.

The pandemic may also have longer-term consequences for people's finances as those on lower incomes have less disposable income to contribute to their pension saving, for example. Pension contributions may be increasing generally but it is clear that those on low incomes are not saving anywhere near enough to secure an adequate income in retirement. And the number of people making repayments on their student loan debt decreased in 2020/21 for the first time ever, as did the amount repaid, no doubt due to the impact of the pandemic on young people's employment and earnings. But the debt will remain and accrue interest at the rate of RPI+3%, leaving less room for pension saving for example.

The short-term and potential long-term consequences of the pandemic are considerable and this report also reveals that they come on top of levels of poverty and debt that were already increasing prior to the pandemic. This all calls for urgent debate about how to support those in poverty and debt now, and how to prevent further poverty and debt in the future.

Appendix: Data sources and research methods

This research, funded by the Friends Provident Foundation and Barrow Cadbury Trust, began with stakeholder engagement to help refine the scope of the research. The research then draws on analysis of a range of existing data sources as outlined below. We also review key research studies, and statistics produced, by other organisations as appropriate.

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 two key sources were administrative systems of various kinds, and sample surveys available to the academic community:

Administrative data

Aggregated data is available from, in particular, the Office for National Statistics (ONS), the Bank of England and various government departments.

ONS data includes summary data from certain surveys, such as the Labour Force Survey and Wealth and Assets Survey (see below) and from administrative systems including numbers receiving benefits of various kinds. They are also responsible for price indices, such as the CPI.

The Bank of England provides data on credit and mortgages.

Various government departments provide data on their area of competence. So, the Department for Work and Pensions (DWP) provides data on numbers receiving benefits, such as universal credit.

Survey data

Sample surveys are conducted within government on a regular basis, and by some academic bodies. Many of these surveys may be accessed at the UK Data Service[91], subject to certain conditions. Below we list the main surveys used in this report.

- Wealth and Assets Survey (WAS)

This is a panel survey of people's assets and general wealth, including pensions, financial assets, property and savings. Six waves/rounds have been produced, covering 2006-08, 2008-10, 2010-12, 2012-14, 2014-16 and 2016-18[92]. Each wave of the survey includes around 20,000 households, or more.. 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 bank accounts held[93], and those in arrears on particular household commitments. These data are Crown Copyright.

- 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[94]. These data are Crown Copyright.

- Understanding Society

This is a very large household panel study, including over 40,000 households each wave. It follows on from a similar panel survey (the British Household Panel Survey)[95].

- Older surveys

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

---

[91] https://www.ukdataservice.ac.uk/.

[92] https://www.ons.gov.uk/releases/wealthingreatbritainwave62016to2018.

[93] Department for Work and Pensions, National Centre for Social Research and Office for National Statistics. Social and Vital Statistics Division, Family Resources Survey, 2010-2011 [computer file]. Colchester, Essex: UK Data Archive [distributor], October 2012. SN: 7085 , http://dx.doi.org/10.5255/UKDA-SN-7085-1

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

[95] https://www.understandingsociety.ac.uk/.

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[96] 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[97], [98]

---

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

[97] 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: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130406.pdf

[98] http://www.bankofengland.co.uk/research/Pages/onebank/datasets.aspx#2

Acknowledgements

We would like to thank the Friends Provident Foundation and Barrow Cadbury Trust for funding this work. Danielle Walker-Palmour, Debbie Pippard and Clare Payne have been particularly helpful and supportive, as always.

We also wish to thank the UK Data Service for supplying the datasets used in this research project – and thank the funders and data collectors of these surveys.

Naturally, none of these individuals or organisations has any responsibility for the analysis conducted or conclusions drawn.