

Tackling financial exclusion in disadvantaged areas

One and a half million households lack even the most basic of financial products. These people are heavily concentrated in communities with high levels of overall deprivation. In this study the authors, Sharon Collard, Elaine Kempson and Claire Whyley, worked with residents in one such community to identify their most pressing needs and the most appropriate ways of meeting them. The study found that:

- f** People welcomed being consulted and had a clear idea of what would best meet their needs.
- f** They welcomed the development of basic bank accounts that cannot be overdrawn and are available to all. They particularly liked the Post Office's Universal Banking proposals.
- f** They aspired to save but frequently needed to borrow. They were attracted to schemes that link saving and borrowing, giving them access to low-cost loans. But they often needed to break the cycle of borrowing from high-cost lenders to be able to start saving.
- f** There was a widespread mistrust of banks, insurance and credit companies and a high level of disengagement from financial services. Levels of knowledge were low and people said they felt gullible. They were, however, interested in finding out more.
- f** Self-employed people were very critical of banks and had real difficulties raising small amounts of working capital. There was considerable interest in the emerging micro-lending schemes, with quite different types of service being needed by people thinking of becoming self-employed and those who are already trading.
- f** The Somali residents faced problems as most financial services do not comply with the teaching of Islam. The same is true of many of the solutions that aim to tackle financial exclusion – for example credit unions and micro-lending organisations.
- f** The researchers conclude that needs for financial products and services in deprived communities are best met by a combination of national provision with a local presence and city-wide 'one-stop shop' services run in partnership between national providers and local organisations.

Despite a steady increase both in the numbers of households using financial services and in the range of products they use, around 1.5 million households in Britain (7 per cent) lack any financial products at all. A further 4.4 million (20 per cent) are on the margins of financial services, with little more than a bank or building society account that is not much used. These households are heavily concentrated in areas of high deprivation.

As part of its strategy to combat social exclusion, the Government has designated 17 'Pathfinder' neighbourhoods under its New Deal for Communities programme. This research was undertaken in one of these neighbourhoods – Barton Hill in Bristol – and was designed to identify practical ways that financial exclusion can be tackled there.

Although other research has identified possible ways of combating financial exclusion, this study differs in that it has taken a truly 'bottom-up' approach.

Consulting with residents

A participative approach was used throughout the research. Local people, who were on the margins of financial services, determined the overall direction of the research, its aims and the detail of the topics to be investigated. They were also the final arbiters on the most appropriate ways for their needs to be met.

The study began with a series of six focus groups designed to identify the main difficulties people experienced getting access to financial services and the questions they would like put on their behalf to service providers. The 42 participants were recruited door-to-door and were all on the margins of financial services. They included men and women, people of all ages, disabled people and people drawn from the African Caribbean and Somali populations.

Following these discussions the researchers undertook 27 in-depth interviews with a wide range of financial service providers, including commercial bodies, local and central government and the voluntary sector. The content of these interviews was determined by the questions raised in the focus groups. An audit was also undertaken of financial service provision within Barton Hill.

Finally, two 'select committees' were arranged for local people to consider the information that had been gathered, to hear at first hand from thirteen of the providers who had been interviewed and to cross-examine them on the services they provide. These presenters ranged from staff from the headquarters of high street banks, the Post Office and the Association

of British Credit Unions, to representatives of local initiatives elsewhere, such as the Portsmouth Area Regeneration Trust, a Coventry-based financial literacy project and a Norfolk micro-lending scheme for women.

Each select committee took a full day; one comprised 20 people who had taken part in the earlier focus groups, the other people involved in local organisations or the board of the Barton Hill New Deal co-ordinating organisation. The first of these committees identified the priorities for taking things forward; the second was convened so that people who are involved in developing services in Barton Hill could explore the practical issues with service providers and provide a springboard for future developments.

Local residents and local representatives were of one mind. This process was a valuable one. Local residents felt that, for the first time, they had been able to play a key role in determining how their needs for financial services might be met. The focus groups had enabled them to voice their criticisms of financial service provision and they welcomed the opportunity to hear at first hand from people designing financial services intended to meet their needs. They proved to be skilful cross-examiners in the select committee and felt a degree of optimism about future provision. Many were keen to retain an involvement in the development of local services.

The findings

Local residents identified six main areas of financial service provision as priorities:

- Banking;
- Loans;
- Savings – especially as a means of access to low-cost loans;
- Loans for micro-entrepreneurs;
- Financial services for Muslim Somalis; and
- Financial information and education.

Access to insurance – and home contents insurance in particular – was also considered problematic. But it was not a high priority, compared with banking, credit and savings. There was no interest in either pensions or mortgages.

Banking

Three key problems were identified in relation to personal banking. First, the design of bank accounts did not suit people with little money, who did not

want to run the risk and incur the costs of inadvertently overdrawing. Second, although there were bank branches within Barton Hill, access was restricted by identity requirements and credit scoring. Third, people both mistrusted and held very negative views of banks. At the same time, they experienced difficulties managing their money without a bank account and wanted to find out if anyone was developing banking services that would better meet their needs.

At the select committee, residents were given the opportunity to discuss the new basic bank accounts offered by two high street banks – Bank of Scotland's *Easycash* account and the National Westminster *Step* account. At the time, these two accounts exactly met the requirements of local residents: they were not subject to credit checks, required identity checks local residents could meet, and offered a full range of banking services with a small, free buffer zone to avoid the risk of overdrawing. The committee also discussed the new bill-payment account that is linked to the *Easycash* account and the Post Office Universal Banking proposals.

All these developments were met with great approval. People liked the new types of account and were attracted to opening one; they especially liked the idea of banking through their local post office. Moreover, the new basic bank accounts complied with the teachings of Islam. Even so, given the high levels of mistrust and antipathy towards banks expressed by local people, these accounts will need to be marketed sensitively.

Saving and borrowing

Although people had little money to save and were wary of borrowing, both were considered a high priority. Saving was an almost universal aspiration – for the sense of security it gives and because it can reduce dependence on high-cost credit. However, people's financial situation meant that they could only afford to save very small amounts (which they tended to do informally). Banks and building societies were not interested in such small sums, which were often in loose change. People wanted to find out if anyone offered a simple, but secure, savings account into which they could pay small sums of money. The Somalis wanted to know of any savings products that did not carry interest.

Borrowing was a fact of life but people in Barton Hill had access to a very limited range of credit – moneylenders, mail order catalogues and the Social Fund. They wanted to know why people like them were so often refused credit, whether their

neighbourhood was blacklisted and why the people who *will* lend to them charge them so much.

They were also interested in finding ways of breaking the link with high-cost credit so that they could begin to save. Again the Somalis wanted a non-interest-bearing source of credit.

There was widespread interest in credit unions, but little knowledge of the local one. They were also attracted to the *New Horizons* scheme, where a deposit made by the Cambridge Housing Association provides tenants with access to high interest savings accounts and linked low-cost credit. What they liked about these schemes was their local nature, the fact that they could be used to save small amounts of money, and that these savings could provide them with access to low-cost credit.

They especially liked the 'Handy Loans' offered by the *New Horizons* scheme for people who had not been able to save. They were interested in the idea of 'debt buy-out', where a credit union buys out loans with door-to-door moneylenders. The Somalis raised the question of interest on savings and loans and were reassured that credit union services *could* be restructured to meet their needs even though they do not currently offer this.

The needs of micro-entrepreneurs

The study identified two distinct needs: existing micro-entrepreneurs and Somali women wanting to become self-employed.

The existing micro-entrepreneurs who took part in the study were self-employed sole-traders who worked in the service industries. Their main needs related to access to credit for working capital and to difficulties encountered in their dealing with banks generally. Insurance and pensions were of no interest to them at all. Nor were they much interested in business advice or support. The questions they wanted asked of the banks were: What can you do for somebody like me whose needs and means are modest? and Why are you centralising all your services, as it does not appear to be for the customers' benefit? They were also interested in finding out more about micro-lending schemes aimed at people like them. One of the banks interviewed said that they were prepared to look at the services they offered to self-employed people like those in Barton Hill. Locally, though, there was much greater interest in the newly launched *Street UK* – a micro-lending scheme aimed at existing micro-entrepreneurs whose needs cannot be met by the banks.

The Somali women were very interested in the possibility of becoming self-employed to break their financial dependence on the state. Some of them had

already identified a business they would like to start. But they did not know how to go about it or how to raise the cash needed to start the business. Again they stressed that they would need non-interest-bearing loans. The women's micro-lending scheme *Full Circle* - which offers business start-up loans and support in Norfolk - was an attractive proposition, providing the interest on loans could be rescheduled as a charge recouped as the loan is repaid.

Financial information and education

The main needs related to information and education on banking, money management and the use of credit. People felt ill-equipped to manage their money in the early years of independent adulthood. The young people described how little they felt they knew, while the adults all said that they had learnt 'on the job' by making mistakes that were sometimes costly. Both adults and young people felt gullible in their dealings with financial service providers. They were aware that they knew very little about such things and did not trust companies which they thought might exploit their ignorance.

They agreed that financial literacy in schools is important, but felt financial education should not end there. The years immediately after leaving school were thought to be a crucial time for learning, as this is when most people need to find out both about money management and financial services generally. The adults particularly wanted to know if there was an independent source of information and advice about money matters and financial services - like the one provided more generally by Citizens' Advice Bureaux.

Two rather different projects were considered by the select committee: the *Face-to-Face with Finance* computer programme developed by NatWest bank for use in schools (particularly the modules that would be most appropriate for adults) and a money management course run by Willenhall Community Advice Centre. At the time there was no financial advice service of the kind that residents wanted, although one was being established at Birmingham Settlement.

Perhaps surprisingly, there was as much interest in the computer programme as there was in the neighbourhood-based course. But they were seen as complementary. Adults could use the computer programme with their children and grandchildren, who would have the necessary computer skills. The courses would be aimed at adults, with different topics being appropriate to different age groups. They were

more interested in one-off sessions than a longer course. They were very interested in both courses and computer programmes being made available in a local financial advice centre.

Moving forward

All the discussions - in the focus groups, the select committees and interviews with local providers - showed that needs do not come in neat compartments. One of the clearest messages from the research was the need for a 'one-stop shop' approach to meeting unmet needs.

In addition, the researchers suggest the following lessons for future development:

- Needs would best be met by city-wide and national provision - not purely local organisations.
- However, providers would still need to have a local presence in deprived areas like Barton Hill.
- There needs to be a partnership approach between commercial companies and providers with a local presence.
- It is important to build on existing provision and expertise and to involve local residents at all stages in the design and development of services.
- Solutions need to be sustainable.

About the study

See the section on 'Consulting with residents' for the study's methodology.

How to get further information

The full report, *Tackling financial exclusion: An area-based approach* by Sharon Collard, Elaine Kempson and Claire Whyley, is published for the Foundation by The Policy Press (ISBN 1 86134 325 6, £12.95).