

FINANCIAL INCLUSION TASKFORCE

Banking issues arising for the Financial Inclusion Taskforce from the Government's new strategy

Introduction

1. The Government's new financial inclusion strategy identifies a number of key issues for banking and inclusion, touching on a number of areas in which the Financial Inclusion Taskforce has been, and will continue to be, active. These include:

- the number of unbanked;
- use of bank accounts; and
- banking as a route into wider inclusion.

2. This paper presents the latest data available to the Taskforce in each of these issues, and sets out the Financial Inclusion Taskforce's proposed approach to taking them forward in its engagement with the banks.

Latest evidence on banking issues

The number of unbanked

3. The latest FRS data has been released and HM Treasury has conducted preliminary analysis on the survey data. This was presented in *Financial inclusion: the way forward*.

4. According to the latest FRS, there were **2 million adults** living in **1.3 million households** without access to a bank account in 2005-06. This compares to the baseline figure of 2.8 million adults living in 1.9 million households in 2002-03.

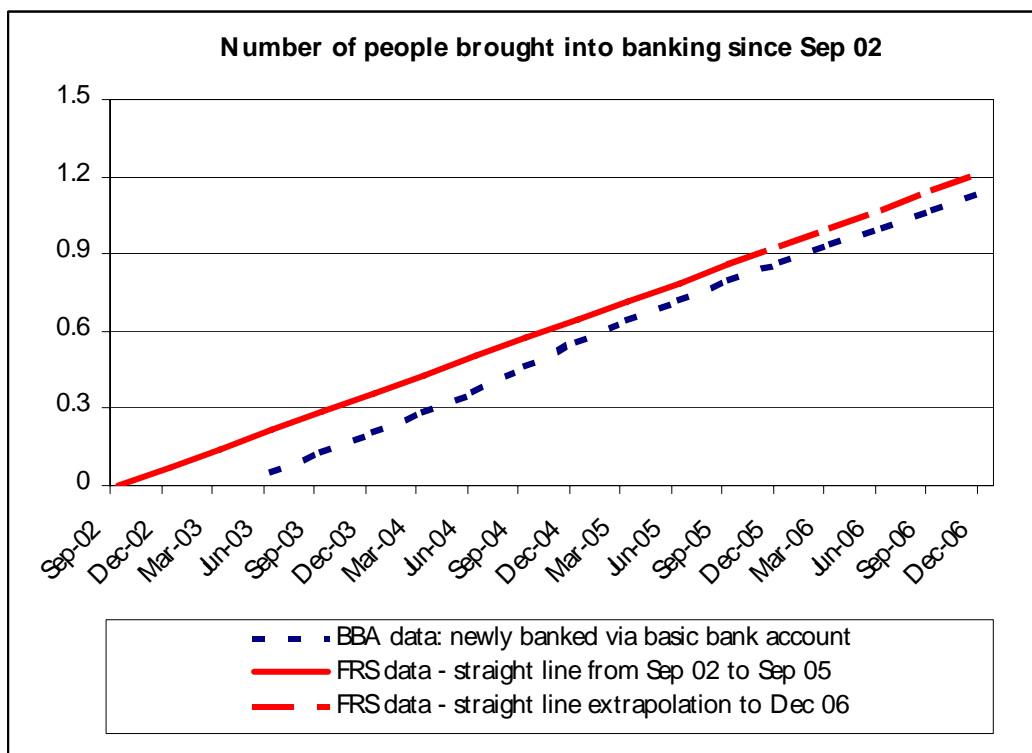
5. The table below compares these figures on an un-rounded basis, and shows that there was an **approximate 30% decrease** in both measures between 2002-03 and 2005-06. In absolute terms, the number of adults in unbanked households was reduced by over 800,000.

| FRS Year | Unbanked households | Adults in unbanked households |
|----------|---------------------|-------------------------------|
| 2002-03 | 1.9 million | 2.83 million |
| 2005-06 | 1.3 million | 1.97 million |
| % Change | 31.6% | 30.4% |

6. The shared goal included a commitment to “make significant progress within two years” of its announcement in December 2004. The data for the latest FRS report were collected between April 2005 and March 2006, and therefore represent, on average, the position as at September 2005. On this basis, the figures indicate that by September 2005 around 60% of the progress required to meet the shared goal had been made.

7. Data for the position in 2006-07 will not be available until next spring. However, on the basis that 60% of the progress required had been made between 2002-03 and 2005-06, it seems likely that the Taskforce will be able to report that significant progress had indeed been made within two years of the announcement of the shared goal. However, the Taskforce must stress that it will not be in a position to draw a definitive conclusion on this until the next FRS data has been received.

8. The chart below offers some support for continued significant progress. The chart visually estimates further progress by straight-line extrapolation from the two FRS data points available, September 2002 and September 2005. This extrapolation suggests, assuming a constant rate at which households have become banked over time, that around 1.2 million people had been brought into banking by December 2006, two years after the announcement of the shared goal. This figure, if correct, would represent approximately 85% of the progress needed to meet the shared goal.



9. Straight-line extrapolation using only two data points is clearly a crude predictive technique. The chart therefore overlays publicly available British Bankers’ Association data as a reality check. The BBA data is based on actual net basic bank

account opening figures, factored down by applying an assumption that around half (51%) of basic bank accounts are opened by previously unbanked individuals. This assumption is based on independent research carried out for the BBA, and its use in this way itself relies on the assumption that this proportion has remained constant over time.

10. Subject to this proviso, the BBA data suggests that the trend of growth in numbers of banked people has remained steady, providing some support to the estimate of continued progress. It is also interesting to note how closely the BBA data match the survey data from the FRS in absolute terms.

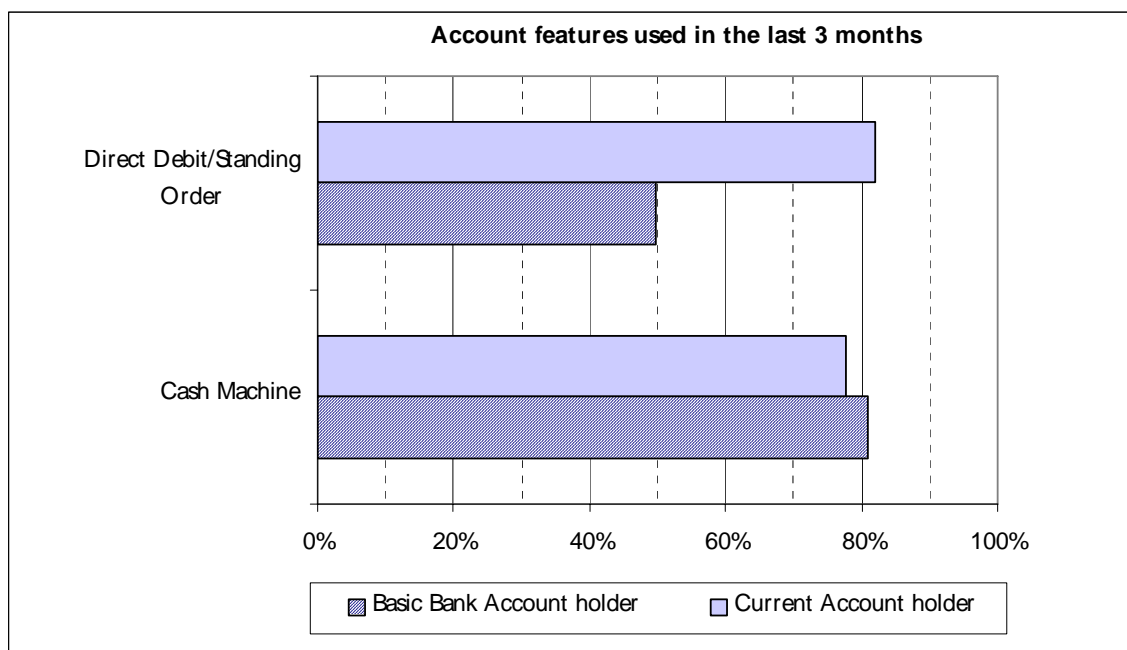
11. *Promoting Financial Inclusion* also included distributional analysis of unbanked adults and households from 2002-03 data, showing that over 65% of unbanked households were in the bottom three income deciles. Distributional analysis of 2005-06 data will not be possible until the data has been run through HMRC's tax and benefits model. This process will be undertaken by HMRC in the coming months, and analysis conducted as soon as possible.

Use of bank accounts

12. Analysis of survey data collected for the Taskforce by BMRB for the research project into access to cash has been conducted. This analysis allows comparison of basic bank account holders' use of their accounts, compared to current account holders. Two types of account usage were extracted from the survey:

- use of direct debit / standing orders to pay bills;
- use of an ATM to withdraw cash.

13. Other types of usage, such as debit card or chequebook use, were not considered as these features are unavailable on most basic bank accounts. Similarly, features which are not offered with most current accounts, such as Post Office access, were also not considered. The results of the analysis are shown in the chart below.

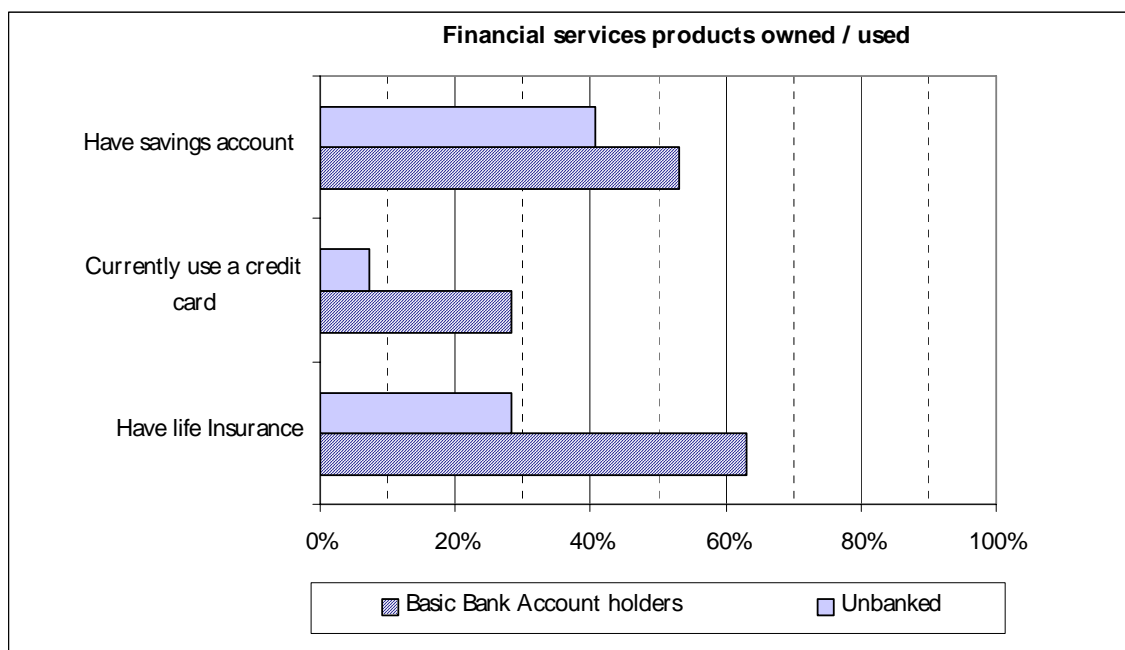


14. ATM usage did not vary between current and basic bank account holders, as reported in the original research report. However, basic bank account users were far less likely (50% compared to 82%) to use a direct debit or standing order than current account customers. This confirms that use of automated payments is potentially a key usage issue.

15. The Taskforce also believes that another important usage issue for consideration is the extent to which customers use their accounts to keep their money safely stored rather than accessing their cash in one lump-sum withdrawal. Evidence on this dimension of usage is not included in the data currently available to the Taskforce, but will be collected as indicated in the 'next steps' section below.

Banking as a route into wider financial inclusion

16. Analysis of the BMRB data has been conducted to examine the extent to which basic bank account customers hold other financial products, compared to the unbanked (it should be noted that the definition of unbanked used in this survey refers to those customers with no basic bank account or current bank account). The results are shown in the chart below.



17. Although somewhat limited by the survey data available on different product holdings, the chart clearly shows that basic bank account customers are more likely to hold saving accounts, credit cards and life insurance products than the unbanked.

18. In addition to the BMRB survey data, the latest BBA figures show that over just over 10% of people who have opened basic bank accounts since June 2003 have upgraded to a full service current account.

Next steps for the Financial Inclusion Taskforce

19. The Financial Inclusion Taskforce will continue to gather evidence and engage with the banking sector, both through the BBA and bilaterally with the major retail banks, on the key issues identified above.

The number of unbanked

20. The Taskforce will consider the following sources of further evidence over the coming months:

- the results of the Banking Code Standards Board's mystery shopping exercise for basic bank accounts, which will provide evidence of the effectiveness of recent changes to reduce barriers to basic bank account opening; and
- further analysis of the FRS 2005-06 data on account holding by HMT statisticians, which will allow distributional and demographic analysis.

21. The Taskforce will also re-open its engagement with the BBA Retail Committee, and with individual banks, to discuss their plans to promote basic bank accounts through local and other initiatives aimed at raising awareness and supporting account opening. The Taskforce will particularly be looking to encourage banks to engage with the DWP's "now let's talk money campaign" to bring together supply- and demand-side initiatives.

Use of bank accounts

22. The Taskforce notes that the Government's new financial inclusion strategy tasks it with gathering evidence on account usage. The Taskforce will take this forward, initially through the BBA Retail Committee, working with the banks to gather accurate evidence on two dimensions of basic bank account usage:

- the use of direct debits and standing orders to pay utility and other bills; and
- the effective use of the basic bank account as a storage facility for money.

23. The Taskforce will report back its findings to the Treasury, and will consider options for further engagement with the banks, should the evidence reveal that an additional action is needed to promote these types of basic bank account usage.

Banking as a route into wider financial inclusion

24. The Taskforce notes again that this is an area in which it has been tasked to gather evidence with the banks. The Taskforce will take this forward, in parallel with the process described above, by working with the BBA and the banks to gather data on the extent to which basic bank account customers have taken out the following products with their banking provider:

- a full-service current account;
- a credit card;
- a saving account, including a cash ISA; and
- home contents insurance.

25. The Taskforce will report back its findings to the Treasury, and will consider options for further engagement with the banks, should the evidence reveal that additional action is needed to promote the role of banks as a route into wider financial inclusion.

Other issues

26. The Taskforce has also been tasked with taking forward a number of additional workstreams:

- a study into medium-term developments in the banking industry, and their likely impact on financial inclusion;
- a mapping exercise of financial service outlets, including banks, credit unions and Post Offices; and
- work with the Association of British Insurers to understand issues around insurance and financial inclusion.

27. These workstreams are in hand, and the results will be reported to the Treasury in due course.